THE ENABLING ENVIRONMENT CONFERENCE

EFFECTIVE PRIVATE SECTOR CONTRIBUTION
TO DEVELOPMENT IN SUB-SAHARAN AFRICA

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THE ENABLING ENVIRONMENT FOR PRIVATE SECTOR CONTRIBUTION TO DEVELOPMENT IN SUB-SAHARAN AFRICA

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"THE ROLE OF GOVERNMENT IN CREATING AN ENABLING ENVIRONMENT FOR INVESTMENT CAPITAL IN SUB-SAHARAN AFRICA"

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1. INTRODUCTION

It is increasingly becoming accepted the world over that the private sector has a major role to play in the development of any nation. Some have even gone so far as to term it the "contributing force" towards accelerated and sustained economic progress and better standards of living. That erstwhile vehement opponents of private enterprise, such as China, have today become its proponents, bears testimony to the growing recognition that in man is embedded tremendous force of industry and enterprise which if allowed to be released, and properly harnessed, could lead to higher levels of achievement for the common good (also known as prosperity).

However, in the context of Sub-Saharan Africa, the practice of private enterprise has not been uniform across countries or over time. This has been due to a number of factors ranging from changing circumstances, conditions, and political instability to the emergence of serious economic difficulties.

There are various lessons to be learned from the experiences of various countries. It is from these experiences that the paper draws most of its inspirations. To this end this paper discusses:

- the kind of posture governments adopt towards private investments;
- legislation adopted to encourage private investment;
- risks faced by investors;
- the prevailing type of interaction between government and private capital;
- availability of manpower to manage private enterprises;
- and the manner in which business organisation interact with government.

The paper concludes by offering recommendations for improving the role of government in creating an enabling environment for investment capital in Sub-Saharan Africa.

2. GOVERNMENT POLICIES TOWARDS PRIVATE INITIATIVE

Government policies have ranged from those demonstrating open hostility to foreign private investment to favorable policies which see it as supplementing their own efforts towards socio-economic development by providing:

- capital which would otherwise not have been mobilised for investment;
- human resources which otherwise would be deployed in another economy;
- technological imports which are not available locally in the economy;
- foreign exchange, especially during a period of balance of payments difficulties when locally available capital cannot be transformed into investments requiring imported capital goods.

By the same token government reactions to local private investments have varied. While some have encouraged the phenomenon others have viewed it with feelings ranging from lukewarm to antipathetic.

Those governments which have encouraged private business have viewed these businesses as mobilising both human resources that would otherwise have remained idle and capital for investment. For the above reasons governments with varying political orientations have allowed contributions of private capital investment.

(i) Local private capital investment

Those governments that encourage domestic private initiative tend to protect and promote local private capital from the nationalist point of view, often in the name of indigenisation of an economy which had been under foreign control during colonial times. The achievement of political independence is deemed incomplete unless the economy is in the hands of indigenous people. Some governments have declared total support for local private initiative, with government investment being made in areas where private capital will not go (i.e. infrastructure and other investments with low financial returns). Such governments include the promotion of private enterprise as part of their economic policy and provide all the necessary support. Other governments have been concerned, on ideological grounds, that a strong local private sector would distort the distribution of economic power between the private sector and the state; with undesirable consequences for the distribution of wealth. Although the latter can be corrected by using other policy instruments (e.g. progressive tax) the question of the balance of power between the private sector and the state is more complex.

Those governments which have, on ideological grounds, been wary of the strength of the private sector relative to the state in economic affairs have reserved key and often technologically more complex economic sectors to the state, allowing private capital to be channelled only to the areas which are not deemed key areas.

Two problems have emerged in this context. First, the demarcation between key areas reserved for the State and other areas has been rather fluid, resulting in an environment of uncertainty as far as investors are concerned. Second, the private sector has functioned with the impression that it is an unwelcome partner in development, stifling the initiative of the private sector.

Regarding the lack of clear demarcation between key and non-key areas, some governments have relied on the supposed capacity of the state to run business enterprises. Errors of judgement have been made, often taking the form of over-estimating the capacity of the state to undertake a large number and variety of investments. In practice, adjustments have been made to the state's real capacity to run businesses and to changing economic conditions (e.g. limited capacity to generate surpluses or to raise government revenue). This has resulted in selective denationalisation of State owned enterprises and in attempts to redefine areas which are set aside for private investment. The current exercises in Guinea, Liberia and Togo offer good examples in this area.

The response of local private businesses to these practical adjustments seems to have had a reassuring effect. To the extent that this is so, it supports the recommendation that governments should clearly define the type of socio-economic activities which should be performed by local private sector as contrasted with those key and strategic socio-economic activities which must be reserved for state undertakings. This is imperative irrespective of the ideological orientation of the government or its national objectives, which will determine where the demarcation line between the two sets of socio-economic activities should be drawn.

Governments which have encouraged local private sector businesses have not necessarily supported all levels of private sector investment. In certain cases, greater attention has been paid to large scale local private investments at the expense of small scale private investment. This bias is a reflection of the relative ease with which large investments can be monitored. In some cases, however, the support of the private sector by the state has resulted from the nature of the state and its relation to the means of production. For instance, one study has shown that in some states, personification of state power and its use to endow a small upper stratum of the bureaucracy with economic power (e.g., acquiring property and big business-concerns by virtue of their positions in government) has alienated private initiative outside the favoured stratum despite the government's proclaimed support for free enterprise. This being a unique form of "indigenisation" or "nationalisation" it cannot be a basis for healthy contributions of private initiative to socio-economic development. Experiences of this type support the recommendation that a democratic state in which state power is exercised in the interest of all groups in society is a precondition for soliciting contributions from all sections and levels of the private sector to socio-economic development.

(ii) Foreign private investment

Since political independence, governments of Sub-Saharan Africa have strived to gain control of their economies through state enterprises and through local private initiative. This has often been done on nationalistic grounds as a way of preserving sovereignty. In practice, this has meant being wary of indiscriminate foreign investments in the economy. In some countries governments have nationalised (with or without adequate compensation) private businesses and acted selectively in allowing participation of foreign private investment. Other governments have deliberately restricted foreign private investments on ideological grounds or on the grounds that the interests of foreign private investors may conflict with the national interest. Experience now suggests that any conflict with national interest can be resolved by instituting the necessary regulations in respect of entry and operations. While some cases of nationalisation have been successful on the operations level other experiences have demonstrated that adequate preparations (especially managerial and technological) had not been made. This has been rectified in some cases by selective denationalisation, handing the enterprises back to the former owners under stipulated conditions. The case of Bata Shoe Company in Sudan and the Sugar Plantations in Uganda are good examples. By contrast, government attempts to attract foreign private capital have met with little success, both because they have not been able to offer adequate infrastructure and natural resources, and because policies pursued are not conductive to foreign private investment. In general, however, those countries which are rich in natural resources, notably minerals, have tended to attract considerable foreign investment.

Overall, Sub-Saharan African governments acknowledge that foreign private investment has a role to play in bringing in capital, foreign exchange and technology. What seem to be far from uniform are the conditions (regulations and incentive schemes) for entry and operation of private investments. This results in competitive attempts among nations to attract such investments, with each competitor losing in the process. These experiences suggest the recommendation that African countries coordinate and harmonise the conditions proposed to foreign private investors in order to avoid the possibility of incurring collective losses.

Particularly since the 1970s, governments in Sub-Saharan Africa have taken steps to ensure control of the economy, while private foreign investment supplements the existing level of domestic savings, foreign exchange and technology. Attempts to strike this balance have taken the form of specifying those sectors in which foreign private investment is invited. Local private or public sector participation must exceed a specified share of equity often made to vary from one sector to another, reflecting the perceived importance of the sector in the economy.

3. LEGISLATION ADOPTED TO ENCOURAGE FOREIGN PRIVATE INVESTMENT

If legislation in most Sub-Saharan countries is anything to go by, there is a universal determination to encourage foreign private investment. The differences between countries occur in the coverage of sectors in which such investments are welcome and in the nature of investment incentives stipulated in the legislation.

This legislation usually stipulates the conditions of entry for would-be foreign investors, including the registration of foreign investment and the necessity to obtain an industrial licence. Some legislation is more elaborate than others concerning procedural details. In addition, incentive schemes are described by each country's legislation, including taxation, various allowances and exchange control, and import and export licences. The details vary from one country to another.

On the legislations the following four observations are made with a view to drawing recommendations:

(i) Length of procedures

First, legislation is silent about the time it takes (under normal conditions) to obtain the necessary permits and licences. Legislation in some countries hints that the procedures take a "short time" or rather that there are "no delays". This in itself does not tell us much. Observations of the practice however, indicate that for some countries procedures for obtaining the necessary information and permits tend to take too long. On this point it seems appropriate to make two recommendations. First, all legislation related to foreign direct investment should indicate the expected completion time for each major step in the whole process and how long the whole process normally takes if all the necessary information is supplied. Second, these procedures should be rationalised and closely monitored to avoid taking unnecessarily long.

(ii) Basis of decisions

Yet another cause for concern is the lack of clear cut criteria for decisions on applications submitted for import and export licences. In several countries foreign investors are informed by the Investors' Manual or Guide to the effect that decisions are made on a case by case basis. This obscures the criteria used in decision making, giving the impression that decisions are probably made arbitrarily; thus eroding investors' confidence. It is therefore recommended that the governments which have taken the good step of printing these manuals showing various procedures should clearly stipulate the criteria used for decions making.

(iii) Implementation of the legislation

It is not enough to pass legislation: but the text has to be perceived as followed and respected to the letter. There have, for instance, been cases where regulations and laws have been broken (or bent) without any scruples.

(iv) Changing economic conditions

Fourth, circumstances at present are sometimes so substantially different from the conditions which prevailed when the legislation was adopted that it becomes difficult to implement the legislation. A rather common case in point is the feasability of administering remissions and repatriation of dividends under the difficult conditions of the balance of payments crisis. Several countries in Sub-Saharan Africa have been forced to accumulate payments arrears for lack of foreign exchange. However, the operating legislation has not made provision for such situations. Since the problem of payments arrears is likely to continue as long as the balance of payments crisis continues, new arrangements capable of coping with this new situation should be worked out.

It is recommended that investors be given several options and allowed to indicate their preferences. First, foreign investors should be requested to reinvest their dividends, in which case further investment incentives should apply in compensation. Second, if the investors export they should be allowed to retain any equivalent of the amount of dividends set for remission abroad. Third, in order to get round the balance of payments problem the American - Turkish Institutions Collaborative Projects (now renamed as PAID) could be used as a model. Under this approach subsidiaries or affiliated companies owing dividends in the USA are allowed to provide the equivalent of outstanding external dividends in local currency in return for the payment of hard currency which had been targeted as aid to Turkey.

4. RISKS FACED BY INVESTORS

The risks faced by investors come in various forms ranging from political instability, deliberate action by the host country to nationalise the investments (with or without compensation) to deterioration of the economy (due to internal or external factors).

(i) Political instability

Political instability, resulting in a drastic change of government and suspension of the constitution and legislation or in civil war, is viewed by investors as an important element of risk. It is therefore imperative that efforts be made to ensure that stability reigns, if the enabling environment for private sector investment is to be enhanced.

(ii) Nationalisation

Nationalisation can be effected and in fact it has been effected in many countries in Africa with immediate compensation, delayed compensation and without any compensation (i.e. confiscation). Such action affects private investors (local and foreign) in varying degrees with confiscation as the most dreaded consequence.

Most governments have guaranteed in their legislation that in the event of nationalisation full compensation reflecting the duration in which the investment had been productive would be made. All governments which mention nationalisation in their legislation indicate that the criterion for nationalisation is "the strategic nature of the investment, or its importance to state peace and security". These criteria are not elaborated upon, and they should be so that investors who may wish to avoid that risk may make their investment decisions accordingly e.g. by investing in sectors in which firms are most unlikely to be nationalised.

A further observation on nationalisation concerns a guarantee clause with reference to compensation. Several governments fail to indicate a mechanism for arbitration in the event of conflict between the government and the investor on the terms of nationalisation and compensation arrangements. A provison for arbitration would considerably reduce the amount of risk as viewed by investors. It seems appropriate therefore to recommend that governments should work out an adequate framework for the settlement of dispute, preferably by arbitration, without eroding the sovereignty of the State.

(iii) Deterioration of the economy

A growing and buoyant economy is viewed by investors as more attractive than a declining and deteriorating economy. This is problematic since the contribution of the private business sector to socio-economic development is needed in both growing and in deteriorating economies and often more so in the deteriorating economies. Advising governments to make sure that their economies are sound may seem futile since every government hopes that its economy is growing. One observation, however, can be made relating to the

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degree of interest and concern top leaders of governments show for economic matters. The Organisation of African Unity (OAU), for instance, has started to discuss matters of the economy only in recent years.

There is still considerable room for governments especially the heads of state, to cultivate greater sustained interest and concern on matters of the economy. A government whose leadership shows positive interest and concern for the economy is likely to show confidence in the potential and existing investors. On this basis it is recommended that leadership in governments should demonstrate interest and concern for matters of the economy. These may include apparently insignificant actions like instituting a presidential award for outstanding private investor contributions to socio-economic development, acknowledging notable contributions in public speeches, making encouraging remarks in political statements, and making visits to their work premises and talking to them and listening to their problems. This in itself would contribute to reducing the degree of risk from the point of view of private investors and would give them real or psychological reassurance that the government is taking a positive view of their contribution to socio-economic development.

5. INTERACTION OF FOREIGN CAPITAL WITH LOCAL CAPITAL

While many governments in Sub-Saharan Africa have invited joint ventures between them and foreign private investments, there has been relatively little encouragement of joint ventures between foreign private capital and local private capital.

(i) Government and private capital

Joint ventures between governments and foreign private investments have been encouraged because of the desire of governments to control or participate in the operation of the enterprises while allowing the foreign private partner to contribute badly needed foreign exchange and technology.

Presumably because private local investors have no foreign exchange to offer through equity and have few new technologies of their own, many governments have not given priority to joint ventures with local private investors. Therefore capital and human resources in the local private sector have not been given adequate opportunity to complement or supplement the capital and human resources possessed by governments. While some governments have specified the desired equity shares between local and foreign capital in different sectors these have generally remained silent on the corresponding share levels for local private capital and government equity capital. It is therefore recommended that governments begin to give priority to joint ventures with local investors. Joint ventures between governments and the local private sector would release that local private capital which would be incapable of large investment on its own, while control by the government would be attained without overstretching the government's capital and human resources.

(ii) Local and foreign investments

One of the drawbacks of joint ventures between foreign and local entrepreneurs is that it more often than not turns out to be a "marriage of unequals". While local investors may have the capital they often lack experience, technology, foreign exchange and other elements necessary for the success of the modern enterprise. They therefore have to depend on the knowhow of the foreign partners, creating an unbalanced relationship. It is therefore strongly recommended that efforts be made by the authorities to establish mechanism(s) which would come to the aid of local investors during the search for and negotiations with foreign partners.

(iii) Market size

Most of our economies are too small to justify a reasonable level of investment. Efforts must therefore be made to create or facilitate access to much larger market bases. The recent trend toward sub-regional economic communities (ECOWAS, PTA and SADCC) should be pursued. It is ultimately in the interest of all countries in the respective regions to have access to these potentially vast markets. Firms should be encouraged to adopt a much wider view of their market scope by not limiting their potential to the national markets. Adequate export incentives should be provided, such as retention of part of earned foreign exchange and establishment of inter-central bank payments arrangements (e.g. clearing house).

(iv) Infrastructure

The importance of roads, railways, well-run telecommunication systems, clean water and electricity to the smooth operation of modern business needs no further emphasis. And any government wishing to encourage private investment in its boundaries will have to not only provide these facilities but also ensure that they function properly.

6. AVAILABILITY OF INDIGENOUS MANPOWER FOR MANAGEMENT OF PRIVATE ENTERPRISE

The shoratage of skilled manpower is a well known constraint upon socio-economic development in Africa. History has taught us that no meaningful development can take place without a reasonable pool of skilled and enlightened manpower. Some governments have explicitly indicated to foreign private investors that they are expected to bring their own skilled manpower and/or to train such manpower in the host country.

Private investors should not expect to find surplus skilled manpower for recruitment.

Many governments have set up training institutions, not with the private sector requirements in mind, but essentially for public sector activities. In some countries the graduates from training institutions remain bound to the service of the public sector for a specified minimum period. The private sector, therefore, becomes marginalised in terms of availability of skilled manpower both in numbers of trained people and their orientation and skill. Although in practice the

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private sector sometimes offers more attractive terms of employment to attract manpower from the public sector, the concern here is that training arrangements for management of private enterprises are not adequately provided for by governments. Against this background it is recommended that arrangements be made to establish institutions focusing on training manpower requirements for private businesses.

As a provider of public goods it is the responsibility of central authority to devise policies for providing educational and training facilities for its citizens. The word devise is deliberately underlined to underscore the fact that the government itself need not provide the training alone. It could seek the help of the private sector in its endeavour. It is all a matter of providing adequate incentives for the private sector to allocate resources to manpower training. One fundamental error made in the past has been to try to do this through the coercion of the private sector. The "stick" approach never works very well, even when it is occasionally accompanied by "carrots".

7. ADEQUATE BUSINESS ORGANISATIONS TO INTERACT WITH GOVERNMENT

The government and the private sector are joint contributors to socio-economic development, and there is a need to co-ordinate their efforts in a more structured and sustained manner. This could be done through (i) a structured and strengthened relationship between Chambers of Commerce and governments and (ii) the establishment of sectoral associations involving all agents (public and private) in the respective sectors. Under the auspices of sectoral associations (e.g. food manufacturing associations, metal industries development association, etc.), problems pertaining to the sector can be discussed among all the partners in the development of the sector, be they foreigners, local entrepreneurs or public sector enterprises.

Private sector institutions (local and foreign) are not involved in development planning exercises carried out by governments. Decision-making government institutions do not incorporate in any systematic way the contributions from the private sector. Yet at the stage of plan implementation, considerable responsibility is given to all agents of development. In order to harmonise the formulation and implementation stages of development programmes it is recommended that all major agents of development be incorporated in a more structured manner in government decisions.

8. SOCIO-ECONOMIC CONSIDERATIONS

In the quest for foreign investors, certain socio-economic factors can be overlooked, with potentially grave consequences. For instance, both the government and investors will have to bear in mind that with every new economic factor or zone will come pressures for educational, medical and housing facilities and related amenities. Failure to provide these could lead to increases in child delinquency, and poverty. Furthermore, governments have a responsibility to help check the rural-urban exodus. Incentives to encourage the equal distribution of investment and centres of employment could be one good way of combating this.

Investors, particularly those alien to the culture in question, also have a duty to ensure that their business operations respect the morals of the society they operate in. For instance, in a country that is predominantly Muslim, high visibility for advertising of ladies underwear, or pork products could be offensive. Similarly, the appointment of a young man, however intelligent and hard working he might be, to supervise older men may not be well-received.

9. CONCLUSION

Having established the important role that private investment can play in the promotion of economic development and social progress in Sub-Saharan Africa, this paper went on to identify the constraints that have tended to hinder the private sector from fully realising its potential. In the process many recommendations were made on how the situation might be improved. Among these were the following:

1. Governments should clearly define the type of socio-economic activities which can be performed by the private sector, as contrasted with those key strategic socio-economic activities which must be reserved for state undertaking. And this should be followed by sericus guarantees concerning nationalisation, seizure or any other form of action that could deprive investors of the right to enjoy the fruits of their labour. In the same vein, governments should not shy away from privatising or even closing down public enterprises that prove an unnecessary drain on scarce national resources. Funds saved from such seemingly drastic decisions could be utilised elsewhere-with the never ending demand on public resources, there would be no lack of appropriate takers for such funds.

2. Leadership in government should demonstrate interest and concern for economic matters. Policies designed to encourage foreign investment should be introduced, and better still, implemented. Well defined investment codes, with attractive packages including inducements such as tax holidays, fast depreciation write-offs, less onerous duties on imported machinery and equipment, could prove a welcome incentive for both local and foreign investors.

   Equally encouraging for existing and potential investors are realistic economic policies such as encouraging market prices and exchange rates, and authority to retain part of foreign exchange earnings to enable exporting firms to procure externally-sourced inputs and machinery.

3. Governments should begin to give priority to joint ventures with local investors; and in so doing the authorities snould provide capital, though not necessarily management. Even better, efforts must be made to create a climate conducive to capital formation, for further investment. Where possible, laws should be introduced to encourage the promotion of embryonic capital markets.

4. Arrangements should be made to establish institutions capable of providing a pool of trained manpower for private businesses, private development agencies, and indeed the government itself. Training should encompass all levels of manpower development, from the lowest to the uppermost rungs of the skills and know-how spectrum. Further, the training objectives and the end products should be a result of

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collaborative efforts between the central authorities and the users of manpower.

5. All major agents of development, especially Chambers of Commerce and business associations should be incorporated, in a more structured manner, in government decisions. Involving the business community and the private development agencies in the early stages of policy discussions could go a long way towards ensuring overall acceptance of the government policies by all agents of social and economic development.

6. Given the small and easily-saturated nature of most domestic markets in Africa, governments should create the incentives and environment enabling investors to expand their market horizons beyond national boundaries. A combination of good exchange rate policies, less arduous machinery procurement and input sourcing regulations, and good relations with neighbouring countries (better still membership of regional trade groupings) could provide a good foundation for export orientation among businessmen.

7. Both governments and investors should do all they can to take socio-economic factors (culture, social services, etc.) into consideration when making decisions regarding where to invest, what products to produce, and how to market them. It is important to remember that setting up a factory or a mining venture far away from the major population agglomerations will require new schools, hospitals, play grounds and other amenities to be built. It is equally important to remember that cultures, and therefore sensitivities, differ from continent to continent and from country to country. Both government (as a regulator of business conduct) and investors, foreign or local, have to bear in mind that sometimes products, and they way they are marketed, may have to be modified in order not to offend the majority of population; which could, in certain instances, provide potential customers.

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THE PRIVATE SECTOR, THE ENABLING ENVIRONMENT, AND THE PUBLIC INTEREST: THE RESPONSIBILITIES OF AFRICAN GOVERNMENTS

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o The views expressed in this paper are those of the author.

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1. Introduction: A New Phase in African Development

Today, Africa stands on the threshold of a new phase in its development. The experience of the drought and famine has been very chilling. The picture of hundreds of thousands of Africans dying of hunger and millions more on the verge of starvation or death, in a continent with untold potential and possibilities for development, has given the continent a bad image. It has galvanised African governments into speedy action and they have set the agenda for a new phase in African development, informed by the spirit and substance of the Lagos Plan of Action, but concentrating on priority areas that will help them to rehabilitate the African economy and create conditions and structures that will provide lasting solutions to periodic hunger and starvation. It is a phase marked by a pragmatic approach to development issues, in which no options are excluded, and in which the private sector will be allowed a far greater role than before.

The framework for the new phase has been set by Africa's Priority Programme for Economic Recovery 1986-1990 (APPER), approved by the Assembly of African Heads of State and Government in July 1985, and the United Nations Programme of Action for African Economic Recovery and Development, adopted by the Special Session of the United Nations General Assembly on the 31st of May 1986. The two documents have established the goals and priorities for the next five years and put in place the mechanisms and modalities for the implementation of the objectives. In this connection, the Permanent Steering Committee established by APPER and the Consultative Group meetings and Round Tables or similar bodies that will be used to pursue dialogues between national governments and donor agencies at the national level will no doubt assume new importance.

It is within the framework of these developments that the subject-matter of this paper is best considered.

2. The New Interest in the Private Sector

There are many reasons why Africa's development experience so far has generated new interest in the role of the private sector. In the first place, African governments have come to the conclusion that, while the African crisis is the result of several internal and external causes, the most serious of the internal causes is the very low level of productivity that pervades all sectors of African economies. Secondly, there is a general belief that a vital explanation of the low level of production is poor and inefficient management. On these two counts, the expectation is that a greater role for the private business sector, where the profit incentive and the motivation of self interest provide powerful incentives for efficient management and sustained increase in productivity, will increase the dynamism of that sector and enable it to make a far greater contribution to African development than was the case in the past. Similarly, it is expected that a greater support for private social development agencies will enable them to play a greater role in socio-economic development.

3. The Responsibilities of African Governments

An enabling environment for the private sector is a means to an end: the mobilisation of the potential of the private sector for the task of promoting

African economic and social development. If African governments are to succeed in that effort, they would have to assume and pursue four major responsibilities:

Firstly, they would need to ensure that the measures they take succeed not only in mobilising the potentials of the private sector but also in chanelling those potentials to promoting specific national development objectives and priorities, as well as the goals that they have set at sub-regional, regional and interregional levels.

Secondly, they would have to expand the range of incentives that they provide for the development of the informal domestic business sector and the sub-sector of small-scale industries.

Thirdly, they would have to undertake specific measures to promote closer co-operation and collaboration between indigenous private business and development agencies on the one hand, and their foreign-controlled counterparts, on the other.

Finally, African governments would have to involve the private sector more closely both in the follow-up machinery for the implementation of the UN Programme of Action for African Economic Recovery and Development, and in the formal national arrangements for the preparation and implementation of national development plans.

4. The Private Sector and Development Objectives and Priorities

But it is also intended that the pursuit of this objective should be consistent with other objectives of economic and social policy which African governments have established in their development plans, such as:

- the promotion of wider participation of all sections of the population in the processes of economic planning and plan implementation;

- the restructuring of African economies in order to make them less susceptible to fluctuations in external conditions;

- the promotion of economic linkages, so that all sectors of national economies will be mutually supportive;

- the encouragement of a pattern of income distribution that will promote economic and social stability while not discouraging the incentives that the private sector will need to contribute effectively to the growth of African economies;

- the encouragement of a pattern of consumption that is consistent with the realities of Africa's production possibilities and the constraints imposed on imports by the serious shortages of foreign exchange resources that the continent will have to contend with for as long as can be foreseen;

- the creation of larger markets through regional economic co-operation in order to overcome the limitations imposed on development prospects by the small size of many African economies.

In order for African governments to be able to achieve these objectives simultaneously, three conditions will be important: first, the private sector must be fully aware of the goals of the society and, to the extent possible, allowed to make a contribution to the elaboration of policy options for the achievement of those goals; secondly, the private sector must be involved in the process of implementation of plans and programmes, even in those that fall in the public sector; third, there must be a close link between foreign and indigenous private sectors so as to encourage a continuous exchange of ideas between the partners on such matters as technological processes and management techniques on which the foreign partners are likely to have considerably more experience, and on the peculiarities of local conditions and circumstances, on which the indigenous partners will certainly be more helpful.

These are some of the considerations that would have to be taken into account in discussing the kind of enabling environment that will allow the private sector to contribute effectively to the growth and development of African economies. What is at stake is not just what governments can do to make private enterprises more profitable, but also - and perhaps more importantly - what kind of partnerships need to be fostered between governments and the private sector so as to "encourage private economic and social development initiatives that would contribute to the attainment of defined national objectives".

Seen against this background, the papers prepared for the conference have dealt exhaustively with most of these issues. The purpose of this paper is not to go over, in any great detail, issues that have already been very well considered, but to look again at the issues against the background of the African Priority Programme for Economic Recovery, and the United Nations Programme of Action for African Economic Recovery and Development.

5. Liberal Economic Policies: Opportunities and Constraints

On these matters, as on many others arising from the present economic situation in Africa, it is always helpful to pay close attention to economic realities. Without doubt, the adoption of liberal economic policies is full of great opportunities. However, it is necessary to realise that it is also fraught with many problems and with obstacles and constraints that tend to diminish its effectiveness in the particular circumstances faced by most African countries. Any discussion of the enabling environment that does not deal with both sides of the picture will not only be unbalanced, but also not particularly helpful to economic policy.

Economic liberalisation is only a means to an end - in this case, the enhancement of the contribution of the private sector to African development. But it requires a set of conditions and circumstances to assure its effectiveness, and to ensure that it contributes to growth without sacrificing social objectives. In this connection, it is noteworthy that the paper by the IFC, which presents perhaps the strongest case for economic liberalisation that will be put to the Enabling Environment Conference, contains a warning that:

- "the market system may not be allocationally efficient when there are market rigidities, monopolistic elements, externalities or informational constraints. Allocational efficiency may not be as important to growth as the spirit and motivation of the people who manage the productive units.

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It may be efficient but not equitable or the results of market forces may not coincide with social objectives."

In another IFC paper, quoted by Frimpong-Ansah, it is pointed out that if private enterprise in Sub-Saharan Africa is to flourish and contribute to social and economic development, "it requires some minimum level of stability and prosperity. Frequent and drastic changes in economic policy, large gyrations in interest rates and exchange rates, austerity and recession are poor bases for long-term investment in productive assets". Not only is this a very valid observation, it more or less describes the situation that many African countries have had to face during the past decade, as a result of the world recession, to which they were particularly ill-placed to respond, drastic falls in world prices of the primary commodities on which they so heavily depend, and massive devaluations in many countries that have so far had little positive effect on the inflow of private foreign investment.

For these reasons, it is important to bear in mind the constraints and rigidities in African economies which would have to be eased if liberal economic policies are to have the desired results. The following factors need to be given particular attention:

- most African countries are still heavily dependent on the export of a narrow range of primary commodities with unstable world markets;

- in spite of the recent shift of emphasis in favour of food production, research and extension, as well as basic infrastructure in this critical sector, it still lags behind the attention given to export crops;

- the linkages among the major economic and social sectors are still so weak that many African countries do not as yet enjoy such mutually supportive linkages that are essential for building dynamic, self-reliant and self-sustaining economies;

- domestic production and consumption are still heavily dependent on imported inputs of goods and services and, in consequence, domestic economic activities are seriously constrained by limitations in foreign exchange;

- in spite of the heavy investments that have been put into the industrial sector during the past two decades, Africa still accounts for only a tiny fraction of world industrial production; and even the present slender industrial base is in danger of crumbling for lack of maintenance and shortage of critical inputs resulting from scarcity of foreign exchange;

- there is still a continuing heavy dependence on foreign exports, with a great drain on scarce foreign exchange resources, in spite of the substantial investments that have been devoted to human resource development in the past two decades;

- achievements in the vital area of regional and sub-regional economic co-operation have fallen far short of expectations, and industrial expansion is in consequence still seriously constrained by the small size of domestic markets;

- in many countries, there are still widely divergent trends between the levels of domestic productivity and the level of real incomes;

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- some countries may now be nearing the critical limits at which growing population pressures may be exceeding the carrying capacities of the ecology and the environment;

- the critical shortages of foreign exchange have substantially increased the cost of servicing the growing urban centres and more may now be achieved in terms of productivity increases by shifting emphasis and resources in support of small-scale farmers and small-scale rural based industries.

The implications of some of these constraints for the operation of liberal economic policies may be illustrated by some practical examples.

First, let us consider the impact of exchange rate adjustments on African economies, a subject that is mentioned or discussed in several of the papers coming before the Enabling Environment Conference. In principle, a downward adjustment of the exchange rate is expected to alter domestic price relations in such a way as to stimulate the production of exports and substitutes for imports and to curtail the consumption of imports and of commodities that could be exported, thus helping to close the deficit in the balance of payments. In practice, things have not always worked in this perfect way in many African countries that have experimented with this policy in recent years. While devaluation has undoubtedly had a positive effect on production for exports, instability in the prices of those commodities in the world market has not made it possible for many of the devaluing countries to realise increased foreign exchange earnings from rising volumes of exports. The World Bank has drawn attention to several cases where this paradoxical situation has occurred. Obviously, a country that is able to produce a diversified range of exports stands a better chance of realising the expected positive impact of devaluation on the value of exports. In the same way, the expected positive impact of devaluation on the production of import substitutes is not likely to materialise unless the physical conditions are right for the expanded production of those substitutes, which is far from being the case in many African countries. While an increasing number of success stories is being cited in support of the efficacy of this instrument in African conditions, it is probably too early to make a full overall assessment. What is important from the point of view of the present conference is to consider how the private sector can be encouraged to take more interest in directing activities to those areas, especially export diversification, that will increase the effectiveness of devaluation. This will probably involve a whole range of incentives, guarantees, and crash programmes for infrastructure improvements that may be beyond the capacity of African governments to provide without substantial international support. This is why such matters may be easier to discuss and negotiate within the framework of the follow-up machinery for the implemention of the mutual commitments and reciprocal obligations in the UN Programme of Action.

Two broad conclusions can be drawn from this experience: First, the discussion of the enabling environment has to give far more attention to the implications of the structural economic problems that African countries have to contend with, and in particular, the limitations which those problems impose on the working of the price and market mechanisms in most African countries. To say this is not to lose faith in the efficacy of the price system but to recognise that we live in an imperfect world and that in many real situations, we may have no choice but to opt for second best solutions. After all, many developed countries are still struggling, with not much success, to open up their agriculture sector to the full glare of the market. A realistic discussion of the advantages of liberal economic policies in African countries should also touch on those areas of

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economic and social policy where public intervention may still be required to ensure that liberal economic policies produce socially desirable results. Some of the controls that a government may wish to impose on the private investor, such as some degree of local control, provisions for review of agreement, some stipulation as regards the level of exports to be attained, restrictions on plant location to meet local objectives, stipulations on technology transfer and training requirements, pricing and reinvestment of earnings, disclosure of information, and employment and ethical practices, should be regarded as the barest minimum that is essential for making the pursuit of an enabling environment consistent with other national social and economic objectives.

Second, liberal economic policies by themselves, particularly where their operation is to be constrained by social and other objectives, will not usually lead to spontaneous inflow of foreign private capital on the scale desired. While local private capital may strain itself to work within these constraints, foreign private capital may find other areas of the world less restrictive of their activities. In any case, as long as the structural imbalances and the rigidities of economic structures faced by most African countries persist, it is unlikely that the continent will witness any large scale resurgence of private foreign investment, even if political conditions become more stable.

Most of the papers to be presented to the conference have made a powerful case for the adoption of liberal economic policies as the central feature of an enabling environment for the enhancement of the private sector. This is certainly consistent with the new pragmatic approach that African countries have decided to follow. Whether the new pragmatism is born out of deep conviction or has been forced upon them by a combination of adverse circumstances that many of the countries have been going through, is for the moment irrelevant. What is important is that African countries have decided to give more scope to liberal economic ideas, and have called on the international community to support their endeavours. They have outlined their new policies in the African Priority Programme for Economic Recovery 1986-1990 (APPER), which now forms an essential component of the UN Programme of Action for African Economic Recovery and Development. Further elaboration of the programme was provided in Africa's Submission to the Special Session of the United Nations General Assembly on the critical economic situation in Africa.

6. Africa and the International Community: Reciprocal Commitment and Obligations

What will be particularly relevant to the discussion at the Enabling Environment Conference is, on the one hand, the mutual commitments by the African countries, (most especially the donor governments that are important in North-South resource transfers, the countries of the South that are striving to achieve increased economic co-operation among themselves, and the private business and development agencies whose resources and activities are now expected to provide an increasing share of the overall transfer of resources and expertise from developed countries to the relatively less developed) and the international community, on the other. It is within the framework of these mutual commitments that the issues involved can be discussed in a balanced manner, and the two sides of the picture brought into a clear focus.

On the African side, the commitments include:

- necessary economic reform and structural adjustment as mentioned in APPER as a basis for broad-based, sustained economic development;

- priority attention and increased commitment to the rehabilitation and development of agriculture, based on durable structural changes as indicated in the priority programme;

- appropriate policies that promote the development of sectors supportive of agriculture and rural development, namely, agro-related industry as well as essential consumption products, trade, transportation, health, education, environment and other social and commercial services;

- fundamental measures to address the problems of drought and desertification as an integral part of agriculture and rural development, with the active involvement of village and community groups, wherever applicable;

- efficient development and utilisation of human resources with particular reference to the full and equal participation of women in order to maximise their contribution to national development;

- undertaking reforms in such a manner as to encourage the broadest possible participation in development and the productive use of scarce resources.

The response and commitment of the international community as stated in the UN Programme of Action is based on two major premises, namely:

(i) "The international community is aware that the process of development being initiated by African countries as reflected in the priority Programme, has to be supplemented by complementary actions of the international community through intensified co-operation and substantially increased support. In this context, it is also realised that lasting solutions to the serious exogenous constraints over which Africa has no control will have to be found, since their persistence will impede the efforts of the African countries."

(ii) "The international community recognises the magnitude of Africa's debt and the severe and restrictive burden which this has placed on many African countries. It realises that measures have to be taken to alleviate this burden and to enable those countries to concentrate on the full implementation of priorities. In addressing problems arising from such debt, existing mechanisms should respond flexibly and be improved as appropriate."

On the basis of these premises, the international community "commits itself to making every effort to provide sufficient resources to support and supplement the African development effort; it also appreciates that the realisation of Africa's development efforts would be greatly eased if the flows of external resources were predictable and assured."

The international community also recognises the need "to deal urgently with commodity issues, taking into account the special interests of African countries, in the framework of an overall approach, embracing commodity agreements/arrangements and adequate compensatory financing, and also to increase the capacity of African countries to process, market, distribute and transport their exports; and in this context to stress the importance of sufficient ratification of the Agreement Establishing the Common Fund for Commodities, for it quickly to become operational".

Other commitments of the international community include greater concessionality in financial assistance, and increased resources for multinational institutions of particular importance for African development.

7. New Roles for the Private Sector in A Wider Setting

These conclusions should lead to a discussion of the most appropriate framework within which a bigger role for the private sector (both indigenous and foreign) in African development can be negotiated. The specific suggestion in this paper is that the United Nations Programme of Action for African Economic Recovery and Development now provides such a framework, and that more could be achieved by working within that framework and mobilising for this purpose the reciprocal commitments and obligations by African countries and the international community that the framework provides. In this way, the private sector will come to see itself not only as an essential contributor to economic development, but also as an instrument that could make a valuable contribution to the pursuit of the broader objectives of economic and social policy.

The first practical action that needs to be taken in this regard is to involve the private sector, in an appropriate way, in the follow-up mechanism at the national level which each African country is expected to establish for the implementation of the UN Programme of Action.

The framework provided for this purpose by the UN Programme of Action is broad enough to accommodate this proposal. It envisages that, at the national level, "Governments would, as appropriate, establish follow-up mechanisms, involving joint action with their development partners, within the framework of existing aid co-ordination machinery, such as round tables and consultative group meetings, as well as within the framework of inter-governmental agreements for economic co-operation. The terms of reference and other details pertaining to such mechanisms, which could take the form of Joint Committees or joint bilateral commissions, would be agreed upon among the parties concerned, keeping in mind the following elements:

(i) comprehensive and simultaneous consideration of all issues pertaining to the implementation of the United Nations Programme of Action for African Economic Recovery and Development 1986-1990;

(ii) review and evaluation of the process of implementation of the jointly agreed upon commitments, both on the part of national Governments and their development partners in the context of the Programme of Action;

(iii) implementation of the Programme of Action in the context of the long-term development needs and policies of African countries."

If the machine works satisfactorily, it should lead to package arrangements involving at the same time substantial inflow of foreign resources, debt relief, action to compensate for falling commodity prices, and the liberalisation of economic policies by the countries concerned. One of the great disappointments of the past decade during which many African countries have embarked on major policy reforms, is that such reforms have not always been supported by increased inflow of resources. As the World Bank has noted in its report, Financing Adjustment with Growth in Sub-Saharan Africa 1986-9,

> "..the major structural reforms undertaken by many African countries to address their long-term development problems have not received adequate donor support. As noted in the report, growth and equity enhancing reform programs already under way are foundering because of inadequate donor funding, which is often inappropriate in form and timing. Countries' considering major reform programmes can find little encouragement from the donor support demonstrated for those countries with reforms under way. In the absence of adequate financial support, structural reforms cannot be achieved with growth. Adjustment through further economic contraction is not a feasible alternative in a continent where per capita income levels today are no higher than they were twenty years ago".

The expectation is that new reciprocal commitments in the UN Programme of Action will reverse this situation, and African countries should lose no time in exploring the possibilities that the Programme provides.

8. Investment Possibilities at Sub-regional, Regional and Interregional Levels

Having said all this, it is necessary to recognise the limitations imposed on investment possibilities at the national level by the small size of many African economies. Several papers have already drawn attention to this central problem of African economic development, and it will no doubt occupy a prominent place on the agenda for discussion at the conference. What new insight has the UN Programme of Action brought to this problem?

At the regional level, the UN Programme of Action recognises that "systematic follow-up action is necessary at the sub-regional and regional levels", and it envisages that this will be facilitated by existing mechanisms. The underlying rationale for this proposal is the existence of a large number of African regional and sub-regional institutions which could play a major role in this connection if they are effectively mobilised. Aside from the regional economic groupings, such as the Economic Community of West African States (ECOWAS), the Preferential Trade Area of eastern and southern Africa (PTA), and the Southern African Development Co-ordination Conference (SADCC), there are not less than twenty-five African multinational institutions dealing with a wide range of issues, among them agricultural research, technology, manufacturing design, minerals development and renewable energy resources. What was previously lacking was a central mechanism to mobilise these institutions effectively so that their activities will compensate for the small size of African economies, and enable projects requiring large economic bases for their viability to be implemented. It is for this purpose that the OAU Economic Summit of July 1985 established a Permanent Steering Committee composed of fifteen Foreign Ministers. The expectation now is that, among other things, the Permanent Steering Committee will utilise the new framework provided by the UN Programme of Action to stimulate the regional and sub-regional institutions to implement those regional and sub-regional projects that will attract substantial foreign investment to the continent and at the same time help to remove some of the critical bottlenecks to agricultural and industrial expansion at the national level.

Indeed, the vision of investment-inducing co-operation extends beyond the continental level. Recognising the important advances that have been made by other developing regions during the past two decades in agriculture, research, technology, and industrial production, the UN Programme of Action reiterates the "conviction that South-South co-operation should constitute a key element in the economic recovery of Africa". To that end, the Programme underlines the "urgent need for African countries, together with other developing countries, to strengthen more vigorously than ever before South-South co-operation and make greater efforts through action-oriented measures, particularly in the priority areas of food and agricultural production" and it goes on to identify specific areas where such co-operation could contribute towards helping Africa tackle its food production, storage and marketing problems. Among them are water management and small-scale irrigation technology; dry-land farming; small-scale rural industrial development; rural energy production, including the development of new and renewable sources of energy; agricultural research; and development of poultry, fisheries and other non-farm produce.

Here then is a veritable agenda for the generation of investment opportunities in African countries which the private sector could explore with great profit to itself and much benefit to the African economy.

9. Formalising Africa's Informal Sector

As a rule, the informal sector in African countries is taken for granted except in times of extreme difficulties. For example, when shortages of foreign exchange become particularly critical, and imported supplies of durable consumer items virtually dry up, people turn to the informal sector for a wide range of substitutes - furnitures, beddings, metal structures, and improvised parts for vehicles. The situation can be likened to that of a man on crutches who discovers his own strength only when his crutches are snatched away from him. In Nigeria, during the second world war, when imports of many items of durable consumer goods virtually dried up, the informal sector bustled with activity and was able to produce with great ingenuity and resourcefulness, a wide range of substitutes for many previously imported items. While some of the new industries survived the war, many simply withered away as soon as imported items became available. In actual fact, even in normal times, the informal sector plays a not insignificant role in the economies of most African countries. It is a sector that bustles with great energy and a tremendous reservoir of enterprise and resourcefulness. It has been a major training ground for the future captains of small-scale industries. And it does all this with minimal demand on capital and foreign exchange resources. As many papers before the conference have pointed out, there is little doubt that it will be an important catalyst to development, given more consistent government help, particularly as regards ready availability of improved tools and training facilities (perhaps summer courses in technical institutions for those workers with great skill but little formal education) and an adult education programme for management skills and rudimentary accounting practices.

On a more formal plane, the establishment of arrangements and linkages between particular trades in the informal sector and corresponding enterprises in the formal industrial sector, may be particularly useful in upgrading skills and raising the level of information in the informal sector. The time may in fact be ripe for many African countries to have a Minister of State with responsibility for small-scale industries, and with particular emphasis on the informal industrial sector.

10. New Roles for Private Development Agencies (PDAs)

Like the informal sector, Africa's indigenous PDAs are more or less taken for granted. Indeed, many are regarded simply as private associations rather than as private development agencies, and what is perhaps most needed is a full programme to emphasise and expand their developmental roles. As the paper by VADA has revealed, the number of African PDAs is quite large and their activities cover a wide range of economic and social functions. For example, in Uganda, the National Council of Voluntary Social Services for Uganda had one hundred and fifteen member associations in 1985.

There are at least two ways in which the activities of African PDAs should be supported. One is by extending the principle of matching grants by African governments and businesses to supplement the voluntary contributions they receive; the other is by linking their activities very closely with those of international PDAs working in the same domaine. This latter arrangement would be particularly important at this point in time when the international PDAs are becoming increasingly involved in the delivery and execution of economic and social projects on contractual arrangements with foreign aid agencies. With increased government support and encouragement, the PDAs should be able to expand their developmental roles in those areas of economic and social services where close association between clients and extension workers is essential for effectiveness.

11. A New Approach to Development Planning

The current trend towards more liberal economic policies, the new interest in the private sector, and the new drive to broaden the basis of popular participation in development planning, should give rise to the question: What kind of development plans should African countries now aim for, so that these various ideas can be translated into coherent and consistent development policies? Those observers who have become over-impressed by the failures of past development efforts in Africa would wonder whether African countries need to waste more effort in drawing up new development plans. However, past failures notwithstanding, the fact of the matter is that, considering the turbulent and uncertain international environment in which African countries must struggle for survival, the fragile nature of their economic and social structures, and the delicate balance between man and nature in some parts of the continent, African countries do need to plan for the future with even greater imagination than in the past. What can be said is that Africa's future development plans should be more democratic, more flexible, more permissive of the private sector, and more supportive of regional and sub-regional economic co-operation. They must be plans that provide and sustain an enabling environment in which creative initiatives can thrive among all sections of the population.

12. Summary of Conclusions and Recommendations

1. Africa's Priority Programme for Economic Recovery 1986-1990 and the United Nations Programme of Action for African Economic Recovery and Development 1986-1990, provide a useful framework for discussing the creation of an enabling environment for the private sector in African countries.

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2. Given appropriate initiatives by African governments, an expanding role for the private sector can be made consistent with the pursuit of those objectives of economic and social policy that are essential for stable economic and social development.

3. The new trend towards a more liberal approach to economic policies in African countries can generate tremendous opportunities for development, but it also faces major constraints, arising from the peculiarities of African economies, that may reduce the effectiveness of such policies.

4. The dynamism of the private sector should be enlisted not only in exploring the easier opportunities for profitable enterprises, but also in tackling the more difficult areas concerned with easing the domestic constraints to self-reliant and self-sustaining development.

5. This can best be done by involving the private sector, as much as possible, in the machinery for the implementation of the recommendations of the UN Programme of Action and in the processes of economic planning and plan implementation; and by giving them a role in the follow-up mechanisms suggested by the UN Programme of Action for the implementation of those mutual commitments and reciprocal obligations that form the core of the UN Programme of Action.

6. An expanding role for indigenous Private Development Agencies (PDAs) in Africa, as well as for the large and dynamic informal sector, should now be seen within the framework of the implementation of the UN Programme of Action, in particular the commitment made by African countries to promote "the broadest possible participation in development".

7. Since indigenous PDA's are very weak both in terms of organisation and financial resources, as compared with international PDAs, government policy should aim at promoting close collaboration between the two, with the co-operation of aid agencies, for the execution of small-scale and grassroots development projects, particularly those financed by foreign agencies that are now increasingly utilising international PDAs for the execution of their programmes in Africa.

8. (a) Also, as part of the process of promoting broader participation in the development process, governments should give considerably more support to the hitherto virtually neglected informal sector, which contains a large reservoir of skills, energy and resourcefulness, produces a wide range of consumer products and services at minimal cost, and makes little demand on foreign exchange resources. The informal sector should be given more consistent government help particularly as regards the ready availability of improved tools and training facilities. Arrangements and linkages should be established between particular trades in the informal sector and corresponding enterprises in the formal industrial sector.

(b) Each country should consider having a Minister of State for small-scale industries, with particular emphasis on the informal industrial sector.

9. Special attention should be paid to the informal sector in the rural areas and service centres, particularly to those units whose activities cater for the needs of the farming communities.

10. Special arrangements should be designed to enlist the help of private industries in the respective African countries for the development of the production and service units in the informal sector of those countries, in particular through training to upgrade their skills, improvement in their tools and equipment, and promotion of easier access to the materials and components that they need to pursue their trades.

11. The pursuit of all these objectives demands a whole new approach to development planning in African countries which will be far more pragmatic, and far more democratic, than previous development plans that have not been remarkably successful.

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THE ENABLING ENVIRONMENT CONFERENCE

Nairobi, Kenya - 21-24 October 1986

ENCOURAGING PRIVATE CONTRIBUTIONS TO AFRICAN DEVELOPMENT

International Relations Department
The World Bank

Contents and Summary Recommendations

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Current Economic Situation and Prospects

1986 is a year of respite and opportunity in Sub-Saharan Africa. Good rains have returned to most of the continent, and lower oil prices have improved the terms of trade. Average per capita income for Africa as a whole should increase this year.

But Africa's basic economic problems persist. Productivity, notably agricultural productivity, is still low. Population growth is still extraordinarily high. Drought and overgrazing pose ominous ecological challenges.

The figures below suggest the long-term character of Africa's development crisis. The dividing line between "low-income" and "middle-income" countries is per capita income of $400 a year (roughly the income level of Mauritania or Senegal):

Annual change in average per capita income

	1965-73	1973-80	1980-85
Low-income Africa	1.2	-0.1	-2.0
Sub-Saharan Africa	3.7	0.6	-4.5
Developing countries	4.0	3.2	1.3
Industrial countries	3.7	2.1	1.7

While the global economic slowdown of the 1980s has accelerated Africa's economic decline, low or negative growth in per capita income has prevailed in most of Africa since the mid-1970s.

In its annual World Development Report, the World Bank presents three plausible scenarios for global economic development in the years ahead. Each of the three scenarios is based on more or less optimistic assumptions about economic growth in the industrial countries, global interest rates, and other key variables. Under the assumptions of the central-case scenario, the Bank is projecting zero growth in average per capita income in Sub-Saharan Africa 1985-95.

Zero growth in average per capita income implies declining income for many people who are already on the verge of subsistence. Some three-fifths of Africa's population is already too poor to afford a diet that supplies the FAO/WHO minimum recommended number of calories. Most of these people are less productive and energetic than they would be if they had more adequate diets. Between a quarter and two-fifths of Africa's population is too poor to afford even 80 percent of this minimum standard. Among these people, infant and child mortality is high, and children are often stunted in their physical and intellectual development.

Under these conditions, the prospect of economic stagnation is surely unacceptable.

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Progress of the African Reform Movement

There is now remarkably broad consensus on the need for major reforms in economic policy to reverse Africa's decline. The governments of Africa have, as a group, committed themselves to necessary reform. The World Bank has been urging three lines of reform, each of which would contribute powerfully to what this conference is calling an "enabling environment" for private-sector contributions to economic and social development:

(a) Correcting overvalued exchange rates. Overvalued exchange rates introduce widespread economic inefficiences, which slow down economic growth. When overvaluation leads to exchange and trade restrictions or multiple exchange rates, international trade and investment (also between neighboring countries) become much more complicated. Both private business and private not-for-profit organizations are constrained by the difficulties of obtaining rationed foreign exchange.

(b) Correcting urban-rural bias. Overvalued exchange rates also bias prices against producers of exports (mainly farmers) and in favor of consumers of imports. Price ceilings on farm prices further bias the system against rural areas. Where state companies have a monopoly on buying farm crops, or on selling farm inputs or consumer goods, the inefficiency -- and inequity -- of the system is yet more severe.

(c) Rationalizing the public sector. Most of the economies of Africa are burdened by large, exceptionally inefficient government bureaucracies and by excessive regulation. An active public sector is necessary for development. But most African governments could reduce waste and take fuller advantage of existing capacity in the private sector by concentrating their scarce administrative resources on functions which only the public sector can perform.

Some African governments have already achieved substantial reform in each of these three areas. Zaire, for example, reduced its real exchange rate by three-quarters between 1983 and 1984. In late 1985, Zambia introduced an auction system for many exchange transactions, thus reducing the real effective exchange rate by half by the end of the year. The exchange rate distortions which have accumulated throughout Africa over the years are severe, and in some countries real exchange rates continue to climb. But for the low-income countries of Africa, as a group, average real exchange rates have declined since 1982.

There is also a clear trend toward higher food-crop prices, and a number of countries are making similar efforts to improve incentives for export crops. Tanzania more than doubled the controlled producer price of maize between 1983 and 1985. Guinea decontrolled producer prices for food crops and quadrupled the official wholesale price of imported rice in early 1986, as part of a reform package which also included massive devaluation. From 1983 to 1986, Ghana devalued its currency to one-third of its former value and, at the same time, more than quadrupled the producer price of cocoa.

Government expenditures are also beginning to come down. Public consumption in low-income Africa, which increased 5 percent a year in real terms between 1975 and 1980, decreased 1.5 percent a year between 1980 and 1984, declining as a share of national income. Reductions in public consumption have been achieved, in part, by more restraint on public employment. In the past few years, Rwanda, Mali, Somalia, and Togo have abandoned their policy of automatic employment of secondary-school and university graduates. Low-income Africa's governments have also closed down or divested about 5 percent of their public enterprises during the 1980s, and many public enterprises are being pressed to behave in a more businesslike manner.

In some countries, reforms have already contributed to economic improvement. In Zimbabwe, higher farm prices in 1984 resulted in an almost immediate boom in production, especially among smallholder farmers. The result was a bumper crop of maize. Similarly, Guinea-Bissau's stabilization and recovery program, undertaken in December 1983, resulted in a doubling of exports in 1984.

Malawi began its program of adjustment early, in 1980. Policy reforms have contributed to increased export production by smallholder farmers, increased industrial production and investment, increased domestic production of energy, and a strengthening of the financial position of government and of key enterprises in both the public and private sector. Malawi faces continued economic difficulties, however, and the process of adjustment is far from over.

Côte d'Ivoire also began its adjustment program in 1980. Côte d'Ivoire has had to cope with deteriorating terms of trade, rising interest payments, reduced financial inflows, and drought. Per capita income fell by one fourth between 1980 and 1984. Economic growth finally resumed in 1985, mainly because of a recovery of agricultural production that was stimulated, in part, by higher farm prices. In 1985, Côte d'Ivoire also achieved a trade surplus, a government fiscal surplus, and some revival of private investment. The Côte d'Ivoire case is especially interesting, because data are available which show that economic adjustment has made the distribution of income less skewed. The gaps between urban and rural incomes, and between high-income and low-income urban families, have been dramatically reduced.

The reform process in Africa still has a long way to go. Some governments have not begun. But others have made substantial progress -- in a few cases, dramatic progress -- in the face of severe difficulties.

Recommendation 1: African governments should proceed with reforms to correct overvalued exchange rates, correct urban bias, and rationalize the public sector.

The Need for External Capital

Africa needs external capital to help finance reform. While the costs of reform tend to be obvious and immediate (more expensive imports, for example), many of the benefits are realized over a period of years. It takes time, money, and some imported inputs for farmers and entrepreneurs build up their capacity to produce in response to improved incentives.

But, as shown in the table below, net financial transfers to Africa have declined abruptly:

	1980	1982	1984
	(millions of US dollars)		
To low-income countries			
IMF	378	492	164
World Bank	375	552	553
Other multilateral	704	463	183
Bilateral aid	4,758	3,970	3,251
Commercial banks	854	424	-468
Subtotal	7,070	5,901	3,683
To other countries			
IMF	85	87	-38
World Bank	97	335	453
Other multilateral	177	251	150
Bilateral aid	2,018	1,915	1,906
Commercial banks	1,806	2,757	-2,603
Subtotal	4,183	5,344	-132
Total Net Transfers	11,253	11,246	3,551

Most of the deterioration has been due to changed relations with the commercial banks. In 1982, commercial banks were lending Sub-Saharan Africa $3.2 billion a year more than they were receiving in principal and interest payments. In 1984, Africa's payments to the commercial banks exceeded new lending by $3.1 billion. Meanwhile, the net flow of capital from official sources also declined.

Looking to the future, projected flows of external capital and export revenues will not be sufficient to maintain even today's per capita level of imports. If Africa is indeed compelled to further curtail imports, the reform movement is likely to abort.

Closing the foreign exchange gap in Africa must depend mainly on substantially increased flows of official development assistance and debt relief. Given the overhang of international debt obligations, both commercial banks and African governments are wary of additional commercial borrowing. Some middle-income African countries can borrow on non-concessional terms from official lenders, such as the World Bank, but such non-concessional borrowing would not be prudent for the low-income countries. Increases in direct foreign investment or in donations to private development organizations can make a difference, but only a marginal difference with regard to Africa's problem of external finance.

Throughout the 1980s the World Bank has urged both broad policy reform and a substantial expansion of official development assistance to support reform. African governments have responded to the call for policy reform, but donor governments have not yet increased development assistance significantly.

There is some scope for increasing the effectiveness of what development assistance is available. Most importantly, the donors can improve coordination among themselves and with African governments. African governments have had difficulty coordinating the many aid agencies. In some countries, the public investment program has been little more than an aggregation of the projects which various agencies wished to finance, sometimes because of commercial interests in their own countries.

Over the last several years, consultative groups and other aid coordination mechanisms have become more numerous and more effective, and new mechanisms are being established to monitor coordination agreements. Better coordination can improve the selection of projects and, at the same time, reduce the administrative strain on African governments.

Then, too, while most aid donors have traditionally preferred to finance new projects, they are now making more funds available to maintain and utilize existing investments (spare parts, for example) and to finance essential imports in support of policy reform. The World Bank's Special Facility for Sub-Saharan Africa is among the innovations that have made more fast-disburing funds available to those African governments which are committed to reform.

Recommendation 2: Donor governments should substantially increase the level of development assistance to Africa and improve its effectiveness, notably through better aid coordination.

World Bank Collaboration with Private Commerce

The paper which the International Finance Corporation prepared for the Enabling Environment Conference describes the important role of private business in Africa's development and IFC's efforts to foster a stronger business sector. The IFC is the World Bank affiliate that works entirely with commercial enterprises.

The World Bank has recently launched another international institution, the Multilateral Investment Guarantee Agency (MIGA), to encourage direct foreign investment in the developing countries. MIGA will fill gaps and strengthen what various national investment insurance agencies are doing to protect international investors from non-commercial risks.

The World Bank itself -- including its concessional affiliate, the International Development Association (IDA) -- work with governments to foster a stronger business sector. There is no need to repeat here what the IFC paper for the Enabling Environment Conference says about business, but the experience of the Bank itself illustrates various ways in which governments can encourage business contributions to development.

Several types of Bank-financed projects are especially relevant to business:

- o Projects to improve and maintain basic infrastructure (roads, for example, or ports) and to upgrade human resources (population and health, education, and so forth) help to create an environment in which commercial enterprise is more likely to be profitable.

- o Public investments in agriculture reach out to farmers with credit, improved marketing facilities, new varieties of seed, and suggestions for better farming practices. The World Bank is also supporting intensive agricultural research in Africa, with emphasis on the adaptation of new technologies to Africa's diverse local situations.

- o Starting in the 1970s, the Bank has helped to set up development banks which lend to local investors, identify projects, and assist new entrepreneurs. This type of credit is increasingly channelled through central banks to a variety of local lending institutions and, thus, to a wider group of entrepreneurs.

But in the end, the Bank's support for sound economic policy is probably its most influential contribution to an enabling environment for business. In some countries, the World Bank's economic analysis is the best analysis government officials have regarding their policy options, and the Bank backs up its advice with loans in support of difficult policy reform. While government schemes to directly assist agriculture and industry are often plagued by problems and limited in their effectiveness, governments can sometimes powerfully encourage the private sector simply by refraining from undue interference (by letting supply and demand determine agricultural prices, for example).

Recommendation 3: Governments should encourage private commercial enterprise, especially by providing a framework of sound economic policy, and also through the provision of infrastructure and some forms of direct support.

World Bank Experience with Private Development Agencies

The Bank's experience with what this conference is calling private development agencies (PDAs) -- which the Bank normally calls non-governmental organizations (NGOs) -- is much more limited. While some bilateral donors have been collaborating with PDAs for decades, the Bank first adopted a formal policy of cooperation with PDAs in 1981. The Bank-NGO Committee, the principal forum and focal point for World Bank cooperation with PDAs, started in 1982.

PDAs play a formal role in only about 5 percent of the 550 Bank-assisted projects which are currently being implemented in Sub-Saharan Africa. In agriculture, education, health, and other sectors where PDAs are typically active, they play some role, formal or informal, in perhaps 20 percent of the World Bank's projects in Africa.

But the Bank's experience with PDAs is growing and, in the main, positive. A recent consultant report on the World Bank's cooperation with PDAs in rural Africa documented the following success stories:

- o The government of Liberia turned to CARE International to construct 100 IDA-financed primary schools. CARE had already built 35 schools on its own, and was able to build the 100 additional schools on schedule and at low cost. CARE was effective in training Liberian counterparts and in getting communities to help in clearing the construction sites. In a similar situation, the government of Sierra Leone turned to CARE for the construction and initial maintenance of nearly 500 kilometers of IDA-financed rural roads.

- o IDA-supported education projects in Botswana have helped the government construct facilities for Botswana's Brigades, an indigenous youth-training movement. A few Brigades have made furniture for IDA-financed primary schools. In Lesotho, IDA supported the expansion of a PDA vocational/technical school, and the school itself won the construction contract.

- o In Kenya's semi-arid Baringo District, an IDA-funded government project and an Irish-funded Catholic Church project have evolved in close,

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informal cooperation. The Bank took account of the church project's experience in its initial planning. As implementation proceeded, staff from the two projects frequently did favors for each other (lending each other equipment, personnel, and even money). They worked out common policies of extension and advice to farmers in the two project areas. At one point, officers of the two projects compared cost of tasks such as extension, seed production, and vehicle maintenance, and found that the church was doing similar tasks, with at least equal effectiveness, at only 15-20 percent of the government project's costs.

o In the northwest corner of Mali, an IDA health project is using a stabilized-soil construction technology developed by a PDA in Burkina Faso. L'Association pour le Développement d'une Architecture Naturelle et d'un Urbanisme Africain (ADAUA) began with assistance from a Swiss priest, but is now entirely African in staffing and finance. ADAUA has shown that, with innovative architectural designs and strict quality control in brick-making, stabilized-soil construction can be practical for large-scale public buildings. Mali's Minister of Works learned about ADAUA on a visit to Ougadougou and suggested the technology to World Bank staff. ADAUA is ahead of schedule on the construction of 21 primary health care centers. This project is believed to be the largest commercial application of stabilized-soil bricks in Africa to date. ADAUA's technology is expected to cut costs by a third and foreign exchange costs by half.

The Bank has also had some failures working with PDAs in Africa. One agricultural development project in the Gambia, for example, was designed to channel credit through the Gambian Cooperative Union and local cooperative societies to farmers. The scheme failed, mainly due to staffing and financial difficulties in the cooperatives. The Bank and International Labor Organization then began a program of technical assistance to Gambia's cooperative movement, but the credit arrangements for a follow-up agricultural development project have suffered from widespread fraud among the cooperative secretaries.

The World Bank's 1986 report on Africa urged increased investment in four areas of priority importance for the long term: population/health, basic education, forestry, and agricultural research. PDAs play important roles in each of these priority areas.

One way the Bank has sought to identify opportunities for collaboration with PDAs has been through "trilateral" meetings, which bring government and official-agency staff together with PDA staff in particular countries and sectors. Five such meetings have focused on population and health (held in Botswana, Kenya, Rwanda, Gambia, and Francophone Africa). Three have dealt with education in East Africa, where churches have long played an important role in the provision of schooling. There has also been a trilateral meeting on water supply and sanitation. Some meetings on village forestry are now being planned. Trilateral meetings have fostered specific improvements in government-PDA relations (sometimes the establishment of routine mechanisms for consultation) and have also led to donor consultation with PDAs in sector work and the inclusion of private groups in several government-sponsored projects financed by the Bank.

The Bank is rapidly expanding its lending for population, health, and nutrition, especially in Africa, and PDAs have special advantages in these areas. PDAs have long provided health services in many countries and they are often dedicated to reaching low-income groups. Some PDAs are active in family planning, and governments may prefer to extend family planning services through PDAs than to involve themselves in this sensitive matter directly. The Bank's population staff are relying mainly on trilateral meetings to identify new projects, and PDAs play important roles in current health and population projects in Kenya, Sierra Leone, and Liberia.

In response to Africa's severe problems of environment and deforestation, the Bank is also embarked on an effort to double its lending in support of village forestry. Reforestation will depend largely on the initiative of millions of small-scale farmers, and the Bank's forestry staff are convinced that PDA outreach is essential. In the village foresty programs that IDA financed in Burundi and Rwanda, expatriate volunteers in "bush" areas made the difference between success and failure. In Kenya, an IDA project is complemented by Swiss assistance to several PDAs involved in forestry education (among them CARE International and KENGO, an association of Kenyan PDAs). The planning for a proposed forestry project in Uganda has relied heavily on CARE International.

Discussions in the Bank-NGO Committee led the Bank to initiate an experimental mechanism for official cofinancing of PDA projects in Togo. A small unit in the Planning Ministry and a steering committee (two government officials and three PDA representatives) screen PDA project proposals. Once this mechanism proves itself, it should allow official donor agencies to support PDA projects that would be too small for them to evaluate individually. However, some PDAs have been critical that this scheme risked weakening CONGAT, an umbrella organization which includes most PDAs active in Togo. Thus, when authorities of the Central African Republic recently asked the Bank to help attract PDAs to their country, the Bank turned to PDAs on the Bank-NGO Committee for advice about how to proceed.

There have also been several fresh initiatives in Zaire, where limited government capacity leaves wide scope for PDA activities. The Bank recently appraised an IFAD project that will support two PDAs in Shaba Province. One of these is related to a mining company; the other is religious. Each works with 3,000 to 5,000 farmers. Since they have never been subsidized by the government, they both get full cost-recovery for the inputs they provide farmers, including their extension services. In another province, Kwangu-Kwilu, the Bank helped establish a semi-public corporation (CODAIK) to provide services to farmers. The Zairean government is now reducing its share in CODAIK, leaving the majority of shares to about 30 small organizations -- traders, transport companies, local chiefs, and Catholic missions. In addition to reaching out to farmers directly, CODAIK will be a channel for external investment in the programs of its shareholders, including the PDAs. In yet another agriculture project in Zaire, the Bank has invited PDAs (mainly religious orders and expatriate volunteers) to help find out from intended beneficiaries how they think the project could be improved.

In summary, the Bank's experience with PDAs in Africa confirms that in appropriate situations they can be effective agents for development. In certain cases, they are the only mechanism for reaching the grassroots. Some are exceptionally dedicated, with long experience in particular locales, adept at working with people, and expert in applying appropriate technologies. The Bank's experience with PDAs suggests that governments and official agencies can usefully collaborate with PDAs in a variety of ways.

Recommendation 4: Governments and official agencies should explore opportunities for increased cooperation with private development agencies.

Private Support for Public Reform

This paper has described how some African governments have already proceeded, sometimes boldly, with the process of creating an enabling environment, and how yet more governments are at least convinced that reform is desirable. This paper has also indicated that a substantial increase in development assistance is essential if the reform movement is to lead to sustained growth.

But the reform movement among African governments and development assistance from the donor governments are both politically fragile.

Adjustment policies will be unlikely to work unless they are modified in response to local criticism and then win fairly broad political support. But there has so far been little organized effort by business or private development agencies to either critique or endorse the adjustment programs in a systematic way.

African business leaders can help governments know how the private sector is likely to respond to particular policies. PDAs, mainly churches and other indigenous PDAs, can suggest -- and perhaps help with -- measures to protect particular groups of poor people who might otherwise suffer serious deprivation because of policy changes (the urban poor who must pay higher food prices, for example). PDAs can also help explain and legitimate policy reform, especially since the necessary reforms most often benefit rural areas, including many poor people, at the expense of urban elites.

To get economic growth solidly underway again, the process of policy reform must proceed over a period of at least five or ten years and effect major changes in society. Without the informed agreement of influential groups like business and religious leaders, the process is almost sure to get bogged down.

Similarly, increased development assistance is politically difficult within the donor countries. International PDAs played a key role in alerting the world to the African famine and in raising emergency funds from public and private sources. Some international business leaders also helped. But despite the emergency effort, concessional flows to low-income Africa have been largely stagnant. Many international PDAs have consistently stressed that Africa's problems would not go away when the rains returned, but public and parliamentary attention to Africa has, nevertheless, now sharply declined. Moreover, some PDAs are not particularly enthusiastic about assistance to support policy reform. They are used to working at the grassroots level, and they don't always recognize the importance of changes in economic policy for sustained progress against poverty.

The World Bank recently hosted a meeting with a wide variety of PDA leaders from the United States to talk about how Bank-recommended policy reforms in Africa are likely to affect the poor. The meeting was able to reach more consensus than almost anyone expected. Everyone present agreed that policy reforms and increased development assistance are essential to African recovery. The Bank argued that the lines of reforms it is urging in Africa tend to benefit rural areas, where the great majority of Africa's poorest people live. But Bank staff agreed with PDA leaders that more should be done to evaluate the effects of particular reform programs on the poor and to protect nutrition and other basic needs among vulnerable groups. There was also agreement that PDAs should help to "adjust the adjustment programs" and then to cultivate public understanding (in both Africa and the donor countries) of the need for reform and development assistance.

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One PDA that has done exemplary work in support of the reform movement is an international group called The Hunger Project. This group began in the United States, but now includes 4.3 million people in 140 countries. Hunger Project leaders have been concerned that international attention continues to focus on crisis, failure, and corruption in Africa, even though many African leaders have committed themselves to correcting the mistakes of the past. Through mailings to their members, contacts with influentials (at the U.N. Special Session, for example), and articles in the international press, The Hunger Project has been drawing attention to stories of commitment and success in Africa.

Another PDA initiative, the Churches' Drought Action for Africa, has instead critiqued the current direction of policy reform. International church leaders initiated a process in which over 400 African church leaders and African academics worked in country teams to produce a pan-African PDA report. Their report argues that deep policy reforms are indeed required, but opposes increased emphasis on export crops, and instead favors reforms such as reduced military spending and, in some countries, the redistribution of land.

The Aga Khan Foundation is a PDA with exceptionally strong links to private commerce. The Enabling Environment Conference provides a much needed opportunity for business and PDA leaders, especially Africans, to help plan for economic reforms that will indeed meet Africa's needs and, then, to widen political support for the reform movement.

<u>Recommendation 5:</u> Business leaders and private development agencies should contribute to the formulation of policy reform and provide political support for both the reform movement in Africa and increased development assistance from the donor nations.

THE ENABLING ENVIRONMENT CONFERENCE

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"ENHANCING THE ROLE OF THE PRIVATE SECTOR IN THE DEVELOPMENT OF SUB-SAHARAN AFRICA: PROBLEMS, PROSPECTS AND POSSIBLE SOLUTIONS"

International Finance Corporation

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RECOMMENDATIONS AND AGENDA FOR ACTION

Creating an enabling environment for full development of the private sector, while maximizing its contribution to economic growth and development, poverty alleviation as well as to other national goals is indeed a daunting task. It involves untangling the web of obstacles that have hitherto hindered the realization of Africa's considerable potential and devising ways of overcoming them. The successful approach will, per force, be multi-dimensional and will require the full cooperation of African governments, bilateral and multilateral development institutions and the business community, both domestic and foreign. The following, by no means exhaustive, list will go a long way in creating the kind of environment sought:

A. What the African Governments can do:

(i) Government policy reform: gradual decontrol of prices, correcting overvalued exchange rates, cutting down of public sector expenditures and streamlining government operations, privatizing parastatals or operating them as autonomous units in a businesslike manner.

(ii) Reforms in economic management: simplifying economic decision-making by increasing the role of prices and reducing administrative controls in allocating resources. This would reduce the level of corruption, red tape and bureaucratic lethargy.

(iii) Creating a more predictable business environment: reducing the scope for arbitrary political decision-making to increase predictability of the business environment and thus allay the fears and insecurities of potential investors.

(iv) Increasing market size: by creating more effective regional markets to remove the acute constraint on industrial development imposed by the small size of most African countries. Instead of creating central bureaucracies directed by member governments (as in previous common market organizations in Africa), open the boundaries for free movement of people and goods. At the same time, synchronize the incentive structure and overall economic policies. If borders are open and incentive structures are harmonized, the larger markets created as a result would have a greater chance of survival after changes of government in member states. Out of the interaction across borders, a sense of larger community and hence a critical mass of vested interest in larger markets may mitigate against autocratic policy changes.

(v) Product specialization and regional markets: considering the discouraging record of common markets in Africa and the primacy of political considerations in interstate commerce, an alternative way of creating larger markets is for states to negotiate some product specialization along bilateral or multilateral lines. One country could produce a product (at a higher level of output and, thus, hopefully achieve greater economies of scale), and enter into long-term contracts to sell it to member countries while agreeing to enter into a similar agreement on the purchase of another specific product from the other country. This would reduce the problem of differential pace of industrialization that wrecked many regional common markets in the past (e.g., East African Common Market).

B. <u>What donor agencies could do</u> (in conjunction with host governments):

(i) Sensitize African governments to the necessary policy changes and the creation of other aspects of an enabling environment while supporting them with requisite financial resources to smooth out the transition.

(ii) Donor agencies should also sensitize industrial countries as to what they can and should do by using the media in these countries to build a critical mass of public opinion more favorable to Sub-Sahara Africa's special problems.

(iii) Channel a greater proportion of available resources to the private sector and make sure that it reaches its intended target.

(iv) Donor agencies should aim at reaching the smallholders and the informal urban sector and not just formal-sector establishment with western style management, though the latter would continue to remain important.

(v) Identify and bring in simple technologies that have been perfected elsewhere. There are a large array of appropriate, absorbable and replicable technologies that have been developed in both developed countries and other regions of the developing world. Transferring it sometimes consists simply of funding a pilot project that uses that technology and the "demonstration effect" could then take over.

(vi) Increase funding for research and development on issues of critical importance to Africa (e.g., increased agricultural productivity, alternative home fuels to reduce deforestation, etc.).

(vii) Greater co-ordination between donors to avoid duplication of effort not only at the country level but at the regional level as well, with view to promoting regional economic activities, where possible.

(viii) Create regional consulting firms in engineering, economics, finance, etc. that could gradually replace the need for outside expertise. Use African experts to the maximum extent possible.

(ix) To help reverse the brain drain, identify and recruit qualified Africans who are residents in industrial countries to fill many of the technical and managerial positions financed by the donor agencies.

(x) Establish information banks accessible to African entrepreneurs about sources of equipment and materials, potential funding sources, potential partners, clients and sellers, about market conditions and potentialities of other regions.

C. What the business community could do

(i) Taking a longer and larger view: Without the expectation of profits, private investment simply might not be forthcoming. Businesses are in business to make a profit. To encourage domestic investment and attract foreign investment, governments need to create the environment within which reasonable returns could be realized. On the other hand, the business community, both foreign and domestic, should contribute to genuine development and become effective participants in that process so that they cannot be easily dislodged by changes of government.

(ii) Helping create regional markets: Multinationals are in an excellent position to operate in more than one country and thus help build larger markets and contribute to regional integration. By so doing, they diversify the risk element inherent in operating in only one country and enlarge their market, while contributing to the increase in flow of goods and services across national boundaries, and help build regionally-oriented local interest groups.

(iii) Indigenous African entrepreneurs can create more effective interstate co-operative councils which can act as vehicles for the exchange of information on markets and investment opportunities, and create a sense of an Africa-wide business community. It is best that the business community, possibly with the assistance of governments and donor agencies, take the initiative on creating these agencies in order to avoid the inevitable introduction of politics that government involvement would necessarily entail.

It is difficult to prioritize these recommendations since they are mutually reinforcing and contain elements of overlap. However, if one were to determine the most crucial ones for creating the enabling environment, government policy reform and creating a predictable business environment would have to be at the top of the list. But ultimately, the small size of the domestic market in most countries would constrain whatever economic activity is generated through policy reforms. Increasing the market size through creation of regional markets and "open-door" policy between African countries would therefore be crucial for long-term development. African governments would have to take the lead in creating the enabling environment. Donor agencies would of necessity play only a supportive, though at times critical, role while the business community would be the reactor to, rather than the creator of, that environment. However, the full cooperation of governments, the business community and donor agencies is essential for creating the desired environment, in ensuring that the new environment helps create the type of investment opportunities that most contribute to economic development and achievement of other social goals and in assisting African entrepreneurs to take advantage of these opportunities. But, the major responsibility in unlocking Africa's considerable potential lies with the Africans, government and people. Ultimately, it is the Africans who will have to implement new policy changes and who will be directly affected by the results of any actions taken (or not taken) towards creating the enabling environment.

I. INTRODUCTION

1.01 There is a growing consensus that the private sector is pivotal to the development process and that it should play a larger role in the economic growth and development of Africa. Recent policy decisions by many governments (Mozambique, Ghana, Togo, Guinea, Zambia, Zaire, Somalia to mention but a few), as well as current emphasis on the private sector by bilateral and multilateral development institutions reflects this growing consensus. Worldwide, there seems to be a new appreciation for the private sector. Political leaders as disparate as Deng Xiaoping and Ronald Reagan are endorsing the private sector "model" of development. In most African countries, the previous public-sector bias is giving way to a new appreciation of the role that the private sector can play in economic development. Hitherto socialist countries like Guinea and Somalia have rediscovered the virtues of the market place.

1.02 The newfound appreciation of the role of the private sector in Africa reflects the overall international mood but is also the result of the current economic difficulties facing the African continent, especially the 45 countries that constitute Sub-Sahara Africa, and the disappointing performance of the public sector. However, in order not to "oversell" the virtues of the market place, one must also mention its shortcomings. It must not be made to seem that the private sector will be a panacea for all of Africa's problems.

1.03 A lot has been written about the allocative efficiency of market forces, its flexibility in the face of changing external circumstances and its ability to elicit individual initiative and enterprise. However, the market system may not be allocationally efficient when there are market rigidities, monopolistic elements, externalities or informational constraints. Allocational efficiency may not be as important to growth as the spirit and motivation of the people who manage the productive units. It may be efficient but not equitable or the results of market forces may not coincide with social objectives. Moreover, it is not the mode of ownership but how a productive unit is managed that determines efficiency. In other words, ownership per se does not determine how efficient or even amenable to market forces a productive unit would be. The following issues need to be addressed in order to assess the extent to which the private sector can deliver the "goods". To what extent can it help overcome the current woes of the African continent? To what extent is the current preoccupation with the private sector merely a reflection of past failures, and to what extent does it have real merits? How much of it is "fad" and how much of it is based on real facts?

1.04 In development there is a tendency to simplify the disheartening web of constraints and the central focus has shifted over time. In the 1950's and early 1960's the development literature emphasized the need for massive efforts and "Big Pushes" to take economies in "low-level equilibrium trap" over the hump. Since only governments could mobilize such efforts, implicit in these theories was the primary role of the public sector. The capital accumulation models and take-off theories emphasized the importance of domestic savings, but later the two-gap models pointed out the obvious: that foreign exchange is more of a constraint than domestic savings for most developing countries. For a long time, physical capital was given a primary role in growth models but it was subsequently realized that

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conventional factors (including capital) have accounted for but little of historical growth. The emphasis then shifted from physical capital to human capital formation, and appropriate or intermediate technologies. During the 1960's and early 1970's, dual sector models were in vogue. Under such models, the economy was divided into small, modern, and predominantly industrial sector, and a large, backward, agriculturally-based sector. Development according to these models consists of expanding the modern sector until it encompasses more and more of the whole economy and benefits the whole economy through the so-called "trickle-down" hypothesis. As issues of equity and poverty-alleviation became of central importance in the 1970's, the emphasis shifted to meeting the basic needs of the population and the "Basic Need Approach" to development was espoused. Presently the emphasis is on the private sector. Could this merely be the last in a long string of "fads" in the development literature?

1.05 The dominant themes or focus of the development literature at any moment in time do influence policy albeit with a time lag, and usually reflect, however subtly, the world views of the major theoreticians. As Keynes once observed, the views and philosophies of politicians and policymakers are, more often than not, based on the ideas of a now defunct economist. An ordinary villager would probably have told you that meeting his "basic needs" is what economic development should be all about - if he could articulate it. It did not require two or three decades of high-powered intellectual effort to reach the same conclusion. The inevitable presence of a subjective or philosophic element in what constitutes economic development, what the major constraints are, and what remedies are most appropriate makes it almost imperative that African intellectuals, businessmen and policymakers actively participate in the on-going dialogues on Africa's development. There are many subtleties and quirks to the problems which confront the African continent, and the appropriateness of the array of possible solutions advanced can be better understood by Africans than outside experts. Moreover, they have to implement, or at least live with, the consequences of any policies implemented as a result of the current international dialogue on Africa.

1.06 In this paper, the role of the private sector (especially domestic, given the paucity of foreign investment) in the development of Africa, the major obstacles facing it, ways and means of overcoming those obstacles and whether in fact the removal of those obstacles is all that is needed, will be discussed.

II. THE IMPACT OF PUBLIC AND PRIVATE SECTOR IN ECONOMIC GROWTH IN AFRICA

A. The Current Economic Situation

2.01 Despite its enormous potential and the considerable inflow of concessional external resources, the African continent as a whole is in worse economic shape today than at any time in the last two decades. This is not to imply that there have been no gains since independence. There has been an impressive progress in education and expanding the coverage of health and other services to wider segments of the population. In spite of high population growth, especially children, primary school enrollment increased

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from 36 to 78% and secondary from 3 to 15% over the past two decades. On the economic front, performance in early years of independence has been adequate with a per capita growth rate of 1.4% during the 1960's but conditions began to deteriorate in the 1970's and continue to do so. Growth in GDP has barely kept pace with population growth resulting in a per capita income that is below the 1960 level. Agricultural output, especially food production, remains relatively stagnant and declined in per capita terms even before the onset of the recent drought. Imports of foodstuffs, mostly aid imports, filled an increasing portion of the region's needs. Paradoxically, agricultural production fell most in countries with good resource base (Sudan, Tanzania, Zambia, Zaire, Ghana, and Nigeria). Nigeria was self sufficient in major foodstuffs in the early 1970's and agriculture accounted for 70% of its export earnings. At present, agriculture accounts for less than 3% of exports and food imports amounted to about $2.7 billion in 1982 (34% of all imports). In Tanzania, Zambia and Sudan, three countries with good agricultural resource base, per capita agricultural production also declined significantly.

2.02 Much of the industrial capacity also stands idle mainly due to scarcity of foreign exchange for materials and spare parts but also because of falling domestic incomes, poor investment choices, and failure to develop export opportunities. The physical infrastructure and public services have deteriorated over the past decade. The efficiency and technical and financial ability of public institutions have declined. In addition, political instability in many countries has claimed many victims, disrupted normal economic life and created one of the largest refugee problems in this world. Still, the present multidimensional crisis may not capture the full picture of the resulting human misery nor the differential impact on the weakest segments of the population. Between 1960 and 1985, per capita income in Sub-Sahara Africa remained relatively stagnant and the distribution of income across households might have worsened. On the other hand, per capita income for developing countries as a whole rose by about 87%, while in low-income South Asia it has almost doubled.

2.03 The recent drought and famine that decimated a wide band of Sub-Sahara Africa has attracted world attention. But horrible as it was, it was not a mere temporary aberration of nature but part of a long downward slide. This picture, however, should not conceal the wide diversity of the 45 countries that constitute Sub-Saharan Africa. They range in population from 100 million in Nigeria to 100,000 in Sao Tome and Principe, in area from 2.5 million km^2 in Sudan to 1,000 km^2 in Sao Tome and Principe, in per capita income from $4,000 in Gabon to $180 in Chad. Some countries (e.g., Kenya, Malawi, Mauritius, Cameroon, Nigeria, Congo, Gabon, Botswana, Lesotho) registered respectable per capita growth rate of 2.3% to 8.5% per year during 1965-84, while others (e.g., Uganda, Ghana, Zaire, Zambia, Madagascar, and Somalia) had a decline in per capita terms of 0.8% to 4.4% per year during 1965-84. By almost any reckoning, the overall economic performance in the region has been disappointing.

2.04 There is growing evidence that African governments have realized the gravity of the situation and are willing to institute appropriate remedial policies as indicated by their collective stand at the recent U.N. Special Session on Sub-Sahara Africa. But the remedies depend on an understanding of the root causes of the current economic difficulties.

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B. Factors behind the current situation

2.05 Some of the factors that may be responsible for the present economic difficulties include, in addition to resource and climatic considerations, low productivity of investments, the proliferation of non-viable projects, a population that is growing faster than any other continent, increasing role of unproductive parastatals that constitute an inordinate burden on the budget, and government economic policies that foster inefficiency and reduce incentives. An adverse international economic environment exacerbated these problems.

2.06 Evidence suggests that in Sub-Sahara Africa as a whole, return to investment (measured by incremental capital-output ratios or the amount of output resulting from an additional unit of investment) has been falling since the 1970's. While the availability of investment as a percent of GDP increased from 15% during the 1960's to 22% during 1970-81, the growth of per capita GDP declined from 1.4% to 0.4%. About 40% of the deceleration is accounted for by an increase in the population growth rate and 60% due to lower productivity of investments. Cross-sectionally, the investment rate in Sub-Sahara Africa was higher than in South Asia (22% vs. 19%) but GDP grew faster in the latter (3.2% vs. 3.9%). In Zambia and Zaire, the investment rate was a high 30% (well above the average of 22% for Sub-Sahara Africa) but per capita GDP declined by about 3%. This points out the great importance of the efficiency with which resources are utilized apart from their availability in determining rates of economic growth.

2.07 Much of the expansion in investment programs took place in the public sector where many of the projects undertaken were selected on the basis of political prestige and other considerations, sometimes with little regard to their economic and financial returns. Many state-owned enterprises (SOE's), incur substan ial operating losses, constitute a recurrent burden on government budget and a continuous drain of resources away from alternative productive uses. This mainly results from the fact that SOE's are so often viewed as convenient vehicles for pursuing social goals, such as providing employment, rather than as efficient producers of goods and services. As an extension of the government, SOE's have been subject to excessive interference by Ministries. In some cases, they have been a vehicle for misuse and misappropriation of public funds. Because of lack of competition their productivity is usually low and quality of services poor.

2.08 This is not to imply that all SOE's have been inefficient nor does it mean that SOE's are not important. The existence of natural monopolies (eg., in utilities), unwillingness of private producers to undertake certain activities (eg., social services), the infancy of the modern domestic private sector, as well as the existence of social goals to which private profit-seeking enterprises would not be readily responsive, make it almost inevitable that the state would be involved in some economic activities. However, the preponderance of SOE's in many African countries and the primacy of political and other non-economic considerations in the selection and management of projects tend to reduce the efficiency of SOE's and thus their relative contribution to overall economic growth.

2.09 The international economic environment has been difficult for Sub-Sahara Africa since the first oil price shock in 1973 and has worsened in the first half of the 1980's. The combination of declining export markets, and lower prices for primary products in face of higher import prices

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(especially oil) and higher debt service payments led to worsened balance of payments situation and reduced the ability to import essential raw materials and spares. The terms of trade for almost all the low-income and medium-income oil importing African countries fell sharply during the period 1970-84 (eg., by 70 for Zambia, 55 for Zaire, 50 for Liberia). However, vulnerability to external shocks was increased by inappropriate trade and exchange rate policies that cheapened imports, reduced the incentive to export and increased the import-intensity of domestic production. All things considered, government economic policies are probably the most important factor behind the poor overall economic performance and hampered development of a viable private sector.

2.10 The current emphasis on the private sector, while it may represent the swinging of the pendulum away from public-sector dominance of past years, is based on the observation that countries which follow this "model" have done better than those that do not, be they in the first, second, or third worlds, even when those countries have the same resource base. While the direction of causation has not been definitively established, it has been found that economic growth is higher in countries where the share of the private sector in domestic credit and GDP is higher than in countries where it is not. This suggests that the private sector uses financial resources more efficiently than the public sector, as the following table indicates:

Countries[1]	Annual Growth in Per Capita GNP	Share of Private Sector in Domestic Credit		Private Domestic Credit (of GNP)	
	1962-82	1962	1982	1962	1982
High Growth	4.5	65	85	13	41
Medium Growth	2.3	92	65	13	28
Low Growth	0.9	89	31	13	16
Negative Growth	-0.9	68	26	8	13

Source: Keith Marsden, Wall Street Journal, June 3, 1985

In Sub-Sahara Africa, the countries that showed the most impressive performance are countries in which the private sector predominates (e.g., Kenya, Malawi, Mauritius, Cameroon) and countries where the public sector dominates, economic activities have shown a negative performance (Ghana, Senegal, Somalia, Madagascar, etc.). The same holds in other regions. In Asia, South Korea and Thailand have done better than Indonesia and the Philippines.

1. The countries are Cameroon, Ethiopia, Ghana, Ivory Coast, Kenya, South Korea, Madagascar, Malawi, Malaysia, Mali, The Philippines, Senegal, Sudan, Tanzania, Thailand, Zaire, Zambia (Indonesia and Nigeria which are special cases have been excluded).

III. MAJOR OBSTACLES TO THE PRIVATE SECTOR

3.01 Generally, the obstacles facing the private sector are also the same obstacles that face the whole process of economic development. These include: a lack of adequate physical and human resources; limited entrepreneurship; small and fragmented markets; rapid rate of population growth; high centralization of decision-making; economic mismanagement; corruption and nepotism; political instability and uncertainty; weak administrative and legal structure; uneven enforcement of the law; and unfavorable external economic environment. It is, however, widely agreed that government economic policies constitute a critical, if not the single most important, obstacle in the development of the private sector in Africa. These policies exhibit a pronounced public-sector bias born of one or a combination of factors both philosophic or experiential.

A. Government Economic Policies

3.02 In light of the small size of domestic markets, and heavy dependence on world trade, trade and exchange rate policies are of critical importance for the private sector as a whole. In general, foreign exchange controls have resulted in overvalued exchange rates, reducing incentives to export as exporters are squeezed by rising domestic costs and increased demand for artificially cheap imports. With reduced availability of foreign exchange, tighter exchange restrictions are imposed as well as import controls (including quantitative restrictions) and outright bans, creating active parallel markets in foreign exchange and consumer products. In addition, price controls have shifted the terms of trade against agriculture especially export crops, exacerbated financial difficulties of industrial firms and may have reduced new investments, especially when compounded with overvalued exchange rates and exchange controls.

(a) Trade and exchange rate policies

3.03 Trade and foreign exchange policies relate to official exchange rates, import duties, export taxes and subsidies, quantitative restrictions on imports, and exchange controls. The specific policies followed by the different countries in Sub-Sahara Africa vary, but common features include maintaining overvalued exchange rates, relying on import restrictions (high tariffs, quotas, bans of non-essentials and licensing of most imports) designed to conserve foreign exchange, and promoting industrialization through quotas or bans on imports.

3.04 These policies are at the root of many of today's problems. They result in an incentive structure that is biased against agricultural exports, encourage imports (especially foodstuffs), and slow the pace of "genuine" industrialization by encouraging the development of import-intensive, inefficient industrial structure.

3.05 Import restrictions raise the cost of consumer goods and the price of domestic inputs. Overvalued exchange rates hold down the prices domestic producers receive for their exports (because they are paid in lesser number of local currency units than if the local currency was not overvalued), sometimes to levels below cost of production even in products (eg., food crops) in which the country has a comparative advantage. The low level of duties coupled with overvalued exchange rates is responsible for an increasing level of food imports.

3.06 The exchange rate policies followed by most African countries also encourage import-intensive, assembly-type industries and discourage the development of industries that are based on domestic resources. This is because the relative price of imported raw materials, capital and spares become cheaper (relative to domestic prices) when a currency is overvalued. The protection afforded them by import restrictions also reduces incentives for productivity increase and cost reduction. The small size of the domestic market prevents the growth of most of these import-substitute industries to economic size; there may be room in the industry for only one or a very few firms, which itself is less than economic ideal. But such industries particularly suffer in times of foreign exchange scarcity when necessary raw materials and spares can no longer be imported. This is the reason behind the extremely low capacity utilization (20-30%) of most Nigerian industries and the shut-down of many firms. The weakening of the oil market in the past several years has reduced oil export earnings (from $23 billion in 1981 to an estimated $6 billion in 1986) and thus the imports of raw materials and spare parts. With appropriate exchange rate policies the type of industrial structure that develops would have reflected the true cost of resources and could thus have been able to better absorb the shocks of changes in the balance of payments situation.

(b) Price controls

3.07 Price controls are practiced to varying degrees by most African countries. This involves both controlling the aggregate price level and price-setting for a wide range of specific commodities and products. Control on specific commodities is usually motivated by a desire to protect consumers while ensuring adequate profitability to producers. In agriculture, the objective of ensuring regular supply of staples at "affordable" prices for urban consumers has been the dominant criteria. However, controls often wind up hurting the very people they were supposed to protect. Price controls lead to distortions and inefficient allocation of resources. Demand for products at artificially low prices cannot be satisfied, as declining margins and profits reduce availabilities and create scarcities, thus encouraging the development of parallel or "black" markets. In the latter, prices are usually a multiple of official, controlled prices.

3.08 The cost-plus pricing principle, frequently applied by government policy to manufacturing, protects less efficient firms within a particular industry and does not provide incentive for potentially efficient firms to reduce costs. There are also built-in delays, sometimes very lengthy, in processing applications for price increases, which may cause financial problems for firms that are otherwise efficient. In Kenya, for example, most manufacturers receive price hikes biennially. But such price hikes may not adequately reflect intervening increases in the cost of production squeezing profits and thus inhibiting new investments. In the case of one manufacturing establishment in Kenya in which IFC had a financial interest, price increases were not given for several years even though unit costs had risen by 30%. Also, price controls increase the uncertainty over future rates of return and may be a disincentive to new investors. Lastly, controls impose a heavy administrative burden on Government and divert scarce managerial resources.

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3.09 In agriculture, there seems to be ample evidence that pricing policy is one of the most important factors influencing output. Farmers are highly responsive to price changes and the relative price structure determines, to a great extent, the output of different commodities. A good example of this is the recent surge in agricultural growth in China, a country with stringent controls and high degree of centralization for over two decades. By decentralizing production decisions to the household and allowing farmers to respond to market prices, the gross value of agricultural output has grown at an average of over 6% per annum between 1980-1985. However, while there has been substantial growth in almost every aspect of Chinese agriculture, central planners discovered that because the relative price regime favored crops to livestock and cash crops to food grains, the growth in animal husbandry has been slower, and there has been a shift in cultivated land from food grains to cash crops.

3.10 In Ghana, cocoa production declined from 566,000 tons in 1965 to 172,000 tons in 1984/85, mainly because of relatively low prices paid to farmers by the Cocoa Marketing Board. The prices paid by the Marketing Board increased by only about one-fourth of the increase in the consumer price index and one-sixth the price rises in neighboring countries.

3.11 Government interventions in, or controls of, the capital and labor markets have resulted in artificially low interest rates (in some cases negative in real terms) and artificially high wage rates, in the formal sector. This resulted in a capital-intensive, labor-saving production structure that is at variance with factor availabilities and resource endowments.

B. Political, Legal and Administrative Obstacles

3.12 The political situation in many countries is unstable or uncertain and consequently engenders insecurity of investors and prevents them from making any long-term commitments. This applies to both local and foreign investors. It may reduce the flow of foreign investment but more importantly may encourage the flight of domestic capital and favor short-term investments over the type of long-term productive investments crucial to growth and development.

3.13 There are also numerous legal and administrative hurdles to go through in conducting business transactions which, coupled with cumbersome bureaucratic red tape and high centralization of decision-making, constrains normal day-to-day business activities. Furthermore, the uncertain political situation often increases the expectations of future changes in the legal framework. These expectations have been borne out by frequent changes in government and abrupt changes in legal and administrative framework. During the course of the first two decades of independence (1960-80), there were numerous cases of nationalization of foreign property and socialization of domestic property. The memory of this can only be erased by the passage of time and consistency in the application of more neutral philosophies. The absence of stable, predictable political and legal environments and the uneven and unpredictable application of the law constitute major obstacles to private sector development.

3.14 To lessen the scope for abuse and unintended adverse results, economic decision-making needs to be decentralized, the price system rather than administrative controls needs to be used for allocation of resources, the legal framework needs to be predictably and evenly enforced. Moreover, the political system itself needs to be broadened and, where possible, depersonalized to reduce the level of uncertainty. In sum, the institutionalization of the political, legal and administrative apparatus as well as the decentralization of decision-making are necessary for the creation of an economic environment conducive to the promotion and development of indigenous entrepreneurship and a viable private sector.

C. Small Domestic Markets

3.15 More than half of the 45 countries in Sub-Sahara Africa have a total population of 5 million or less. Nearly 80% of them have populations of less than 10 million. About twelve countries have a population of less than 1 million 2. At least one of them, Sao Tome Principe, has a population of only 100,000. The combination of small population and low per capita incomes (approximately two-thirds of the countries in Sub-Sahara Africa are classified as low-income and have per capita of $400 or less) means that the domestic market of most countries is too small to sustain viable industrial production. Thus, the fragmentation of Africa (a bitter legacy of the colonial era), constitutes one of the most serious obstacles to economic development. The development of regional markets as an antidote to this problem has been thwarted by differences in economic policies and philosophies, political antagonisms (resulting from border disputes, harboring of political asylums, etc.), or disparities in resource endowments. However, the failings have been reflective more of a lack of political will than economic realities, as evidenced by the large but undocumented cross-border contraband in many countries.

IV. TOWARDS IMPROVED POLICY ENVIRONMENT

A. The Major Components of Policy Reform

4.01 Sub-Sahara Africa faces a large number of long-term factors that acutely constrain its economic development (high population growth rates, manpower and skill constraints, debasement of the resource base through deforestation, desertification and overgrazing, etc.). However, there is considerable scope for increasing output even within these basic constraints. Increased production can be achieved in the short and medium-term by removing the level of distortions resulting from intervention and control, instituting appropriate incentives, and enhancing the role of the private sector.

4.02 The main features of an improved economic environment for private investment is the removal of the distortions brought about by government

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2. Botswana, Djibouti, Commoro Islands, Gabon, Gambia, Guinea-Bissau, Equatorial Guinea, Lesotho, Mauritius, Sao Tome Principe, Seychelles, and Swaziland.

policy. These include correcting the overvalued exchange rates and allowing the market (demand and supply of foreign exchange) to determine it, removing price controls so that it reflects the true factor and product scarcities, rationalizing the public sector with a view to reducing its size, and improving the government's day-to-day interaction with the business community.

4.03 Evidence indicates that countries with a low level of price and exchange rate distortion have higher economic growth rates than countries with high levels of distortion. In a recent study covering almost all developing countries (including ten from Sub-Sahara Africa), it was shown that the average GDP growth rate of countries with low distortions was 7% per year, while the average for those with high distortions was only 3% per year -- for many, virtual stagnation on a per capita basis 3. In Sub-Sahara Africa, the countries with low distortions and high growth include Cameroon, Kenya, Malawi, and Mauritius while the high distortion, low growth category included Sudan, Zambia, Zaire, Ghana, Tanzania and Senegal. Since the resource base of the latter group of countries is at least as good as the former, the differential growth rate is most probably due to the differences in the level of distortions. There is a strong theoretical basis for why distortions lead to low growth. Resources are inefficiently allocated (i.e., not necessarily used where they can do the most good because the signal -- the price system -- has been tampered with), and incentives are reduced. Distortions result mostly from government intervention in, and control of, economic activities and use of administrative rather than price signals to allocate resources. Since the price system contains much more information (on resource availabilities, consumer preferences, production possibilities, etc.) than any government department can muster, it is a better signal to both producers and consumers and therefore to the whole economic system. Distortions could also result from monopolies but the government is also the biggest creator of monopolies -- through parastatals, QRs, restrictions of entry to certain activities, etc.

(i) <u>Correcting Overvalued Exchange Rates</u>

4.04 Reliance on demand and supply for foreign exchange to determine the exchange rate helps reduce the balance of payments deficits, eliminates the need for parallel markets, cross-border contraband and smuggling, removes artificial scarcities, and reduces or eliminates the huge "rents" received by those favored by the administrative allocation of foreign exchange. Correcting overvaluation of currencies also shifts the terms of trade in favor of those who produce for export and away from those who consume imports. Since those who produce for export are mostly rural and those who consume imports are urban dwellers, correcting the overvaluation of currencies will also help improve the distribution of income across households, reduce or reverse rural-urban migration (and there is evidence -- eg., Ghana -- that this is happening) and improve agricultural production, especially for export. As imports become expensive in terms of domestic prices, consumption and production become less import-intensive. The incentive to export and to use domestic resources in

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3. Daniel Landau, "Government Economic Growth in Less Developed Countries" in <u>Report to the President's Task Force on International Private Enterprise: Selected Papers</u> (U.S. Government, Washington, D.C., 1984).

industrial production increases, and the need for import restrictions is reduced or eliminated. Moreover, the need for cumbersome bureaucracy and costly administrative controls is eliminated and scarce manpower freed.

4.05 Despite the benefits of exchange rate reform, adjustments are slow and tepid, partly because of fear of social and political consequences. Groups like urban dwellers and owners of industries who benefit from the implicit subsidies resulting from currency overvaluation, usually resist devaluation. Nevertheless, several countries have recently undertaken significant reforms in their exchange rate system. Ghana, Guinea, Gambia, Zaire, Madagascar, and Mauritania have either adopted a market-determined exchange rate or taken significant steps towards more flexible exchange rates. The Ghanian Cedi was devalued from C2.3=US$1.0 in April 1983 to C90=US$1.0 at present. The rate in Guinea has been devalued to less 10% of the old official rate. Following the adoption of a freely-determined exchange rate in 1984, the effective rate in Zaire fell to only a quarter of its original level. Zambia introduced an auction system in late 1985 and nominal exchange rate fell from K2.3=US$1.0 to K7=US$1.0 in just three weeks. However, the real effective exchange rates in most of these countries is still above the level of the early 1970's.

4.06 The combination of the oil price drop, the rise in the price of some commodities (e.g., coffee) and good weather conditions have improved the balance of payments situation in many countries and could cushion the short-term effects of exchange rate reforms.

(ii) Removing Price Controls

4.07 The most significant impact of price decontrols is on the agricultural sector against which the terms of trade have significantly shifted in the past two decades. Decontrolling agricultural prices will reverse the discrimination against farmers in favor of the urban sector, and will also increase the incentive to raise agricultural output. Since the majority of the population depends on agriculture and the economies of the region are heavily dependent on the agricultural sector, this would help alleviate poverty, improve the distribution of income, and raise overall economic growth. Coupled with correcting the overvaluation of the currency, decontrol of agricultural prices would help increase exports and reduce imported agricultural products, especially foodstuffs.

4.08 In addition to price decontrols, complimentary reforms would be essential to reinforce the improved incentive structure resulting from price decontrols. These include lower agricultural taxation especially on export crops, reforming or dismantling the parastatal system in agricultural marketing and input distribution, greater public expenditure on rural areas (extension services, agricultural research, feeder roads, etc.), and giving the private sector a greater role in marketing, transportation of output and in the distribution of seed and fertilizer.

4.09 Price decontrols could help the profitability and therefore the output of manufacturing sector. However, price controls have not been as detrimental to industrial output as they have been to agriculture because the magnitude of the difference between official and market prices are smaller and price increases are given more frequently.

4.10 Over the past several years, many governments in the region have undertaken significant policy reforms in this area. Zaire, Zambia, Ghana, Togo, Tanzania, Madagascar, Cameroon and Guinea (most of those who have also liberalized the exchange rate system) have either deregulated markets or increased official prices, and the results were increased agricultural output. Tanzania doubled producer prices of maize during 1983-85, Zaire tripled the price for cassava and doubled that for maize during 1983-84. In Mauritania, domestic prices were set in line with import prices for cereals in 1985. Zambia official producer prices were increased by 35% in 1984 and decontrolled in 1985 Ghana tripled the price of cocoa between 1983 and 1985 (50% in nominal terms). In early 1986, Guinea decontrolled prices for foodcrops and quadrupled official wholesale prices for imported cereals, especially rice. It should be remembered, however, that these price increases are in nominal terms and that they accompanied an overall reform program including substantial devaluations (which would increase the cost of imported inputs as well as consumer goods).

(iii) Public Sector Rationalization

4.11 Sub-Sahara Africa is distinguished by the preponderance of the public sector. Public sector employment is about 50% of modern sector employment, accounts for most of the investment in this sector and for about 20% of total consumption (and is growing at a rate 50% higher than for private consumption). In the immediate post-independence period, there was a definite public-sector bias in most African countries. This resulted partly from the perceived exploitation by the private sector (especially foreign businesses) and the belief that only the state can be an effective protector of national economic interests. There was also the belief that in order to make "short-cuts" in the development process, the state must take the lead. The private sector was either too small or non-existent in modern sector activities, it lacked the requisite resources and know-how and was concentrated in the subsistence or traditional sectors (which was deemed to be the sine qua non of underdevelopment).

4.12 An expanding public sector absorbed an increasing share of the scarce financial and human resources and "crowded out" the private sector. It is widely believed that the rapid growth of the public sector over the last two decades is a major factor contributing to the current economic problems of the region. There is some evidence that many governments have realized the need to reduce the size of the public sector. For the region as a whole, public sector expenditure declined by 1.5% per year during 1975-80. The reduction in public expenditure was not always accomplished in a rational way. In many cases, it led to marked deterioration in public services, in the decline of morale and productivity of public employees, and in the deterioration of publicly-owned equipment and materials.

4.13 The closure of non-viable enterprises and the privatization of others in Africa has, as in many other parts of the world, been picking up. The governments in the region divested themselves of about 5% of their ownership in public enterprises during the 1980's. However, divestiture is fraught with difficulties. There are formidable forces and interest groups against privatization; divestiture can lead to short-term dislocations (layoffs of redundant labor, closure of inefficient plants) which political leaders are unwilling to go through, and there is frequently a fear that public enterprises might be privatized at less than their fair value. But if properly managed, including some external financial assistance for buyers, the long-term benefits would be substantial as non-viable enterprises "die out" and the management structure becomes more responsive to business rather than political or bureaucratic factors. In

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many of the SOE's that remain, increased autonomy and responsibility could lead to better management and cost-cutting. In Ghana, the aggregate losses of approximately 100 SOE's declined by 80% between 1982 and 1983; the Cocoa Marketing Board dismissed 19,000 employees, a third of its payroll. In Mali, the thirteen major SOE's cut deficits by 50% in 1985. Nigeria announced at the end of 1985 that the reduction of parastatal transfers was 50%. And the list goes on.

B. Results of the Policy Reforms

4.14 It is generally accepted that liberalization of the policy environment (correcting currency overvaluation, removing trade restrictions, reducing or eliminating price controls, reducing the role of the public sector, etc.) increases productivity and output, increases incentives to export, and reduces imports. It shifts the pattern of domestic production in favor of domestic resources and away from reliance on imported inputs. Rationalization of the public sector, including reducing its role in favor of the public sector, reduces the budgetary burden, releases scarce financial and managerial resources to more productive activities and reduces the scope for corruption and mismanagement.

4.15 The recent spate of economic reforms, however, is too recent to allow sufficient analysis of the ensuing results. Still, preliminary evidence suggests that the performance of those countries that have undertaken reform has improved both in relation to the pre-reform period and in relation to countries that have not undertaken reform. After a decade of economic decline that left per capita incomes 30% below and exports 50% below their 1970 levels, the economic picture in Ghana turned around following the dramatic reforms introduced in 1983. Despite a severe drought, the sudden return of one million Ghanians from Nigeria, and an already acute foreign exchange crisis, growth in GDP was estimated at 7% in 1984 and 5% in 1985 (from stagnation or approximately 3.1% per annum decline on per capita basis during the preceding decade). Inflation was brought down from 123% in 1983 to 20% in 1985. Receipts from gold and diamond exports increased due to reduced smuggling after the recent 30-fold devaluation. Agricultural production increased sharply (maize production tripled in 1984 following a 300% increase in prices) and increasing numbers of urban dwellers moved back to the rural areas as the terms of trade shifted in favor of agriculture and as urban-bias of government policy reversed.

4.16 In Zambia, cotton and maize production rose by 20% during 1983-85, and the amount marketed rose by 55% during 1984-85 following price increases. Similarly, cotton production in Togo doubled during 1984-95. While it is difficult to separate the effect of weather conditions from the price effect, the clear correlation between the level of commodity prices and agricultural output is too dramatic to ignore.

4.17 Cross-country comparison reveals the same pattern. For both Tanzania and Kenya, coffee is the major export earner. In Tanzania, the share of farmers in the export price of coffee was only 40-50% in 1984, while it was 90% in Kenya. Coffee production in Tanzania has remained stagnant over the past decade with significant deterioration in quality, while in Kenya it remained buoyant even during the international recession of the early 1980's and severe drought in 1984 (coffee deliveries grew 7% per year over the period 1979-84 and actually increased sharply during the drought of 1984).

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4.18 In industry, the response to policy reform is not as immediate because of the long gestation period of new investments, and the importance of increased allocations of foreign exchange (which depends more on infusions of external resources than on policy changes at least in the short-term) for the importation of spares and raw materials. In Zimbabwe, for example, there was a boom in the manufacturing sector in the immediate post-independence period, not because of liberalization but because of higher foreign exchange allocations. Manufacturing output increased by 15% in 1980 and by 10 in 1981 and labor productivity grew at 17% per year because of increases in capacity utilization. With reduced foreign exchange allocations to the indsutrial sector in 1982, output declined. This is not to minimize the importance of liberalization on industry but merely to point out that the short-term effect on industry might not be as immediate as in agriculture. Liberalization, particularly removing import restrictions, might in fact hurt before it helps, since most local industries produce import-substitutes that usually cannot compete head-to-head with imports. Imports of capital equipment, spares and raw material inputs would also be more expensive after devaluation (most African currencies are overvalued) and so increase their cost of production. Therefore, many inefficient industries established under import restriction and overvalued exchange rates might go out of business after liberalization. However, these types of industries are a drag on the economy anyway, and their closure might be helpful to the economy. In the long-run they will be replaced by an industrial structure that reflects true factor availabilities and is based mainly on domestic resources rather than imports.

4.19 While these cases strongly indicate the primary role of economic policies in the incentive structure and hence on output, there are other factors that may have reinforced, or mitigated against, the policy reforms. Weather conditions were in general good during the past year and growth was from depressive levels. This might partly account for the observed growth in agricultural production. Also, the dramatic turnaround in the economic performance of Ghana was buttressed, at least in part, by large infusions of external resources, mostly through the World Bank sponsored Consultative Group since 1983, after a long hiatus of 13 years. However, in spite of these qualifiers, the importance of economic liberalization is not in dispute.

C. Are Reforms All There is to Growth?

4.20 Significant economic reforms are a necessary, though by no means sufficient, condition for sustained economic growth and development of a vibrant private sector. The absence of policy reforms ensures failure but reform by itself does not guarantee success. In other words, the fact that reforms are critical does not imply that a country will achieve growth and economic development once it undertakes reforms.

4.21 Other ingredients for success must also be present and other obstacles besides bad economic policies must be removed. A favorable international environment for Africa's exports, appropriate levels and types of external economic assistance, including debt relief, the development of effective regional markets that reduce scale limitations for the smaller economies (and that includes most of Sub-Sahara Africa) are also essential ingredients for success. In addition, a stable and predictable political environment, increased legitimacy of leaderships, as well as the existence of an institutional and legal environment conducive to private sector development are also as essential as the policy framework.

4.22 There are also a host of long-term constraints hindering the realization of Africa's potential. These long-term constraints include a population that is growing faster than any in history (leading to a doubling of population every 20 years or so, only 18 years in Kenya) and that absorbs the increments to output and increases the dependency on the working population, most of them smallholders. Environmental deterioration and debasement of the natural resource base through deforestation, desertification and overgrazing (part of the cycle of factors that aggravated the recent drought) has also emerged as a major long-term constraint, especially to increased agricultural production. Other constraints include manpower and skill shortages (aggravated by a brain drain that, though not large by international standards is significant in African terms) and a weak institutional structure. The interlocking web of obstacles that makes for "underdevelopment" have to be removed if increased incentives are to be matched with opportunities and the ability to exploit those opportunities enhanced.

4.23 However, after all this is said, the importance of reforms both in helping to overcome these constraints (by incrementally building a critical mass which mitigates against these constraints) and in taking full advantage of whatever exists, cannot be overemphasized. Distorted economic policies and priorities not only compound these constraints but also reduce any chance of utilizing Africa's considerable potential and making full use of what it already has. The absence of significant policy reforms ensures repetition of past mistakes. Increased government expenditures when times are good -- Kenya during the coffee boom, Nigeria during the oil boom -- reinforces the downward spiral in bad times. Policies of import-substitution, import restriction and overvalued exchange rates that were designed to reduce external dependence wind up increasing dependence on imports, reducing incentives to export and increasing the dependency on, and vulnerability to, a changing external economic environment. In sum, the creation of an enabling environment of necessity, requires the creation of a liberal economic environment. Without it, foreign capital will stay away, domestic capital will either leave the country or go into short-term speculative rather than long-term productive investments. Corruption and the lure of exhorbitant "rents" generated by policy-created scarcities will continue unabated despite all the moral exhortations to sacrifice and patriotism. Instead of exploiting its enormous wealth, Africa will continue traveling down the road to further decline. With policy reforms, there is at least a chance that the people of Africa, as individuals and in communities, acting freely to better themselves, will unlock the considerable potential of this continent.

V. PROMOTING AFRICAN ENTREPRENEURSHIP

5.01 The existence of an indigenous entrepreneurial class to take advantage of investment opportunities is critical for economic growth and development. Without it, the creation of an "enabling" environment would mean little, especially in regions like Sub-Sahara Africa where the inflow of

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foreign investment is expected to be very small in the near future. As evidenced by the vitality of limited free markets (legal or parallel) and the vigor of its traders even in the most stifling policy environments, the entrepreneurial spirit is as strong in Africa as it is elsewhere. However, the manifestation of that spirit in a modern business context (especially in productive activities) is limited by all the factors that also limit business opportunities in Africa. In addition to the existence of adequate opportunities, the outward expression of entrepreneurial abilities are determined by the value system of society. People with entrepreneurial abilities (boldness, dynamism, leadership qualities, desire to take novel and uncertain risks, a knack for perceiving new relationships and experimenting with novel ideas, etc.) have always existed in most societies but may have channeled their energies into fields (not always economic -- priesthood, medicine men, etc.) on which society puts greater value and prestige. In present-day Africa, many individuals who may be potentially excellent entrepreneurs and who have the necessary technical background may have gone into politics and the civil service because these had, until recently, more social prestige and immediate material rewards. This may have been reinforced by the general anti-business bias in many countries during the first decade of independence. The fact that the government controlled all economic levers and was therefore a faster route to riches may have been an added factor. However, there seems to be developing in most countries a pro-business socio-political environment and an increased prestige of the business profession. The current overall economic difficulties and the erosion of civil service salaries by rampant inflation, in addition to the dwindling of public sector resources, may have contributed to the emergence of an environment conducive to the development of a modern entrepreneurial class.

5.02 Despite the improved environment, there remain a number of basic constraints on the full emergence of the entrepreneurial potential. These include: a shortage of financial resources, especially foreign exchange, the near absence of capital markets, limited access to credit, political favoritism in the allocation of government credit and foreign exchange, as well as lack of information about markets, costs and sources of equipment and material. Cumbersome bureaucracies slow-down actions and frustrate the honest and dynamic but "unconnected" individual. An uncertain legal and administrative environment, coupled with political uncertainty and general insecurity in some countries, have favored speculative and trading activities at the expense of long-term productive investments.

5.03 The extended family and its complex web of obligations, while often a help in starting a business, also discourages risk-taking (success we share, failure you lose), drains savings and prevents capital accumulation, and thus hampers the expansion of existing businesses. Above all, there is probably nothing as important to the development of entrepreneurship as the experience of seeing somebody else do it: put a deal together, map-out the market, negotiate with clients, partners and bankers, etc. Considering the current state of Africa's development, this type of experience to some extent would have to come from outside in the form of foreign private investment (and with Africans holding top managerial positions in them). However, private foreign investment has been declining in the past decade and is likely to continue declining for the foreseeable future for all the reasons that also limit overall private sector development.

5.04 In spite of the obstacles, most knowledgeable observers of the African scene, including IFC, have come to realize that Africa does not lack entrepreneurs and there are considerable investment opportunities. However, the nature and mix of these investment opportunities as well as the type and experience of available entrepreneurship may be different from more developed regions. A recent IFC study of 11 countries in Sub-Sahara Africa indicates that most of the investment opportunities in the modern sector are small-to-medium size, averaging between $750,000 and $3,000,000, mostly in agricultural processing and light manufacturing sectors. There is also a growing number of indigenous entrepreneurs ready and willing to take advantage of these opportunities.

5.05 As the largest international development institution concerned exclusively with the private sector, IFC is naturally concerned with how to assist African entrepreneurs in exploiting those opportunities, as well as in helping to increase the pool of local entrepreneurship. In addition to its normal project-related work, the IFC, in cooperation with the African Development Bank and UNDP, has established a new facility (the African Project Development Facility) which will assist African entrepreneurs in screening project ideas, obtaining loan finance for viable projects and identifying sources of equity and technical partners. Another IFC facility (The African Management Services Company), currently being discussed, aims at bridging the technical and managerial gap faced by many African companies by tapping the worldwide reservoir of qualified senior executives, assisting in the training of indigenous managers, and providing support and back-up services to these companies. IFC has also recently established a Foreign Investment Advisory Service to assist member developing countries in designing ways of improving the investment environment for private foreign investors. In addition, IFC is at the forefront of the privatization drive and would assist governments in devising an orderly and effective transition of ownership from the public to the private sector.

5.06 In discussing African entrepreneurship, there is a tendency to limit the discussion to modern sector business activities and western-style management. However, the vast majority of existing and potential entrepreneurs consist of traditional businessmen: traders who want to go into other sectors and owners of small commercial farms who want to raise productivity. The development of this type of entrepreneur would have more impact, simply because they constitute a larger portion of the population than the educated, western-style managers. The latter might be the cutting-edge in terms of introducing new technologies, in obtaining external financing, and in forming joint-ventureship with foreign firms. But, they are too small in number, and the formal private sector itself too tiny, to have an appreciable impact on overall economic growth.

5.07 The major component of the private sector in Africa consists of smallholders and the self-employed in the informal urban sector. Increasing the output and productivity of these sectors is what development (and poverty alleviation) is all about. There is ample evidence that individuals engaged in these two sectors have been discriminated against through the controlled price structure, the set of incentives or disincentives, the share in government expenditure and external finance, access to government credit and public services, etc. Nevertheless, these sectors have managed to grow when the policy environment gives them room to do so. The informal urban sector, for example, has grown faster than the modern sector and provides a safety-net for low-income urban dwellers. This sector is characterized by ease of entry, intense competition, simple technologies that are locally-produced or locally-replicable, has low initial capital requirements and is more reflective of the resource and technology base of the economy than the modern sector. The smallholder sector has also shown the ability to sharply increase crop production, given adequate price incentives, input supplies (seed, fertilizer), and extension services.

5.08 The development of African entrepreneurship requires a two-pronged approach. Promoting the modern entrepreneur who uses advanced technology and modern technical and managerial skills would be essential as the technological "cutting-edge", for demonstration effect and to impart a limited "pull-up" effect on productivity. People learn the subtleties and intricacies of launching or running a modern business (or even ways of putting things together, and different ways of viewing the world), by seeing others doing it, especially others with whom they could identify and with whom they have personal and sustained interaction. However, the direct impact of such entrepreneurs would be limited by the fact that they would be few in number, and could themselves be swamped by the inertia around them. This is why it is also important to promote potential entrepreneurs among the large pool of the population. There are a large number of dynamic, intelligent and innovative (within their scope and means) individuals among small holders whose entrepreneurial spirit lies dormant beneath a suffocating sheet of government restrictions, and who have limited access to resources.

5.09 One has only to recall the production response of smallholders in Kenya during the first decade of independence with the conversion of the high potential land from extensive use to smallholder cultivation, and the introduction of high-yielding maize varieties. The very existence of rural-urban migration in response to income differentials despite all the uncertainties of migration is a reflection of entrepreneurship. So are the new urban arrivals who start peddling small quantities of products in the informal-urban sector. However, they do not have access to credit facilities (be it external or internal) and other resources of the government. External donors seldom have access to them because of language or cultural barriers and any external resources are at any rate sequestered by the bureaucracy and the formal sector. But it is these little people (the smallholder, the self-employed informal urban sector) who would make the difference in whether Africa breaks away from the current cycle of poverty or merely perpetuates small enclaves of modernity which become more isolated in good times and are engulfed by economic problems in bad times.

5.10 The promotion of entrepreneurs (existing or potential) in the smallholder, informal urban sector and even among those at the bottom end of the formal sector (the small trader who wants to own a small workshop, the tire repairman who wants to own an automated garage, etc.) would involve innovative ways of extending technical and financial assistance, the removal of discriminatory government policies and equal access to government facilities. Existing entrepreneurs are shackled by a lack of expertise on how to put deals together and provide documentation to lenders. They have little information on markets, sources of equipment and materials, and the range of available equipment, the different sources of financing and ways of applying for them.

5.11 The IFC is ready and willing to work with African Governments in promoting and developing African entrepreneurship and managerial capabilities. It is usually difficult and relatively costly for IFC to get involved in projects below a certain threshold (operationally $5 million) but considering the small size of domestic markets in much of Sub-Sahara Africa, an exception has been made. By June 1985, IFC committed about $700 million to over 150 projects with an approximate total cost of $3.4 billion which resulted in the creation of about 90,000 jobs. Projects financed were in 37 of the 39 Sub-Sahara African countries that are members of IFC. More than half of those projects are less than $2 million.

5.12 IFC intends to redouble its efforts in Africa and devise novel ways of assisting the small entrepreneur. The African Project Development Facility and the African Management Services Company are two new initiatives undertaken with Africa's special circumstances in mind. There is currently a lot of in-house dialogue of what else IFC can do, given its mandate and expertise. There is, however, a limit on what any outside agency can do and how far it can reach. Ultimately it is only the Africans, governments and people, under the social objectives and special circumstances of each country, who can do the job.

STATISTICAL ANNEXES

Basic indicators

	Population (millions) mid-1984	Area (thousands of square kilometers)	GNP per capita: Dollars 1984	GNP per capita: Annual growth rate 1965-84 (percent)	Annual rate of inflation (percent) 1965-73	Annual rate of inflation (percent) 1973-83	Life expectancy at birth 1983 (years)	Average index of food production per capita 1981-83 (1974-76=100)
come economies	260.6t	15,694t	220w	(.)w	3.6w	18.5w	49w	93w
thiopia	42.0	1,222	110	0.5	1.8	4.4	47	106
ali	7.3	1,240	140	1.2	7.6	10.3	45	106
aire	30.6	2,345	140	-1.3	18.7	48.2	51	93
urkina	6.6	274	160	1.4	2.6	10.8	44	100
uinea-Bissau	0.9	36	180	..	..	6.9	38	84
iger	6.3	1,267	190	-1.2	4.0	11.8	45	122
alawi	5.8	118	210	2.2	4.5	9.8	44	101
anzania	21.5	945	210	0.9	3.2	11.5	51	103
urundi	4.6	28	220	2.1	2.9	12.4	47	97
Uganda	14.3	236	230	-4.4 [a]	5.6	62.7 [b]	49	91
Togo	2.9	57	250	1.1	3.1	8.3	49	99
Gambia	0.7	11	260	1.4	3.0	10.4	36	79
Somalia	5.2	638	260	-0.8 [a]	3.8	20.1	45	72
Benin	3.9	113	270	1.0	3.6	10.8	48	95
Central African Rep.	2.5	623	270	0.1	3.0	14.4	48	94
Madagascar	9.7	587	270	-1.2	4.1	13.9	49	90
Rwanda	5.9	26	270	2.3	7.7	11.2	47	114
Guinea	5.9	246	300	1.1	3.0	4.0	37	85
Kenya	19.7	583	300	2.3	2.3	10.8	57	86
Sierra Leone	3.7	72	300	1.1	1.9	14.7	38	98
Sudan	21.5	2,505	340	1.3	7.2	18.0	48	94
Ghana	13.4	239	350	-2.1	8.1	51.6	59	65
Senegal	6.4	196	380	-0.5	3.0	8.9	46	71
Chad	4.9	1,284	..	..	4.5	8.3 [b]	43	101
Mozambique	13.4	802	..	..	..	..	46	68
le-income oil importers	32.6t	3,257t	620w	1.2w	3.5w	10.8w	53w	89w
Mauritania	1.7	1,031	450	0.3	3.9	7.8	46	102
Liberia	2.1	111	470	0.8	1.5	7.2	49	92
Zambia	6.5	753	470	-1.3	5.2	10.3	51	74
Lesotho	1.5	30	530	6.3	4.4	11.9	53	76
Ivory Coast	9.9	322	610	1.0	4.1	11.9	52	108
Zimbabwe	8.2	391	740	1.5	3.0	9.7	56	79
Swaziland	0.7	17	800	2.6	4.3	14.1	55	116
Botswana	1.0	600	910	8.5	4.4	9.8	61	68
Mauritius	1.0	2	1,100	2.8	5.6	13.1	67	89
le-income oil exporters	117.7t	3,256t	800w	3.4w	8.3w	13.2w	49w	95w
Nigeria	96.8	924	770	3.2	10.3	13.3	49	98
Cameroon	9.9	475	810	2.7	5.8	12.6	54	84
Congo, People's Rep.	1.8	342	1,120	3.5	4.6	12.4	63	99
Gabon	0.8	268	3,480	3.2	5.8	18.5	50	102
Angola	8.4	1,247	..	..	..	..	43	82
-Saharan Africa	410.9t	22,207t	420w	1.8w	4.2w	14.8w	49w	94w
low-income economies	2,335.4t [c]	31,603t	260w [c]	2.7w [d]	1.4w	5.4w	59w	111w
lower middle-income conomies	665.1t [c]	18,446t	750w [c]	2.9w [d]	5.6w	17.9w	57w	105w
upper middle-income conomies	500.1t [c]	22,079t	2,050w [c]	3.8w [d]	5.3w	34.0w	65w	106w
ustrial market economies	728.9t [c]	30,395t	11,060w [c]	2.5w [d]	5.2w	8.0w	76w	107w

. Because data for the entire period are not available, figures are for periods other than that specified.
. Figures are for 1973-82, not 1973-83.
. Figures are for 1983, not 1984.
. Figures are for 1965-83, not 1965-84.

ource: Financing Adjustment with Growth in Sub-Sahara Africa 1986-90, The World Bank, 1986

Growth of production
(annual growth rate: percent)

	GDP		Agriculture		Industry		Manufacturing [a]		Services	
	1965-73	1973-83	1965-73	1973-83	1965-73	1973-93	1965-73	1973-83	1965-73	197
Low-income economies	3.7w	2.1w	2.6w	1.5w	5.7w	1.6w	..	..	3.4w	2
1 Ethiopia	4.1	2.3	2.1	1.2	6.1	2.6	8.8	3.5	6.7	3
2 Mali	3.1	4.1	0.9	5.0	5.2	0.6	..	..	4.7	4
3 Zaire	3.9	-1.0	..	1.4	..	-2.0	..	..	..	-1
4 Burkina	2.4	3.5	..	1.3	..	5.1	..	..	..	4
5 Guinea-Bissau	..	2.1	..	-3.1	..	1.3	..	..	..	12
6 Niger	-0.8	5.2	-2.9	1.6	13.2	10.9	..	..	-1.5	5
7 Malawi	5.7	4.2	..	4.1	..	4.2	..	..	..	4
8 Tanzania [b]	5.0	3.6	3.1	2.6	6.9	0.2	..	..	6.2	5
9 Burundi	4.8	3.6	4.7	2.3	10.4	8.3	..	..	3.0	5
10 Uganda [b]	3.6	-2.1	3.6	-1.6	3.0	-10.1	..	..	3.8	-1
11 Togo	5.3	2.3	2.6	1.1	6.2	2.6	..	..	7.3	3
12 Gambia	4.5	3.2	4.5	-2.4	4.4	7.2	..	..	4.5	5
13 Somalia [b]	..	2.8	..	3.5	..	1.1	..	..	..	2
14 Benin	2.2	4.8	..	2.7	..	6.9	..	..	..	6
15 Central African Rep.	2.7	1.0	2.1	2.4	7.1	1.0	..	..	1.6	-0
16 Madagascar [b]	3.5	0.3	..	-0.2	..	-1.8	..	..	..	1
17 Rwanda	6.3	5.6	..	..	..	..	..	..	..	
18 Guinea	3.0	3.1	..	2.4	..	6.7	..	..	..	1
19 Kenya	7.9	4.6	6.2	3.4	12.4	5.3	12.4	6.3	7.8	5
20 Sierra Leone	3.7	1.9	1.5	2.2	1.9	-2.9	3.3	2.5	7.1	4
21 Sudan	0.2	6.3	0.3	3.5	1.0	6.7	..	..	0.5	8
22 Ghana	3.4	-1.3	4.5	(.)	4.3	-7.0	6.5	-6.2	1.1	-0
23 Senegal	1.5	2.6	0.2	[illegible]	3.5	6.1	..	..	1.5	2
24 Chad	0.5	-5.8	..	..	..	..	..	..	..	
25 Mozambique	..	..	..	..	..	..	..	..	..	
Middle-income oil importers	5.4w	3.0w	3.2w	2.4w	5.6w	3.0w	..	..	6.2w	3
26 Mauritania	2.6	2.5	-2.1	2.6	3.5	(.)	..	..	8.7	3
27 Liberia	5.5	0.2	6.5	2.0	6.2	-1.5	11.2	0.5	3.6	0
28 Zambia	3.0	0.2	..	1.4	..	-0.3	..	..	..	0
29 Lesotho	3.9	5.5	..	..	..	..	..	..	..	
30 Ivory Coast	7.1	4.7	3.7	4.0	8.8	7.4	8.9	4.5	8.5	4
31 Zimbabwe	7.3	1.8	..	1.2	..	(.)	..	..	..	3
32 Swaziland [b]	7.6	3.8	8.0	4.7	3.1	4.1	..	5.8	12.2	3
33 Botswana	14.8	10.2	6.4	-4.2	30.2	15.3	6.4	10.0	10.6	10
34 Mauritius	2.3	3.8	..	-3.4	..	4.8	..	4.4	..	7
Middle-income oil exporters	9.1w	1.6w	3.0w	-1.5w	18.9w	1.0w	..	..	8.2w	4
35 Nigeria	9.7	1.2	2.8	-1.9	19.7	0.3	15.0	10.7	8.8	4
36 Cameroon	4.2	6.8	4.7	1.8	4.7	13.7	7.5	9.9	3.6	7
37 Congo, People's Rep.	6.8	7.9	4.1	0.4	9.3	12.7	..	..	6.7	6
38 Gabon	7.4	-1.9	..	..	..	..	..	..	..	
39 Angola	..	..	..	..	..	..	..	..	..	
Sub-Saharan Africa	6.6w	2.1w	2.9w	0.7w	14.6w	1.4w	..	..	6.3w	3
All low-income economies	5.5w	5.0w	2.6w	2.9w	7.2w	7.1w	..	..	4.2w	5
All lower middle-income economies	6.6w	4.1w	3.4w	1.9w	10.6w	4.4w	8.5w	5.4w	6.8w	5
All upper middle-income economies	7.4w	4.9w	3.2w	3.2w	8.4w	5.0w	..	..	7.8w	5
Industrial market economies	4.7w	2.4w	1.8w	1.0w	5.1w	1.9w	3.8w	1.1w	4.8w	2

a. Manufacturing is a part of the industrial sector, but its share of GDP is shown separately because it typically is most dynamic part of the industrial sector.

b. Figures are for 1973-82, not 1973-83.

Structure of demand

	Distribution of gross domestic product (percent)											
	Public consumption		Private consumption		Gross domestic investment		Gross domestic savings		Exports of goods and nonfactor services		Resource balance	
	1965	1983	1965	1983	1965	1983	1965	1983	1965	1983	1965	198[illegible]
-income economies	14w	16w	74w	78w	15w	16w	13w	7w	25w	21w	-2w	-9w
1 Ethiopia	11	17	77	81	13	11	12	2	12	12	-1	-9
2 Mali	17	27	72	75	23	17	11	-2	13	23	-11	-19
3 Zaire [a]	18	19	44	55	28	24	38	26	70	33	10	2
4 Burkina	7	14	91	100	10	12	2	-15	9	17	-8	-27
5 Guinea-Bissau	..	26	..	75	..	23	..	-1	..	6	..	-25
6 Niger	8	10	84	79	15	25	9	11	12	22	-7	-14
7 Malawi	16	16	82	70	14	23	2	14	16	19	-12	-9
8 Tanzania [a]	10	22	74	70	15	20	16	8	26	11	1	-12
9 Burundi	7	14	89	79	6	21	4	7	10	9	-2	-14
0 Uganda	10	.. [b]	78	95	11	8	12	5	26	5	1	-3
1 Togo	8	17	70	79	22	23	17	4	20	31	-6	-19
2 Gambia	19	27	78	84	8	21	3	-11	43	31	-5	-33
3 Somalia [a]	8	24	84	78	11	20	8	-2	17	10	-3	-22
4 Benin	14	12	83	91	12	12	3	-3	14	20	-9	-14
5 Central African Rep.	22	13	67	89	21	11	11	-1	27	23	-11	-13
6 Madagascar [a]	23	15	74	81	10	14	4	4	16	13	-6	-10
7 Rwanda	14	..	81	..	10	..	5	..	12	..	-5	..
8 Guinea	..	19	..	65	..	14	..	16	..	29	..	2
9 Kenya	15	20	70	61	14	21	15	19	31	25	1	-2
0 Sierra Leone	8	7	83	91	12	9	9	2	30	12	-3	-7
1 Sudan	12	13	79	88	10	15	9	-1	15	11	-1	-16
2 Ghana	14	6	77	90	18	8	8	5	17	5	-10	-3
3 Senegal	17	19	75	78	12	17	8	3	24	28	-4	-13
4 Chad	14	..	84	..	9	..	2	..	23	..	-7	..
5 Mozambique	..	..	..	..	..	..	..	..	..	..	..	..
dle-income oil importers	13w	20w	61w	67w	[illegible]9w	17w	26w	13w	42w	33w	7w	-4
6 Mauritania	19	23	54	88	14	18	27	-11	42	47	13	-29
7 Liberia	12	23	61	62	17	20	27	14	50	40	10	-5
8 Zambia	15	26	44	60	26	15	41	15	50	31	15	-1
9 Lesotho [a]	18	31	109	146	11	29	-26	-77	16	14	-38	-106
0 Ivory Coast	11	17	69	67	19	18	20	16	35	34	1	-2
1 Zimbabwe	12	20	65	61	15	22	23	19	..	..	8	-3
2 Swaziland	16	..	46	..	26	..	38	..	59	..	12	..
3 Botswana	24	27	89	54	6	30	-13	19	32	60	-19	-10
4 Mauritius	13	14	74	69	17	18	13	17	36	47	-4	(.)
dle-income oil exporters	8w	11w	75w	68w	19w	21w	17w	21w	20w	19w	-2w	(.)
5 Nigeria	7	11	76	70	19	19	17	19	18	16	-2w	0
6 Cameroon	14	10	73	54	13	27	13	37	25	32	-1	10
7 Congo, People's Rep.	14	13	80	51	22	46	5	35	36	55	-17	-11
8 Gabon	11	3	51	28	31	34	37	59	43	..	6	25
9 Angola	..	..	..	..	..	..	..	..	..	..	..	..
-Saharan Africa	12w	14w	72w	74w	17w	18w	16w	12w	26w	21w	-1w	-6w
low-income economies	10w	12w	75w	70w	21w	26w	19w	24w	6w	9w	-2w	-2w
lower middle-income conomies	11w	13w	73w	70w	17w	22w	16w	17w	17w	21w	-1w	-5w
upper middle-income conomies	11w	13w	65w	64w	23w	22w	24w	23w	19w	25w	1w	1w
ustrial market economies	15w	18w	61w	63w	23w	20w	23w	20w	12w	18w	(.)w	(.)

. Figures are for 1982, not 1983.

. Public consumption figures are not available separately: they are therefore included in private consumption.

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Terms of trade

	Terms of trade (1980=100)					Annual growth rate 1970-84 (percent)
	1970	1981	1982	1983	1984	
Low-income economies						
1 Ethiopia	156	68	75	86	100	-4.7
2 Mali	120	110	105	115	116	-1.0
3 Zaire	197	87	82	90	88	-5.4
4 Burkina	134	109	100	110	117	-1.8
5 Guinea-Bissau	..	..	..	..	..	..
6 Niger	170	84	88	92	81	-5.2
7 Malawi	138	106	107	125	137	-1.6
8 Tanzania	108	88	88	91	94	-1.6
9 Burundi	..	..	..	..	..	..
10 Uganda	92	75	75	79	98	0.3
11 Togo	69	[illegible]	84	80	88	(.)
12 Gambia	143	130	111	113	158	-1.5
13 Somalia	157	109	114	116	116	-2.6
14 Benin	177	97	77	88	116	-5.3
15 Central African Rep.	83	97	94	92	99	1.7
16 Madagascar	113	79	80	90	105	-1.8
17 Rwanda	79	65	64	65	71	-0.4
18 Guinea	..	..	..	..	..	..
19 Kenya	99	87	88	88	94	-0.9
20 Sierre Leone	145	84	85	89	95	-3.3
21 Sudan	98	103	87	87	98	-0.9
22 Ghana	104	69	62	62	70	-1.1
23 Senegal	101	104	91	87	98	-1.3
24 Chad	81	105	101	110	108	1.3
25 Mozambique	112	96	84	90	104	-1.9
Middle income oil importers						
26 Mauritania	178	95	101	101	95	-4.5
27 Liberia	189	93	93	104	102	-5.3
28 Zambia	263	81	72	82	74	-8.7
29 Lesotho	..	..	..	..	..	..
30 Ivory Coast	97	92	91	98	101	1.3
31 Zimbabwe	..	..	..	..	..	..
32 Swaziland	..	..	..	..	..	..
33 Botswana	..	..	..	..	..	..
34 Mauritius	108	99	94	98	93	-2.7
Middle-income oil exporters						
35 Nigeria	19	112	104	93	94	12.3
36 Cameroon	96	78	73	74	85	0.1
37 Congo, People's Rep.	17	118	113	103	104	13.9
38 Gabon	17	114	111	102	103	13.9
39 Angola	45	110	106	98	102	7.6

Commodity exports: Volume and price
(annual growth rate: percent)

	Export volume				Price [a]	
	Sub-Saharan Africa		World			
	1965-73	1973-84	1965-73	1973-84	1965-73	1973-84
Fuel						
Petroleum	33.4	-4.9	11.0	-0.7	3.7	15.1
Minerals and metals						
Copper	2.9	-0.9	4.7	1.0	-1.4	-8.5
Iron ore	7.2	-5.8	7.5	-1.5	-4.3	-3.7
Bauxite	11.2	12.5	4.8	-0.6	1.0	2.3
Phosphate rock	8.7	-0.6	6.1	-0.3	-5.5	2.8
Manganese ore	2.4	-1.6	3.3	-2.6	-5.4	-0.6
Zinc	-3.9	-3.1	5.3	0.7	7.4	-5.6
Tin	-3.3	-8.5	2.2	-0.7	-2.7	2.0
Lead	2.6	-8.0	3.4	-0.8	-1.7	-6.0
Food and beverages						
Coffee	3.4	-2.0	2.9	1.5	-1.5	1.1
Cocoa	0.0	-0.6	-0.2	1.0	9.0	0.3
Sugar	2.4	2.2	2.5	2.8	14.8	-11.2
Tea	9.7	3.7	2.6	2.4	-7.7	4.4
Groundnuts (meal)	0.3	-6.5	0.8	-8.5	6.7	-9.[illegible]
Groundnut oil	-2.6	-6.0	1.3	-1.5	1.1	-0.9
Beef	8.3	-10.8	5.9	3.6	5.0	-5.3
Palm oil	-6.3	-8.3	13.2	9.9	-1.4	-0.5
Bananas	0.9	-7.9	4.6	0.3	-4.9	0.9
Maize	9.4	-9.3	6.9	4.0	1.8	-3.5
Nonfood						
Timber	4.7	-3.7	7.1	0.5	10.3	-3.9
Cotton	6.3	-0.9	1.9	0.5	4.3	-3.9
Tobacco	1.4	2.8	3.1	0.9	-1.3	0.1
Rubber	2.9	-2.4	3.9	0.6	-1.4	-3.4
Hides and skins	0.5	3.2	1.5	2.5	..	..
Sisal	-3.9	-9.6	-2.7	-8.1	..	..

a. End-point growth rates.

Balance of payments, debt service, and international reserves

	Current account balance (millions of dollars)		Interest payments on external public debt (millions of dollars)		Debt service: As a percentage of GNP		Debt service: As a percentage of export of goods and services		Gross international reserves: Millions of dollars		Gross international reserves: In months of import coverage
	1970	1984	1970	1984	1970	1984	1970	1984	1970	1984	1984
Low-income economies					1.3w	2.8w	5.6w	15.1w			2.3w
1 Ethiopia	-32	-201	6	31	1.2	1.8	11.4	13.8	72	109	1.1
2 Mali	-2	-125	(.)	7	0.3	1.7	1.4	8.0	1	32	0.9
3 Zaire	-64	-310	9	210	2.1	4.1	4.4	7.7[a]	189	281	1.5[a]
4 Burkina	9	..	(.)	7	0.6	1.7	6.2	8.7[a]	36	110	..
5 Guinea-Bissau	..	-26[a]	..	(.)	..	1.3	..	11.8[a]	..	..	..
6 Niger	(.)	..	1	27	0.6	6.7	3.8	18.3[a]	19	92	..
7 Malawi	-35	..	3	32	2.1	3.6	7.2	20.3[a]	29	61	..
8 Tanzania	-36	..	6	30	1.2	1.7	4.9	14.1[a]	65	27	..
9 Burundi	..	..	(.)	8	0.3	0.8	2.3	7.5[a]	15	25	..
10 Uganda	20	..	4	32	0.4	1.6	2.7	21.1[a]	57	..	..
11 Togo	3	16	1	37	0.9	10.1	2.9	26.3	35	207	10.5
12 Gambia	1	..	(.)	3	0.2	4.2	0.5	7.7[a]	..	2	..
13 Somalia	-6	-146	(.)	3	0.3	2.0	2.1	28.9	21	7	0.1
14 Benin	-1	..	(.)	17	0.7	2.5	2.3	9.3[a]	16	6	..
15 Central African Rep.	-12	-28[a]	1	6	1.6	3.0	4.8	11.7[a]	1	56	2.4[a]
16 Madagascar	10	..	2	31	0.8	3.9	3.5	24.3[a]	37	59	..
17 Rwanda	7	-42	(.)	3	0.1	0.4	1.2	3.3	8	107	3.9
18 Guinea	..	..	4	21	2.2	5.8	..	..	..	..	..
19 Kenya	-49	-135	12	144	1.8	6.1	5.4	22.9	220	414	2.6
20 Sierra Leone	-16	-33[a]	2	4	2.9	1.0	9.9	7.2[a]	39	8	1.0[a]
21 Sudan	-42	65	13	65	1.7	1.2[a]	10.6	11.0	22	17	0.2
22 Ghana	-68	-61	12	26	1.2	1.7	5.0	1[illegible].2	58	437	6.4
23 Senegal	-16	..	2	53	0.8	2.5	2.8	7.2	22	13	..
24 Chad	2	10	(.)	1	1.0	..	3.9	1.7	2	48	2.6
25 Mozambique	..	..	..	47	..	..	..	..	..	..	..
Middle-income oil importers					2.4w	7.0w	5.5w	15.0w			1.5w
26 Mauritania	-5	-196[a]	(.)	23	1.7	5.4	3.1	10.0[a]	3	81	2.1[a]
27 Liberia	..	-75	6	20	5.5	4.3	8.1	8.6	..	4	0.1
28 Zambia	108	-115	26	63	3.4	4.7	5.9	11.3	515	55	0.6
29 Lesotho	..	-21	(.)	4	0.5	3.8	4.5	5.0	..	49	1.2
30 Ivory Coast	-38	-190	11	404	2.7	11.1	6.8	21.3	119	19	0.1
31 Zimbabwe	..	-98	5	119	0.6	5.4	2.3	20.0	59	260	2.0
32 Swaziland	..	-11	2	9	3.0	3.9	..	5.4	..	80	2.2
33 Botswana	..	59	(.)	15	0.7	3.8	1.0	3.8	..	474	6.3
34 Mauritius	8	-54	2	25	1.3	7.5	3.0	14.8	67	35	0.7
Middle-income oil exporters					0.7w	4.5w	4.4w	21.2w			1.3w
35 Nigeria	-368	530	20	1,172	0.6	4.2	4.2	25.5	223	1,674	1.7
36 Cameroon	-30	-292	4	107	0.8	3.0	3.1	8.9	81	63	0.3
37 Congo, People's Rep.	..	-400[a]	3	78	3.3	13.0	11.0	20.5[a]	9	8	0.1[a]
38 Gabon	-37	75[a]	3	70	3.6	8.5	5.4	11.4	..	203	1.1[a]
39 Angola	..	..	..	58	..	..	..	..	..	..	..
Sub-Saharan Africa					1.3w	4.2w	5.3w	18.1w			1.6w
All low-income economies	..	..	..	..	1.1w	0.9w	11.4w	9.2w	..	..	6.4w
All lower middle-income economies	..	..	..	..	1.6w	4.6w	9.4w	19.0w	..	..	2.2w
All upper middle-income economies	..	..	..	..	1.6w	5.2w	8.8w	16.8w	..	..	3.2w
Industrial market economies	..	..	..	..	..	..	..	..	..	..	3.9w

a. Figures are for 1983, not 1984.

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External public debt and debt service

ions of dollars)

	Official sources		Private sources		Total		Debt service	
	1970	1984	1970	1984	1970	1984	1970	1984
ncome economies	2,294.2t	25,070.8t	897.2t	5,295.6t	3,191.4t	30,366.4t	229.7t	2,044.6t
Ethiopia	140.2	1,202.7	28.7	181.5	168.9	1,384.2	21.1	84.1
Mali	231.5	930.0	6.1	30.0	237.6	960.0	0.7	17.4
Zaire	95.3	3,371.6	215.8	712.1	311.1	4,083.7	36.8	352.3
Burkina	20.5	369.6	0.3	37.9	20.8	407.5	1.9	21.8
Guinea-Bissau	..	126.5	..	22.9	..	149.4	..	3.3
Niger	31.2	521.9	0.5	156.0	31.7	677.9	2.3	66.0
Malawi	89.1	603.1	33.3	127.5	122.4	730.6	5.9	82.3
Tanzania	148.9	2,132.1	100.7	461.5	249.6	2,593.6	15.7	71.3
Burundi	5.8	310.5	1.5	23.9	7.3	334.4	0.6	17.3
Uganda	108.6	605.6	29.7	69.5	138.3	675.1	7.9	86.3
Togo	31.9	561.6	7.8	97.6	39.7	659.2	2.3	66.6
Gambia	5.1	128.0	(.)	32.9	5.1	160.9	0.1	7.3
Somalia	74.9	1,173.8	2.2	59.2	77.1	1.233.0	0.9	26.8
Benin	29.2	300.6	11.3	280.9	40.5	581.5	1.7	38.3
Central African Rep.	17.9	197.6	6.1	26.8	24.0	224.4	2.9	12.1
Madagascar	84.9	1,239.2	7.6	397.2	92.5	1,636.4	6.9	116.6
Rwanda	1.5	243.9	0.4	0.0	1.9	243.9	0.3	6.0
Guinea	275.2	989.7	36.7	178.5	311.9	1,168.2	14.5	105.1
Kenya	234.2	2,148.9	84.3	484.5	318.5	2,633.4	27.4	348.4
Sierra Leone	32.4	252.6	27.0	89.0	59.4	341.6	12.0	16.2
Sudan	260.2	4,713.1	46.2	945.8	306.4	5,658.9	34.6	107.3
Ghana	270.6	996.1	223.9	126.4	494.5	1,122.5	23.8	81.0
Senegal	80.5	1,357.9	19.6	197.2	100.1	1,555.1	6.7	92.7
Chad	24.6	85.1	7.5	23.9	32.1	109.0	2.7	2.5
Mozambique	..	509.1	..	532.9	..	1.042.0	..	215.0
le-income oil importers	559.2t	7,040.9t	830.0t	4,888.0t	1,389.2t	11,928.9t	135.0t	1,264.3t
Mauritania	19.4	1,047.9	7.9	122.7	27.3	1,170.6	3.3	42.2
Liberia	124.0	595.9	34.9	160.8	158.9	756.7	17.6	42.2
Zambia	119.4	2,149.4	503.1	629.3	622.5	2,778.7	59.0	113.1
Lesotho	7.6	121.8	0.5	12.5	8.1	134.3	0.5	21.1
Ivory Coast	144.2	1,986.8	112.0	2,847.8	256.2	4,834.6	38.4	641.0
Zimbabwe	88.1	482.3	144.6	963.4	232.7	1,445.7	9.4	276.4
Swaziland	20.9	169.6	16.1	8.4	37.0	178.0	3.3	20.2
Botswana	14.2	239.4	0.6	36.7	14.8	276.1	0.6	33.1
Mauritius	21.4	247.8	10.3	106.4	31.7	354.2	2.9	75.0
le-income oil exporters	699.7t	4,858.6t	145.9t	11,674.8t	845.6t	16,533.4t	84.4t	4,116.9t
Nigeria	385.1	2,182.7	94.4	9,632.7	479.5	11,815.4	55.7	3,162.8
Cameroon	119.6	1,365.1	11.6	372.8	131.2	1,737.9	8.6	221.5
Congo, People's Rep.	128.0	824.1	16.0	571.5	144.0	1,395.6	8.8	250.9
Gabon	67.0	257.0	23.9	467.5	90.9	724.5	11.3	252.8
Angola	..	229.7	..	630.3	..	860.0	..	228.9
-Saharan Africa	3,553.1t	36,970.3t	1,873.1t	21,858.4t	5,426.2t	58,828.7t	449.1t	7,425.8t
-Saharan Africa as a ercentage of all eveloping countries	10.5	15.0	10.5	6.6	10.4	10.2	7.6	9.3

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THE ENABLING ENVIRONMENT CONFERENCE

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THE CHALLENGES TO PRIVATE ENTREPRENEURSHIP IN SUB-SAHARAN AFRICA

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PREFACE

The field studies for this paper were conducted in Ghana, Côte d'Ivoire, Nigeria, Kenya, Tanzania, Zambia and Zimbabwe. The goal was the presentation and analysis of public and business opinions within the framework of the issues raised in the terms of reference. The results reported in the paper are therefore the views of businessmen, policy makers and other Africans rather than those of the author. The author wishes to express his gratitude to the various chambers of commerce and manufacturers' associations, private businesses and public officers who kindly discussed the subject matter of this study and provided him with the views and material which have facilitated the writing of this report. The author, however, takes full responsibility for all errors in analysis and presentation.

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SUMMARY OF RECOMMENDATIONS

A number of suggestions to further the growth of the private sector in Africa are discussed in the Report that follows. We present below, under some principal headings, and in each case in their order of importance, those factors considered most significant in the promotion of an enabling environment for the promotion of the private sector's contribution to economic development in Sub-Saharan Africa.

I. Agricultural Development

Post-independence development strategies in Africa appear to have misconceived the appropriate approach to the development of agriculture and the role of agriculture relative to industrialisation. The crucial role of the small farmer and the importance of increasing his or her output to optimal levels have not been accorded adequate intellectual and policy recognition. As a result, the basic foundations for economic development have remained fragile and overstretched. In some cases these foundations have been fractured. Therefore a successful transition to industrialisation, by whatever route - state, private, indigenous or foreign - has not been possible in most countries. The removal of this basic constraint is considered to be the most fundamental condition for development and in the view of most people the following minimal measures may provide the appropriate environment:

- i A concerted effort to mobilise public opinion and public policy in favour of the peasant and the small-scale farmer that will result in better links between rural and urban areas through increased road mileage and transportation.
- ii The encouragement of more viable public and private programmes to provide guaranteed and enforceable minimum prices and guaranteed accessible markets for rural production, and adequate and safe storage facilities for surplus production.
- iii The improvement of the conditions of life in rural communities, such as better housing, better health facilities and better agricultural education.

II. The Promotion of Indigenous Business

A successful, modern, post-independence African economy is one in which businesses are able to carry out production and distribution between the rural and urban socio-economic poles in a framework of stable economic conditions. The enabling environment for indigenous private sector contributions to this process is conceived at primary and secondary levels:

- i In the primary category are measures to promote indigenous entrepreneurship at the grassroots level:
  - emphasis on smaller-scale agro-based industries and enterprises that relate more closely to the structure of rural production and distribution;

- management and financing facilities for the development of small scale rapid rural-urban transport companies, such as are seen in many suburban areas of Africa;

- Public and private sector support for small scale financial institutions. More cost-efficient and better suited to the financial needs of farmers and small businesses, rural banks are better able to elicit their involvement and cultivate their saving and banking habits;

- medium sized agricultural ventures are possible in the indigenous private sector and can be developed through careful management and capitalisation on the lines of the examples from Kenya (Para. 2.12).

ii Secondary measures are designed to cope with the existing constraints:

- an expanded role for specialised investment and merchant banks to serve the particular needs of small scale to medium size indigenous enterprises in the areas of business structuring, training and financial management;

- a new specialised role for private institutions in venture capital financing and management which will further both domestic and external capital mobilisation for small to medium size indigenous/expatriate involvements and international capital market relations;

- better access to domestic credit through publicly supported mechanisms like domestic credit insurance and export credit insurance;

- measures to liberate prices and exchange rates that would eventually legitimate certain "informal" aspects of indigenous businesses.

III. The Environment for Expatriate Enterprises

The enabling environment for economic development is one that will enhance the opportunity of expatriate enterprises to utilise their organisational, financial and technical resources to the maximum. The contribution of expatriate enterprises to economic development can also be considered on primary and secondary levels:

i The primary contribution consists of measures permitting the expatriate enterprise to relate more appropriately to the primary development need of the host country. They include:

- the promotion of the concept of corporate citizenship. Corporate citizenship recognises the symmetry between the rights of expatriate businesses to the facilities and resources for optimum production and profitability and their responsibilities vis-à-vis economic development;

- the creation of facilities permitting greater involvement of expatriate entrepreneurs in policy discussions and formulation.

ii The secondary measures that will encourage greater expatriate business contributions to economic development are those that help expand output within existing constraints. The important facilities are identified as follows:

- a stable economic and political climate, is unanimously considered the most suitable environment for expatriate investment and productivity;

- measures to liberalise the mobilisation of external resources and the repatriation of legitimate earnings and profits in a framework that ensures a net contribution to domestic savings;

- a review of immigration rules, so that expatriate companies may make the maximum use of expertise in their international organisations without neglecting their responsibilities for local staff development.

IV. Administrative Controls

The widespread nature of administrative controls in Africa and the devastating effect they have had on productivity, cost, and business confidence will be discussed later. Nevertheless, the following points should be mentioned here:

i Evidence from francophone Africa indicates that exchange liberalisation in the four economic sub-regions of Africa (Western, Eastern, Central and Southern) is a vital precondition for the liberal environment in which production and trade can expand.

ii A non-discriminatory business and investment code fosters private sector capital inflows and productivity more effectively than codes that distort taxation and production by favouring indigenous enterprises or offering tax exemption to expatriate entrepreneurs.

iii Deregulation and denationalisation are still politically sensitive issues in many countries in Africa. Nevertheless, the private sector in Africa is encouraged by the discussion itself, and considers it proof of its pivotal role in business. Other observers see it as an indication of the desire of governments to come to grips with a fundamental problem in post-independence African development.

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1. Introduction

1.1 There has been a tendency in development literature, when referring to the private sector in Africa, to exclude the dynamic impact of the activities of small traders 1. It should be added that there has been a similar neglect of the structure of peasant agricultural output. Yet in most of Africa, most primary production for food and for export is carried out by small scale and peasant farmers. Furthermore, the more effective domestic and intra-regional allocation of output has been undertaken by small scale local and itinerant private traders. The definition of the private sector that is adopted in this paper therefore includes the activities of indigenous producers and traders, often derogatively referred to as the "informal" sector, whose contribution to the theory and practice of development economics has yet to be adequately studied 2.

1.2 The private sector that is considered in this paper therefore includes the operation, in all economic sectors, of large scale multinational companies in Africa, smaller scale foreign enterprises, indigenous small to medium scale enterprises, and small scale household and peasant trading and agricultural units. In some cases, expatriate enterprises may operate in partnership with the state. In some countries, small scale indigenous agricultural operations may be grouped into cooperatives or rural communities. These associations are deemed to be within the private sector.

1.3 An enabling environment for private business contributions to social and economic development in Africa exists when the system of economic management and the rules and conventions regulating business operations permit the private sector to maximise production at appropriate market prices. The concept of appropriate pricing thereby assumes that optimal pricing at close to marginal market cost will lead to the accumulation of surpluses from which future investment become possible. The favourable atmosphere for a maximum contribution by the private sector to social and economic development is therefore defined as that which leads to maximum output, profits and savings by businesses and individuals in the private sector and which stimulates the direct or indirect use of surpluses for further production in the country or for the welfare of the country.

1.4 The need for this kind of investigation is only now being seriously addressed. Last year, The Organisation of African Unity (OAU) discussed the need for a fresh look at potential private sector contributions to economic development in Africa. In recent months other multilaterial institutions have also made significant advances in the discussion of the role of the private sector. The World Bank's World Development Report 1985 pointed out

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1. Lord (P.T.) Bauer "Remembrances of the Past: Retracing First Steps" in Pioneers in Development, (Eds) Meier and Seers, Oxford 1985, Page 37.
2. The following are useful studies on this subject: Walter Elkan "The Economics of Shoe-shining in Nairobi" African Affairs April 1982. Janet MacGaffey "The Second Economy in Zaire" African Affairs July 1983. M. Roemer "Segmented Markets: What Case for Liberalization" HIID Harvard 1984 Unpublished; K. Adjepong Boateng "Rational Expectations in Exchange Markets" Oxford M.Sc. Thesis 1986. E. May "Exchange Controls and Parallel Market Economies in Sub-Sahara Africa. WBSWP No. 711, World Bank (Unpublished) 1985.

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that: "Many developing countries have recently made policy reforms that, among other things, give more scope for private sector activities. They have also become more receptive to foreign direct investment as lending by banks has declined" **3**. In a similar vein, the International Finance Corporation (IFC) has observed that: "Development through the private sector is being given increased priority in a number of developing countries. Unsatisfactory results of some public interventions, combined with inability to continue to finance them, are leading some governments to tilt the public-private mix in their economies more toward the private sector" **4**. In the specific case of Sub-Saharan Africa, the International Finance Corporation's 1985 Annual Report stated: "Many of the region's countries see that their private sectors can make an increasing contribution to the success of their structural adjustment programmes" **5**.

1.5 The International Finance Corporation has also joined the United Nations Development Programme in preparatory studies for an African Project Development Facility which it is hoped "will help African entrepreneurs develop new business ventures" **6**. The IFC has also begun discussions with private companies and public agencies about an African Management Services Facility which would contribute experienced management to new and existing businesses. These initiatives are highly significant: the envisaged structures could well make an effective contribution to the promotion of indigenous private business in Sub-Saharan Africa.

1.6 Although the African Development Bank (ADB)'s involvement in the promotion of private sector business on the continent has been limited, it has recently carried out a review of industrial development in Africa during the last twenty years with a view to formulating a new intervention policy approach. One of the conclusions the ADB has drawn from the review is that: "there seems to be a growing consensus in (its) member states to pay more attention to the private sector" **7**. This consensus is emerging for different reasons in different countries, but the most important reason is the heavy external debt burden resulting from the performance of state industrial enterprises.

1.7 The ADB also affirms that the economic crisis has vindicated the policies of those countries which have not sought to hamstring the private sector: "the empirical evidence from the opposing ideologies in Africa lead to the conclusion that we need to pay more attention to the private sector" **8**. Having drawn this conclusion, the African Development Bank feels that it has to re-orient its own interventions to take the trend of some of its member states in account. Towards this end, two important questions have been raised at the ADB: should the ADB create an affiliate similar to the IFC, which would be entirely responsible for financing private sector enterprises? Or should the ADB use its existing structures to make loans available to the private sector on a non-governmental recourse basis?

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3. World Development Report 1985. Page 125
4. IFC Annual Report 1985. Page 9.
5. Ibid Page 13.
6. IFC Annual Report 1985, Page 13.
7. N. N. Susungi, ADB. Interview March 1986.
8. N. N. Susungi (1986) Opus Cit.

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Whatever the answer will be, the current debate at the African Development Bank underlines the need felt in Africa to facilitate effective private sector contributions to the socio-economic development of the continent.

1.8 Recognition of the need to promote the private sector is vital to Africa's future development, and the proper conceptualisation of strategies for achieving that objective is imperative. First, the limits imposed upon private sector development by current development strategies need to be acknowledged. Second, the role of the private sector in a "liberalised" development context which takes both agriculture and private business into account needs to be spelled out. This study discusses the enabling environment in the context of present constraints and also suggests ways in which liberalisation could be promoted. The results of the enquiry are presented separately for the different components of the private sector in Africa.

2. Private Sector Agriculture in Historical Perspective

2.1 The post-independence phase of African economic history has been turbulent, coinciding with major upheavals in the world economy and involving major and diverse efforts at economic development. Some successes have been achieved in some countries but there have been major failures in others. It would therefore be misleading to analyse the enabling environment for effective private sector contribution to development in Sub-Saharan Africa without placing the discussion in a historical perspective, and drawing attention to the differences in method and in performance.

2.2 The best definition of development in post-independence Africa derives from a school of thought as old as organised modern economic thought itself, starting with James Steuart **9**, through Adam Smith **10** to Arthur Lewis **11**. It states very simply that the principal limit on the rate of development of manufacturing and trade in the initial stages of economic growth in the pre-industrial state is the productivity of farmers whose marketable surpluses for the domestic and external markets are exchanged for domestic manufactures and imports. The evolution of successful business in the immediate post-independence period in Africa thus cannot be considered viable unless it is based on the steady expansion of agricultural output at a rate commensurate with modernisation. This rule is inviolable, whether the mode of development involves state-centred modernisation, a private system, or a self-sufficient economy emphasising manufacturing for the domestic market or for export.

2.3 In both low income and middle income Sub-Saharan African countries, the attempt to industrialise in the earlier years of independence generally took precedence over the effort to improve agricultural output. As the agricultural foundations of the African economies have been eroded in recent years by inadequate pricing, excess taxation and fragmentation, the industrialisation thrust has inevitably suffered (Table 1). The countries in

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9. Sir James Steuart "An Enquiry into the Principles of Political Economy". Book I. London 1767.

10. Adam Smith "The Wealth of Nations" Book III Chapter 1, London 1776.

11. W. Arthur Lewis "The Theory of Economic Growth" London 1955, See also his "Report on Industrialisation and The Gold Coast", Accra, 1953.

our sample in which agriculture has not been neglected, Kenya and Côte d'Ivoire, are also those that have been relatively more successful in industrialisation. There are of course additional reasons. Where agriculture has been penalised, for example in Uganda, Ghana, Liberia and Nigeria, there have been corresponding failures in industrialisation.

TABLE 1

Growth of Agriculture and Industry in Sub-Saharan Africa

(Average annual percentage)

	GDP		Agriculture		Industry	
	1965-73	1973-83	1965-73	1973-83	1965-73	1973-83
Low Income Countries	4.2	1.7	3.1	1.2	6.9	0.6
Examples:						
Ethiopia	4.1	2.3	2.1	1.2	6.1	2.6
Uganda	3.6	-2.1	3.6	-1.6	3.0	-10.1
Tanzania	5.0	3.6	3.1	2.6	6.9	0.2
Ghana	3.4	-1.3	4.5	-0.2	4.3	-7.0
Kenya	6.2	3.4	12.4	5.3	12.4	6.3
Togo	5.3	2.3	2.6	1.1	6.2	2.6
Middle Income Countries	7.7	1.4	2.4	-1.3	17.7	1.0
Examples:						
Liberia	5.5	0.2	6.5	2.0	6.2	-1.5
Senegal	1.5	2.6	0.2	0.3	3.5	6.1
Côte d'Ivoire	7.1	4.7	3.7	4.0	8.8	7.4
Nigeria	9.7	1.2	2.8	-1.9	19.7	0.3

Source: World Bank (1985)

2.4 The primary constraints which the private sector has faced in the post-independence African economy can be further interpreted in the framework of the Fei-Ohkawa-Ranis model of the historical evolution of

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development from the pre-industrial state 12. Based on this model, we have estimated in Table 2, for three countries in our sample, Kenya, Nigeria and Ghana (with Korea for comparison) the phases in the transition from primary export expansion to secondary import and export substitution. We have also estimated in Table 3, the phases of stagnation and decline in two countries in our sample.

TABLE 2

PHASES OF DEVELOPMENT

	A	B	C	D
PHASE	KOREA	KENYA	NIGERIA	GHANA
0	Before 1953 Traditional Export Expansion	Before 1962 Traditional Export Expansion	Before 1960 Traditional Export Expansion	Before 1958 Traditional Export Expansion
1	1953 - 1964 Primary Import Substitution	1962 - 1974 Primary Import Substitution	1960 - Present Primary Import Substitution	1958 - Present Primary Import Substitution
2	1964 - 1972 Primary Export Substitution	1974 - Present Primary (Minimal) Export Substitution	--	--
3	1972 - Present Secondary Import and Export Substitution	--	--	--

Source (Korea): Fei, Ohkawa, Ranis (1985)

2.5 In the initial pre-industrial phase of development ("0"), import capacity is dependent upon the development of the country's comparative advantage in primary export commodities. Savings from these exports help finance modernisation, and the surplus incomes of farmers sustain the market for imported manufactured non-durable consumer goods. A country makes the transition into Phase 1 when an effort is made to employ savings from primary exports for primary import substitution. The duration of Phase 1 depends on the availability of fundamental resources, mainly land and labour, i.e. the potential to extend the programmes of import substitution. An important condition for stability in this Phase is that primary

12. Fei, Ohkawa and Tanis (1985) Pages 37-41 in Ohkawa and Ram's (eds) "Japan and the Developing Countries" Yale 1985.

production steadily increases, reaching the level necessary for modernisation. The empirical evidence indicates that population pressure on the land in the countries of the Pacific Basin has enabled those countries to reach optimum levels of agricultural production faster than in Africa. There would seem to be some evidence, therefore, that a better stimulus for countries to move up to Phase 2 (Primary Export Substitution) may exist when the limits of productivity have been reached. There also seems to be some evidence to support the existence of a secondary stage of transition in the agricultural phase, requiring a certain level of productivity in peasant small scale production before the transition to improved technology and generalised large scale commercialisation can be achieved. These levels have scarcely been attained in Africa. By a variety of methods, all African States in the post-independence period have tried to move from the primary stage (Phase 0) to the import substitution stage (Phase 1). They have, however, met with varying success in Phase 1. Some have experienced limited successes in this import substitution phase, especially those that maintained their emphasis on agriculture, such as Côte d'Ivoire, Kenya, Cameroon, Botswana and Zimbabwe. Among this group, some countries have recently tried to move into the export substitution phase, i.e., the substitution of manufactured goods for primary agricultural exports.

2.6 Another group of countries has not been able to increase primary exports largely because of domestic and international price factors and neglect of agriculture. These countries have been condemned to stagnation. In most countries that have been trapped in this way, substantial population shifts have tended to place a greater burden on the relatively scarce primary resources. The large majority of countries in Africa fall into this category.

2.7 A small, but increasing number of African countries fall into a third category, characterized by stagnation and decline after significant and protracted falls in primary export production. These countries suffer from low real producer prices caused principally by excessive taxation, adverse international markets and overvalued exchange rates (Table 3). Tanzania, Ghana, Zambia, Uganda and Sierra Leone all fall into this category. They have been trapped in Phase I, and some of them will need to return to the initial Phase (Phase 0) and reconsolidate their primary production base before progress can be anticipated.

2.8 Those countries that are caught in the stagnation and decline trap. Phase 1, and for which there are no foreseeable prospects of transition into Phase 2, exhibit certain common characteristics. First. they are all crippled by very reduced import capacity. This handicap leads, in most cases, to restrictive exchange policies and exchange rate instability. Associated with this problem is the development of "informal" markets and the consequent shrinkage of the formal markets. The second general characteristic is the reduction in productive capacity. The loss of production has been traced to two sources: the curtailment of factor inputs into import-substituting industries, and reductions in primary production resulting from the neglect of that sector. The interaction of these two factors usually generates a dynamic decline especially where it is linked with the third characteristic, namely, the re-location of large populations in the process of import-substituting industrialisation, in preparation for the ill-fated transition into primary export substitution (Phase 2). Most of the constraints that hamper businesses in Africa in the present period originate in these three basic adverse conditions. We shall call these the "Primary constraints". They are the results of the failure of the development

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process, and are well outside the control of businesses. But depending on how businesses respond to those constraints, the burden they impose can be lightened or exacerbated. Secondary constraints emanate from these primary constraints, and affect businesses more directly. These constraints are found within the framework provided by reduced import capacity, reduced productive capacity, and the rural-urban migration phenomenon.

TABLE 3

PHASES OF DECLINE (CASE D)

BEHAVIOUR IN TRAPPED PHASE 1

PHASE	GHANA	ZAMBIA
0	Before 1958 Traditional Export Expansion	Before 1960 Traditional Export Expansion
1A	1958 - 1975 Primary Import Substitution	1960 - 1974 Primary Import Substitution
1B	1975 - 1979 Primary Import Substitution with stagnation in production	1974 - Present Primary Import Substitution with stagnation in production
1C	1979 - Present Primary Import Substitution with decline in production	--

The foregoing analyses enable us to investigate the constraints and the enabling factors for agriculture from the experiences both in the less successful countries and in the more successful ones.

2.9 In countries in which agriculture has failed the following have been the common constraints:

(1) Public policy has failed to raise outputs to an optimal level. Particularly in West Africa, this is largely the result of the inability to develop the feeder road network linking the peasant producer and the consuming centres. Yet evidence suggests that an increase in feeder road mileage has been the principal catalyst for rapid increases in peasant production. There is also evidence that guaranteed prices and markets have provided a greater incentive for raising peasant output at existing levels of technology than fertilizers and high yielding seeds.

(2) Public policy has severely penalised agriculture. In some countries this process has resulted from a shift in emphasis from agriculture to booming non-agricultural sectors and associated services. The case of

Nigeria is a classic example. In Ghana price compression, particularly in cocoa, was the result of high government taxation of that sector to finance the attempt to expand social infrastructure and industrialisation. Between 1950 and 1984 cocoa producer prices in the all-peasant private sector in Ghana fell in real terms by an average annual rate of 5%. In that period Ghana cocoa farmers, on average, received less than 30% of the market prices of that production. Similar trends have been observed in Uganda and Tanzania. By contrast, in the same period Kenya coffee farmers remained a major claimant of the proceeds of their production, receiving approximately 90% of the market value of their production. [13]

2.10 The constraints on peasant agricultural production and development are largely at the "political level, in systems where the small cultivator carries little political weight" [14]. At the same time it has been clear that the protracted penalisation of farmers has led to producer withdrawal from important sectors of agriculture, often permanent damage to the agricultural infrastructure, and consequently serious disruptions of growth in all other sectors of the economy. Conflict between the development objectives of Government and the profit objectives of producers can thus lead to fundamental development problems. If political weaknesses of small farmers leave governments a free hand [15], to exact disproportionate taxes from their agricultural sectors [16], then successful transitions to industrialisation do not take place. If public policy enables the farmer to retain a significant share of his market price and reduces the fragmentation between the urban and rural markets, then agricultural foundations can be consolidated and enlarged in support of industrialisation and modernisation.

2.11 The effort to increase the productivity of peasant agriculture to optimal levels in the transition to wider-scale commercialisation would appear to be compatible with the parallel development of large scale commercial agriculture. This process has been observed in Kenya and Zimbabwe where the commercial farmer has, throughout this century, had considerable political weight [17], in contrast with peasant farmers there and elsewhere. It has also been observed in some countries that initiatives in commercial agriculture are largely undertaken by persons with other full-time occupations or retired persons who were better able to mobilise needed capital. They have been, however, handicapped by inexperience, inadequate involvement and insufficient supervision.

2.12 One of the large commercial banks [18] which faced these problems in the early post-independence period in Kenya has created an Agricultural Estate Management subsidiary which provides a service to commercial farmers designed to overcome these handicaps. The farms managed by the company currently produce approximately 16% of Kenya's coffee and include large

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13. R. H. Bates, "Essays on the Political Economy of Rural Africa", Cambridge 1983, P. 114.

14. W. Arthur Lewis in "Pioneers in Development", Meier & Seers, Oxford 1985, P. 128.

15. R. H. Bates, Ibid.

16. With inelastic demand and elastic supply, there can be little, if any, rent which can be creamed away in taxation of the small farmer without seriously eroding his profits and working capital.

17. See R. H. Bates, Ibid, on Kenya.

18. This operation is a subsidiary of Standard Chartered Bank PLC, Nairobi.

farms collectively owned by other small farmers and peasants, who benefit from the company's educational and extension services. The company also manages large pineapple plantations and cattle ranches. It provides irrigation, electricity and road infrastructure, along with ready-made farms for new clients and part of the capital cost. This is a service which our survey found would be favourably received in most African countries provided it also gradually introduced younger, trained farmers into larger scale modern agriculture.

2.13 The opinion of the Executive Officer of the Kenya Association of Manufacturers provides an excellent summary of the agricultural constraint. When asked what, in the collective view of the Association, constituted the best environment for the expansion of industrial production in Kenya he answered paradoxically and unequivocally: "The measures to increase agricultural production are the most important to us in the Association. We have observed for a long period that in the years of good agricultural production, manufacturing output has also increased in response to higher demand. It is in that common environment that we see growth in industrialisation" **19**. Ironically many of the peasant farmers we interviewed expressed the wish to be freed from the rural poverty in which they were trapped.

3. Appropriate Evolution of Indigenous Business

3.1 From the foregoing analysis it can be seen that the growth of African trade and industry should have evolved in tandem with the development of the agricultural base the pace of the latter determined by relatively more **20** or less balanced **21** strategies. In the latter option, stronger foundations and faster increases in productivity were called for. This ideal situation however did not occur in a large number of cases, for the following reasons:

3.1.1 At the end of decolonisation in the early 1960s large expatriate commercial enterprises were already established in the urban areas, thriving on international trade and on central government activity. The post-independence successor state considered this sector the vanguard of "development" and supported it at the expense of other sectors. In many countries indigenous public and private commercial enterprises were encouraged in competition with the expatriate firms. In a few cases expatriate enterprises were acquired and expanded.

3.1.2 In most cases import substitution industrialisation strategies were adopted. The businesses involved were those expatriate firms that had been engaged in international trade, and the products locally manufactured were those previously imported. Largely, therefore, the inter-industry linkages that had been hoped for **22** did not

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19. Mr. J. W. Kuria, Executive Officer, The Kenya Association of Manufacturers, in an interview with J. H. Frimpong-Ansah, April 1986.

20. Rosenstein-Rodan and Arthur Lewis.

21. Albert Hirschman and Paul Streeten.

22. Hirschman "The Strategies of Economic Development", New Haven, 1958. Also Hirschman "Essays in Trespassing - Economics to Politics & Beyond", Cambridge 1981.

materialise 23. The principal actors in industrialisation therefore remained largely the alien middle-size business or the large multi-national.

3.1.3 When governments intervened directly or assisted new indigenous enterprises, the general trend was to replace or copy the style of the enterprises operated by Europeans and other aliens. Thus throughout Africa large indigenous state trading enterprises and medium size indigenous companies in manufacturing, trading, banking, insurance and transportation, emerged, primarily to serve urban interests. Many of these enterprises operated inefficiently, whether under state subsidy or various forms of patronage. Thus the development of efficient, modern post-independence economies with businesses integrating the rural and urban populations in a single unit has not quite taken place. It is achievement of such integration in a stable economic environment that should be the primary objective of development strategies in contemporary Africa.

3.2 An enabling environment for indigenous private sector contribution to development could thus be said to consist in two categories of measures 24: those fostering primary development, and those that would minimise the constraints imposed by present development strategies. In the former category would be measures for the promotion of agro-based industries, smaller scale enterprises that are more closely related to the structure of rural production and distribution, transportation services linking urban and rural centres, a financial structure that caters to the needs of the rural sectors, (e.g., rural banking, and facilities for the marketing of rural products in both the rural and urban areas). The category of measures to reduce existing constraints includes management training schemes, improved relations with banks, encouragement of cooperation between indigenous and expatriate entrepreneurs, and deregulation of production and trade.

3.3 Agrobased industries. Attempts to remove the fragmentation that has disjoined agricultural production and manufacturing in Africa, have included efforts to involve manufacturing in agriculture generally or in the production of raw materials. At the more liberal end of the spectrum, peasant and small scale farmers have been offered guaranteed markets and prices for their output by governments and manufacturers. Very rarely, however, has the attempt at backward integration been successful. In most cases, cost structures, technological design and installed capacities of existing industries have been inappropriate to local production and cost structures. For example, the cotton textile mills in northern Nigeria, Zimbabwe and Uganda are more efficiently based upon indigenous cotton production than the mills in Côte d'Ivoire, Senegal and Ghana, even though the markets for textiles in the latter countries are well developed. The greatest single problem that governments have faced, in their attempt to resolve this fragmentation has been the determination of priority in pricing policy. Long term economic development is obviously best achieved through maximum encouragement for the farmer who produces the appropriate industrial inputs, and this is done by incentive cost-related prices and guaranteed markets in the period of growth. Yet the short term interests of urban

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23. A. Killick "Development Policy in Action", St. Martins 1978.
24. This categorisation falls within the framework discussed in paragraph 1.7 of the introduction.

dwellers, labour unions and big business pressure groups do not permit public policy to adopt appropriate policies such as the rationalisation of faulty industrial structures (with urban unemployment consequences) or the adoption of cost-related incentive producer prices that would reduce the economically irrational subsidisation of consumers by producers.

3.4 Promotion of Small Scale Enterprises. More formal recognition and support by governments for small scale and the so called "informal" sectors of the African economy is vital to better understanding of the vertical subdivisions of African economic activity, especially trading activity, and their contributions to economic growth. Such support would recognise the capacities of indigenous businesses to adapt to the scarcity of capital, to shortcomings in administrative skills and to economic stagnation (via part-time activities). This would help to avoid the obstruction of the growth of indigenous experience and skills and facilitate their contribution to economic progress 25. Regrettably we have had difficulty identifying specific efforts by African governments to promote the role of indigenous producers and traders in development. It would seem that development has been conceived as a giant national enterprise in which small operators have little role to play. We came across a number of cases of compulsory "indigenisation" of small businesses, e.g., the Non-Citizens Retail Trade Act of 1970 in Sierra Leone, and several examples of state ideology in favour of small businesses. In the majority of cases, however, proclaimed intentions ran counter to actual performance.

3.4.1 There are two principal components to this constraint. As in the case of small farmers, small businesses have little or no political influence. In a few cases, they have been courted for political mobilisation, but they have also been discarded with ease and victimised. Consequently, governments have found it easier to ignore their formal needs in situations of scarce resources. Their progress has therefore been more a function of market factors than of political favour, making their activities all the more efficient even if the more deprived. The second constraint derives from the position of the small scale informal sector vis-â-vis the large scale expatriate or state corporations. Faced with increasing shortages of basic goods, governments have tended to rely more and more on the supposedly better distribution and management capabilities of larger state and expatriate companies. This has worked against the efforts of small scale enterprises that have tried to expand. In our investigation, we came across one well-organised indigenous small-scale textile designing and distribution company which was faced with the dilemma of either prematurely embarking on nation-wide distribution or being prohibited by official regulations from distributing its own products.

3.4.2 The specific suggestions that may be offered are the following: (a) public policy recognition for the primary role that the small scale and the so-called informal sector can play at this stage of development; (b) more national resources should be allocated to this sector through the elimination of the preferential treatment for larger state and expatriate enterprises. This will permit the harmonisation of cost structures and consequently the survival of the more efficient enterprises.

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25. The pioneer of these ideas was Lord (P. T.) Bauer in his works: "West African Trade" Cambridge 1954, and with Yamey "Markets, Market Control and Market Reform", Widenfeld & Nicholson, London, 1968.

3.5 Linkages between rural and urban markets are based on adequate transportation between the two, and on price mechanisms in which changes in urban demand are adequately transmitted to rural markets. Developing countries have not always been able to pursue policies permitting these linkages. The transportation problem has many facets: (a) village to village transportation is often several times more expensive than town to city transportation. A study conducted in one African country in 1973 cited instances in which the cost of transporting goods on village roads ranged between five to ten times the cost of transport on town-to-city roads **26**, emphasising the discrepancy in transport costs between adequate roads and rural roads and tracks. (b) In the course of our survey we found that traders only visited places to which they could arrange transportation, on specific market days, and where farmers could easily head-load their produce. (c) We also found considerable evidence that the average age of vehicles for goods had deteriorated in recent years in many countries and that the ratio of such vehicles to the population had also declined. These factors illustrate how crucial the solution to the transport problem has become in the development of the contribution of small scale indigenous businesses to economic growth.

3.5.1 We also traced the problem of fragmented price structures to the transportation problem. Some rural producers we interviewed thought traders who went to villages did the villagers a favour. Consequently the latter were prepared to accept less favourable prices for excess weights or measures **27**. We also observed situations in which urban prices of rural products were rising against the background of rural surpluses. Conversely we noticed several instances in which the prices of urban products in the rural areas fluctuated within a wider range than in the urban areas. These factors point to sub-optimality of production and living conditions for the large majority of the African populations. It would seem that the minimum measure that must be expected from governments to bridge the gap between the urban and rural peoples would be the purchase of production at appropriate prices and at points as close to the places of production as possible.

3.6 In addition to the foregoing primary constraints, many secondary constraints lifted through an enabling environment. The first is the problem of investment and working capital for small to medium size indigenous enterprises. The accumulation of capital by a business enterprise from undistributed profits takes several years (if the proper taxes are paid), but this is a cheaper, more efficient way to finance business expansion than with borrowed money. However, the lack of adequate accumulated capital has made it necessary for businesses to finance their growth with borrowed money. Our studies have indicated that for a number of reasons, banks have preferred to lend to large businesses rather than to small-scale indigenous businesses. In most cases small businesses are little known to banks, loan supervision for small enterprises is tedious and relatively expensive, accounting and auditing systems are not rigid enough, business is often

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26. Nyanteng and Apledoorn "Some Development Implications of Farmers' Problems in Marketing their Food Crops" in "Factors of Agricultural Growth in West Africa" I. M. Ofori (Ed.) ISSER. Legon 1973. Page 276.

27. In some villages there is the concept of "bush weight" usually denoting a 20 excess of the universally accepted measure.

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mixed up with personal affairs, etc. To reduce these risks, banks have often fixed their charges and interest rates for small businesses marginally above those of big businesses and have demanded larger collateral. This increases the relative running costs of small businesses. Of even greater relevance to our enquiry is that the lack of better access to bank finance has forced small businesses to borrow from the "informal" money market at very high rates. Examples of "informal" interest rates we came across ranged from 10% to 25% per month.

3.7 The shortage of investment and working capital has not been the only problem. For most indigenous enterprises, in those countries in which manufacturing production has been stagnant or declined or in which there are serious balance of payments problems, the supply of scarce domestic products and of foreign exchange for imports is biased in favour of the larger businesses. The reasons we obtained were that most manufacturing enterprises are controlled by the larger distribution companies in the state and private sectors, which are also favoured in rationing systems. We noticed this problem especially in Nigeria and Zambia where the foreign exchange shortage has recently become acute.

3.8 Another aspect of the financial constraint is the lack of contact with credible international sources of finance. Unlike their expatriate counterparts indigenous entrepreneurs do not have head offices or associate companies in the overseas market place and are therefore not in a position to procure bulk supplies or to obtain import credits in times of temporary constraints on foreign exchange. The problem was observed in all the countries we studied. This handicap has forced many growing indigenous companies to operate through expensive overseas intermediaries. We came across many instances in which substantial losses had been incurred through the "bankruptcy" of these intermediaries, often believed to be fraudulent.

3.9 The above list of secondary constraints affecting indigenous businesses is not exhaustive, but it includes most of the problems which have to be resolved in order to improve the environment in which enterprises can grow. In the following paragraphs an attempt is made to respond to some of the additional suggestions that were made to us.

3.9.1 To develop business expertise, several types of managerial training schemes have been suggested. The IFC's programmes of managerial assistance to middle-size companies from a pool of experienced personnel and of project analysis had been positively received. We found that these schemes have been aimed at indigenous enterprises that have already reached a fairly advanced stage of development and required further sophistication in management. At the same time, we also discovered a new generation of businessmen and women whose operations are too small to be assisted in this way, but who are in equal, if not greater need of assistance. One category within this group was readily identified. It consists of a growing group of well educated individuals, often graduates and professionally trained men who cannot be absorbed into public sector or private employment and who are attempting to launch a variety of business ventures. The ventures we encountered included small scale transportation, travel and shipping agencies, brokerage in the informal markets, non-traditional exports, and consultancies of several types. We observed that these new entrepreneurs were able to develop greater expertise than their senior counterparts whose initiatives had taken shape in large scale private sector employment. We also observed that what they needed was support from banks (especially merchant banks) and government business promotion agencies. In Nigeria and Ghana we came across two such persons who had quickly developed thriving businesses in electronics and deep-sea fishing via merchant bank support. For such ventures, expert training is important, but we consider the association with merchant banks which advise, formulate business proposals, find technical partners, and accord financial support to be the most relevant type of assistance.

3.9.2 The question of indigenous/expatriate partnerships was raised at both smaller and larger scale levels. It was argued that such partnerships had the advantages of introducing external capital and developing local entrepreneurship. We found significant progress along both lines, particularly in the larger scale joint partnerships. We however found several instances, especially in the small to medium-scale categories, in which the indigenous partners had little or not influence on the business venture, learned very little and were often used for public relations purposes only.

3.9.3 Domestic Credit. Given the inferior access to bank finance, official assistance to indigenous businesses for bank loans has been one way in which some governments have sought to promote indigenous businesses. In a number of countries a system of credit insurance is provided by the central bank. We found examples of this system in Ghana and Sierra Leone where they have worked very satisfactorily for several years. We also noticed that the idea was under serious consideration in other countries. The idea was borrowed from the Reserve Bank of India and was first introduced to Africa by the Bank of Ghana in 1968 with technical assistance from India. The system has since been studied by several African central banks. The scheme has furthered commercial bank understanding of the small scale entrepreneurs, and the nature and operations of their businesses. It has contributed significantly to the development of a working relationship.

3.9.4 The informal nature of indigenous businesses in Africa entails a rejection of official rules and regulations relating to trade and industry. Indeed, most regulations are wholly unsuitable to the mode of operation of these enterprises. At the same time, their existence conveys an aura of clandestinity and illegitimacy to the entire indigenous sector. We found this aura of "illegitimacy" questionably founded. [illegible] observed, for example, that the exchange rates in the informal [illegible]or were more accurate than those enforced by central banks, and in most cases the operators were very much abreast of international currency trends. Nonetheless, false assumptions concerning the informal sector's "illegitimate" market methods persist. We estimate that this problem can be overcome only through generalized deregulation and liberalisation.

4. The Appropriate Environment for Foreign Enterprises in Africa

4.1 Since independence, the following trends have been generally observed:

4.1.1 The withdrawal of large enterprises from branch operations in the

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retail field and the concentration on urban centres. At first, when non-urban distribution centres were earmarked for indigenous agency management, this process was voluntary. Later it was enforced by various public laws.

4.1.2 Expatriate enterprises have integrated upstream into import substituting manufacturing, thus attaining greater control over the economic processes. With government encouragement in some countries, a few expatriate companies became directly involved in even greater upstream integration by moving into large scale agriculture. Examples are the operation of cotton and oil palm plantations by textile mills and soap factories in West Africa.

4.1.3 There has been significant indigenisation of senior management in many multi-national enterprises, including some of the oldest companies. Concomitantly, there has been some degree of devolution of management from metropolitan headquarters, even though most of these enterprises have not been able to integrate themselves adequately into the domestic economies or become the catalysts for de-fragmentation.

4.2 Governments have thus hoped to give the larger companies opportunities to make a greater contribution to the development process. Expatriate enterprises were assumed to possess expertise and resources in areas in which indigenous facilities were inadequate, and to be in a position to boost production, distribution and ancillary services to their optimum levels. But in some countries, including some of the more liberal, it was deemed inappropriate to concentrate development resources exclusively in expatriate enterprises alone. Instead the following strategies were adopted (1) large scale enterprises in all production, distribution and services were reserved for state enterprises (the Tanzanian example, or Nyerere Model); (2) The state operated large corporations in major activities parallel to fully-owned expatriate enterprises, and granted the former better opportunities for expansion (the Ghana example, or Nkrumah Model); (3) Governments decided that enterprises in strategic fields, such as banking, insurance, manufacturing and wholesale trading, must be majority-owned by indigenous interests, be they the state or state agencies or private interests. This is the Nigerian Model. In countries with more liberal environments such ideologically inspired limitations were not applied. In most such cases both private indigenous and fully-owned expatriate companies operated alongside state corporations without any known discrimination, (the example of Kenya).

Constraints Emanating from Indigenous Authority

4.3 Within the broad spectrum of roles permitted for the large scale expatriate private sector in Africa, we observed specific constraints on efficient operations. A discussion of these should help to determine what an appropriate enabling environment for expatriate private enterprises in Africa would consist of.

4.3.1 It is claimed that expatriate private enterprises are discriminated against in the distribution of national resources needed for the efficient operation of businesses and for the maximisation of their contribution to economic development. These criticisms are commonly voiced in most of the countries we studied, but were stronger in those countries where the private sector competed with large state

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sector organisations in the same fields. The principal examples of discrimination related to the allocation of scarce foreign exchange: the private sector esteemed that state-owned enterprises had larger allocations than their productivity justified, and greater access to local bank credits (loan applications from expatriate companies in certain countries had to be sanctioned by the central bank and were often judged on non-commercial criteria). Limitations on the sale of equity in expatriate enterprises and on the transfer of funds between them were also resented. We observed an example in which the authorities in one country had refused to permit a local parent company to rescue a subsidiary which was in financial difficulty. The authorities in the country concerned insisted that assistance be provided in foreign exchange by the foreign owners of the company in the form of capital enrichment.

4.3.2 Expatriate private enterprises have generally been condemned to a lower degree of involvement in policy discussions and formulation. In some countries this can be seen as a reaction to the levels of involvement and authority wielded by expatriate businesses in the pre-independence governments. This has indeed been seen as a loss of privilege, but more importantly, many expatriate enterprises feel that their contribution to policy dialogues could improve economic management. It was also felt that indigenous senior staff were too few at the top levels in expatriate enterprises, and advice and opinion are usually sought on an individual rather than on an institutional basis. We observed that governments were little inclined to invite expatriates to serve on public policy committees but were very enthusiastic about using the expertise of Africans in senior positions in expatriate companies. In a number of cases we noticed that senior public servants and politicians actually had great respect for the views of such Africans.

4.3.3 Another form of discrimination concerns the limitations placed in most countries on expatriate employment. The system of immigration quotas seems to be quite widespread, and is based on ideas which, we observed, are often no longer cogent. In the immediate post-independence period this policy had two principal objectives. First, it aimed to encourage (or compel) the training of indigenous staff and to save foreign exchange otherwise spent on expatriate staff (higher salaries, overseas allowances, leave and travel expenses, personal remittance quotas, etc.). In one country it had been estimated that one expatriate costs approximately four times his African counterpart in nominal terms. In another country it was estimated that expatriates were able to remit overseas 50 of their gross incomes before tax! As the primary objective, in the early days of independence, was to create a larger indigenous business sector (private and public), an expanding expatriate sector was not a factor that was seriously considered in immigration regulations. Furthermore, the arguments of cost were quite valid. There was therefore a general tendency in most countries to reduce expatriate staff without regard to the probable expansion of expatriate businesses to fill future production needs. The problem was exacerbated by the fact that the government agency responsible for immigration quotas was not often related to that responsible for economic development. Furthermore, in many countries Africans have not been trained to fill the wide gaps left by departing expatriates, especially in the more technical (non-trade) sectors. We

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also observed that governments were adamant in their refusals to enlarge expatriate quotas. There were also several instances in which trade unions were vehemently against the enlargement of expatriate quotas. There was also evidence that these intractable positions had adversely affected output in many cases.

4.3.4 In some countries, especially those which have been trying to develop the indigenous state sector, expatrite enterprises have been excluded from certain businesses performing essential public services. These have been reserved for state enterprises involved in non-urban sectors, such as branch operations in uneconomic or potentially dangerous locations. Examples of such monopsony include the financing of primary production and exports. Government accounts have been concentrated in state banks to support the expansion of banking services in the rural areas and to strengthen their international stature. It has not been easy for governments and business interests to reconcile commercial considerations and social objectives. The two approaches to development come from two opposing theories discussed earlier 28. However, we observed in a number of countries that policy trends have tended to favour commercial considerations as economic resources have dwindled.

4.4 Constraints emanating from the expatriate enterprises themselves. We have already mentioned the widespread failure of expatriate enterprises to develop indigenous expertise. Another important constraint which we have observed originates from the difficulties experienced by major expatriate companies vis-á-vis the development objectives of their host countries. Apart from theoretical divergences concerning the appropriate approach to development, some foreign companies in Africa have apparently been unable to reconcile their short term profit objectives with the long term development goals of their host country. From the point of view of private businesses, the most important factor that limits a long term view of business development is an uncertain future. Scepticism has been based on a historical record of compulsory acquisitions, imposition of government-nominated staff who may not have been the best available, and business losses. For some enterprises, such events have compromised their plans for long term participation in economic development. From the point of view of the authorities in the countries concerned, these steps have been necessary in order to achieve a balance between private and public sector initiatives in a development strategy which seeks to induce growth by reducing sectoral fragmentation.

4.5 This ideological conflict seems to be at work even in politically liberal contexts, contributing significantly to the factors that inhibit cooperation between expatriate enterprises in Africa and their host countries. Appeasement of it would pave the way for cooperation between expatriate companies and African Governments in economic development.

4.6 The Enabling Environment for Expatriate Business in Africa. Such cooperation could well be conceived in the context of a new spirit of "corporate

28. Reference is made here to the balanced theory of development and to the more aggressive disequilibrium strategies, see footnotes 23 and 24.

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citizenship". This new spirit would go beyond limited, paternalistic forms of public involvment like donations, grants, and charities, and would imply the local involvement of expatriate companies in socially desirable objectives that help to ensure long term legitimacy in the host country. In return, operational structures and practices that conform with the dictates of the market and thereby maximise profits would permit expatriate companies to protect their shareholders. Defined in this way the obligations of "citizenship" reflect a very broad definition of corporate responsibility which includes ethical, social and good business objectives, as well as economic development goals.

4.7 The concept of "corporate citizenship" adopted in this paper varies somewhat from common usage by placing greater emphasis on an appropriate balance between corporate responsibility and corporate rights. Our definition aims to attain maximum productivity within any given environment. This definition provides governments and expatriate enterprises with the framework for maximum contributions to both business prosperity and national economic development. Corporate citizenship therefore becomes a two-way concept. On the one hand, it involves the recognition of the rightful claim of expatriate businesses upon available resources and facilities in the host countries and the necessity of their integration into development processes and policies. On the other hand, it also sets down the obligation of expatriate businesses to contribute to economic development through a greater commitment than has hitherto been the case.

4.7.1 The radical revision of certain concepts of expatriate business involvement will be necessary if the necessary balance is to be achieved. The following are a few examples: (1) Inappropriate import substitution programmes, especially those building upon an inadequate agricultural base, will have to be drastically revised if they are to conform to more pertinent strategies of economic rehabilitation and development. (2) The well organised transportation and distribution facilities of expatriate firms should become involved in the handling of indigenous production outside the primary products. In our survey, we observed a general lack of concern on the part of expatriate trading businesses about indigenous production; the principal reasons cited were cost-ineffectiveness, contrary business objectives, and tradition. In one country a multinational supermarket had decided to place peasant products on its shelves. Our investigations showed that a shortage of foreign exchange did not enable the importation of tinned foods and apples, etc. It may be remembered that the expansion of primary production to optimum levels in the first half of this century was made possible by the greater involvement of well organised buying companies. (3) Expatriate companies in Africa, particularly those branches and subsidiaries of multi-national corporations, will have to develop strategies suited to local conditions. A typical example of inadaptation can be found in the banking sector where structures have remained unchanged since the turn of the century and have failed to respond to requirements of non-urban areas for smaller local alternatives. (4) The bucaneer-adventurer image of the foreign entrepreneur in Africa should give way to the image of an honest and concerned businessman capable of being integrated into African society.

4.7.2 The change in the attitude of the expatriate entrepreneur must be achieved in tandem with changes in the host country's perceptions and suspicions concerning foreign businesses. The following are some examples of the changes in host-country perceptions that must be envisaged: (1) The foreign entrepreneur should be accepted as a trustworthy partner in development. This is not an easy matter, and the degree of confidence will vary considerably from the individual entrepreneur to the multinational, and in accordance with nationality. A great deal will depend upon the business ethics and traditions of the entrepreneur. From the opinions that have been expressed to us, Africans are more likely to accept and integrate the medium-size foreign operator than the faceless multinational. (2) Limitations on the use of resources, such as land for agriculture, must be significantly relaxed. Existing limitations preclude the optimum use of the experience and financial resources of the foreign entrepreneur. (3) Limitations on the scope of involvement must also be significantly relaxed. In the framework of corporate citizenship, restrictions on expatriate crop marketing and export would be invalid. (4) A corollary to the removal of market restrictions is the reduction in excessive investment allowances that are accorded to expatriate entrepreneurs. The concept of symmetry in rights and obligations implies a new concept of investment concessions that does not discriminate between indigenous and expatriate entrepreneurs. (5) The most difficult aspect of equal treatment is how to judge competitiveness. The generally greater experience, financial resources, and external contacts of expatriate entrepreneurs imply that an equitable basis for equal treatment would be difficult to determine. What would also be socially and politically difficult to justify is the greater initiative which foreign enterprises would probably acquire in the business sector's contribution to economic growth. To clarify these matters, we investigated the experiences and opinions in the Côte d'Ivoire, Kenya and Zimbabwe. On the basis of our experience in Kenya and the Côte d'Ivoire, we formed the view that as indigenous enterprises climb the ladder of progress, expatriate enterprises will be better integrated and less resented.

5. Administrative Controls

5.1 In sections 2 to 4 of this study we have reported on some of the fundamental problems affecting private sector agriculture, the indigenous business sector and the expatriate business sector. In this section we will discuss administrative controls, which in varying degrees affect all forms of private business in a number of African countries. These controls relate principally to foreign exchange allocation and domestic prices.

5.2 Expansionary fiscal policies and limited productive responses have been associated with the modernisation strategies in a large number of African countries in the post-independence period. With the failure of these development strategies, administrative controls have frequently been seen as one of the possible instruments of economic correction. In the more liberal economies it was assumed that without administrative control, imports would grow beyond acceptable bounds. In those countries in which adherence to the periphery and socialist theories was strong, administrative controls were accepted as a key instrument of economic policy and resource allocation 29. A wide spectrum of economic and exchange restrictions in Africa has consequently evolved 30.

5.3 Whatever benefit controls can bring to economic management, they do have certain constraining effects on business management and economic development, including higher management costs, production losses, crises of confidence and declining investment.

5.3.1 The increase in management and production costs associated with administrative controls is considered to be the result of the denial of the market mechanism, which is central to the maximisation of business volumes and profits. To avoid some of this loss, private entrepreneurs have resorted to several ingenious, sometimes even devious means to raise their business volumes. One businesswoman very aptly put it this way: "the best environment that they can give to us is to enable us not to live in sin" 31. By "living in sin', she meant the resort by businesses to procedures and practices that are known to be illegal in the eyes of the authorities but which must be overlooked if businesses are to survive. Administrative pricing is often the result of inadequate output, and has the tendency to keep official prices of domestic output and imported goods at sub-optimal levels. Businesses are also very concerned with the disruption of their production plans, because of delays in receiving import licences and by delays in placing orders by mandatory letters of credit, to give two examples. To overcome some of these problems most businesses have developed the expensive habit of keeping higher stocks of essential imported inputs and spare parts than would have been necessary otherwise. The most reliable sources suggest that stocks of essential materials are 50 higher than in a more liberal environment. Related costs from delayed payments, and for some countries the additional cost of establishing letters of credit, were put at approximately 6 of total imports. Large costs are represented in these estimates both for businesses and for governments.

5.3.2 We also came across several examples of constraints deriving from loss of confidence in exchange restriction regimes. For the purposes of our study, the most significant of these stems from the instinctive desire of many businesses (and entrepreneurs) to keep as much of their surpluses as possible in convertible currencies in other countries. The arguments were often legitimate, e.g., to make urgent purchases of essential material. But in many countries this practice has needlessly put national external reserves in separate small pockets. This practice has been especially frequent among small and middle size companies whose accounting and auditing practices

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29. When controls were introduced in Ghana it was not because the economy was in decline, or because market methods would not have resolved the difficulties.

30. The various forms of restriction are listed in the IMF's Annual Reports on Exchange and Trade Restrictions.

31. We came across this theme and variants of it in Nigeria, Ghana, Sierra Leone, Tanzania and Zambia.

are less rigid than those of the bigger companies. The tendency to keep savings abroad appeared to be quite widespread in most countries and among most businesses.

Methods to overcome these constraints

5.4 The sharp contrast in economic performance in Africa between the countries with widespread controls and those with minimal controls provides a framework for the discussion of methods that may improve the climate for private sector business in Africa insofar as exchange liberalisation is concerned. For this purpose comparisons from West Africa, where more restrictive Anglophone countries and more liberal Francophone countries are evenly distributed, and where both groups are members of the Economic Community of West African States (ECOWAS), are useful. A recent ECOWAS study has indicated the following 32: (1) that in those West African countries in which exchange restrictions were instituted, controls succeeded only in the short term, and failed in the medium to long term to curtail the use of foreign exchange; (2) that intra-regional trade expansion has been faster among the countries with liberal exchange systems; (3) that a key factor in the more successful economic management in the francophone courtries is the convertibility of the common currency; (4) that when two adjacent countries have unharmonious exchange practices, exaggerated adverse effects befall the economy with the more restrictive system; and (5) that the francophone countries on the whole since 1960 have achieved lower rates of inflation, greater economic stability, and higher levels of domestic business activity.

5.5 Evidence from the West African study and evidence discussed in this section indicate that exchange rate convertibility and harmonization in Africa are key factors in the promotion of stable and expanding economic activity. The strength of this argument is three-fold: first, exchange convertibility, implying exchange and price liberalisation, would help to eliminate most of the constraints on private initiatives listed in this section. Second, an economic management system based, like the francophone system, on exchange rate convertibility and harmonization, has built-in safeguards against unstable fiscal and monetary expansion. Third, the greater use of the price and "market" mechanisms in a liberalised system takes recent reservations concerning the appropriateness of the unbalanceed theory of development in the initial stages of economic development 33 into account.

5.6 A brief comparison of the "liberal" Côte d'Ivoire and "restrictive" Ghana, neighbours in the Economic Community of West African States (ECOWAS), may help to illustrate the above points. First, within the framework of the liberal currency exchange system of the West African Monetary Union (UMOA), the Côte d'Ivoire government has permitted almost unlimited and unrestrained facilities for investments in the private sector. The Ivorian

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32. A comprehensive analysis of the differences in performances may be found in a recent work commissioned by ECOWAS: J. H. Frimpong-Ansah, et al "Creation of a Single ECOWAS Monetary Zone" ECOWAS, Lagos, 1986.
33. These arguments have particularly been articulated in Deepak Lal "The Poverty of Development Economics", IEA, London 1983, and by Paul Streeton in Seer and Meier (eds.) "Pioneers in Development", Oxford 1985.

Investment code, unlike several others in Africa, does not reserve specific enterprises for indigenous entrepreneurs. The redistribution of equity in businesses between Ivorians and non-Ivorians is achieved through transactions in the local Stock Exchange at a pace that preserves stability in the private sector.

5.6.1 Second, the Côte d'Ivoire Government has instituted a non-discriminatory system of encouraging agricultural production and processing, with unlimited facilities for production extended to indigenous and expatriate enterprises alike. As it has developed, expatriate enterprises have tended to be more involved in agricultural processing - such as pineapple, palm oil, cocoa, coffee, etc., while indigenous entrepreneurs, either individually or co-operatives, have concentrated on primary production at peasant and large scale levels. The demand generated by these enterprises and their modest financial resources have decided the government to undertake the third and the most important function of all, the development and maintenance of a wide network of roads and storage facilities linking the agricultural heart-lands to the urban markets. The rural-urban fragmentation in the Côte d'Ivoire has therefore been very substantially reduced, compared to many other countries in Africa.

5.6.2 This strategy is behind the notion of an Ivorian "economic miracle" and in the period up to the early 1980's it enabled large foreign capital investments, mostly from Europe and America, to flow into the country. Some of these inflows were strongly supported and financed by international banks, including the IFC which financed projects like the GUVFREVILE Textile plant, the SIVENG Fertilizer plant, and the Investment Bank BIDI. SIFIDA, the Geneva based African investment company also helped to finance hotels, agro-industries and a flour-mill.

5.6.3 The failure of the international commodity markets in the early 1980s seriously undermined the Côte d'Ivoire's "Economic Miracle", but it could not undo the sound fiscal and monetary discipline which derives from the wider regional UMOA framework, nor could it destroy the secure foundations of primary agriculture. Instead the government continued to push forward its programmes of liberalisation and private sector encouragement. First, the government dissolved a number of unviable state enterprises and sold off others to private entrepreneurs. Second, it encouraged more Ivorians to engage in small to medium size ventures. The Chambers of Commerce, Industry and Agriculture were involved in the provision of training and advisory services to indigeneus entrepreneurs. Third, the government has recently made renewed efforts to link foreign investors and indigenous entrepreneurs in small to medium size enterprises. This strategy of strengthening its liberal posture, made possible by the framework of the West African Monetary Union's common convertible currency system, is what distinguishes the Côte d'Ivoire's approach to the "enabling environment" from some of its near neighbours.

5.6.4 In an investigation into certain sensitive aspects of the Côte d'Ivoire's strategies, we observed that the pattern of specialisation in agriculture is not perceived as a problem. However, the hegemony of the large and sophisticated expatriate wholesale/retail chains in trade and manufacturing, and the Lebanese or Mauritanian businesses

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which overshadow smaller indigenous petty traders were a source of disaffection. The government has identified major stumbling blocks for indigenous business expansion as inadequate capital and entrepreneurship. It should be mentioned, however, that large indigenous enterprises are beginning to emerge, such as COSMIVOIRE whose soap products are providing strong competition for Unilever-Blohorn products. Other enterprises like CIFEL and ENO in construction and GITP in transportation are also emerging as strong competitors of expatriate enterprises.

5.7 By contrast, the environment in Ghana for private business is provided by the framework of a restrictive legal system which dates back to 1961, and has essentially remained intact, except for a very brief attempt at liberalisation from 1966 to 1971. Within the restrictive framework little has been accomplished toward an enabling environment for private sector expansion and contribution to development, despite a few ill-fated attempts. An initial attempt at privatisation in the late 1960s was nipped in the bud by ethical arguments and political ideology. The 1970 Business Promotion Act was essentially one sided, and unlike the Ivorian Investment Code, it sought to increase the participation of indigenous businesses in the economic activities of the country by reserving certain sectors of the economy for Ghanaians. Before this Act, the 1969 Aliens Compliance Order had excluded aliens from almost all small scale enterprises.

5.7.1 Within the restrictive framework, periodically reinforced by radical ideology, governments in Ghana have often pursued contradictory policies on the promotion of private entrepreneurship. For example, in the 1975-80 Development Plan, the government expected the private sector "to increase at a much faster pace so that its contribution to both national output and employment (would) be greater". It also sought to "strengthen the facilities offered by the various institutions set up to aid private investors in the economy......the National Investment Bank, the Agricultural Development Bank, the Capital Investment Board and the Office of Business Promotion". Contrary to this policy, the government pursued a strategy of "capturing the commanding heights of the economy", and proceeded to expropriate 55 of all major expatriate businesses in the manufacturing and timber sectors during the recession. The acquired percentages were paid for out of the profits of the enterprises, under government-imposed management. Most of the enterprises that were affected, particularly in the timber sector, have since collapsed.

5.7.2 The present government in Ghana has pursued very radical policies of monetary reform that have reduced the external value of the Ghana currency by approximately 97 in three years. Despite this quantum adjustment the Government has been unable to effect any significant exchange and payments liberalisation. It has also promulgated an Investment Code, 1985 (PNDC Law 116), and set up a new Investment Centre to identify appropriate areas of investment and to offer necessary tax incentives. However political suspicions of expatriate companies, particularly multinationals, still exist, and wage and price policies do not provide a viable base for optimum operations unless they are accompanied by large tax incentives.

5.8 For a closer look at the restrictive system we undertook a detailed survey of business opinion in Ghana. The results are summarised below.

5.8.1 International businesses still want to work in the present environment and hope to expand if the economic climate continues to improve along present lines. Some businesses believe that a suitable indigenous partner can improve their public relations, and a new breed of businesses, such as A B Sandvik of Sweden, and Vollmer Dornhan of Germany, is making a gradual entry. A number of older businesses whose output and employment fell dramatically in 1983, are making a gradual recovery. But we noticed that the large multinationals and exporters are able to operate largely because of fresh external aid.

5.8.2 In the category of the so-called alien enterprises run by Lebanese, Indians, Chinese and Koreans, we observed a somewhat lethargic atmosphere which was summed up by a local observer: "those classes of businessmen do not regard themselves as being permanently established in Ghana. They are always alert, the slightest unfavourable development and they pull out, as a result they refuse to develop or expand to their full limit". These alien entrepreneurs see the emergence of a greater degree of political stability and economic stability as preconditions for a positive "enabling environment".

5.8.3 Significant advances have been made by indigenous businesses particularly in industry. We saw commendable examples in textiles, fishing, tobacco, transportation, chemicals, distilleries and timber, to name a few. The Ghanaian entrepreneur is perhaps more independent than his counterpart in the Côte d'Ivoire, not because of an enabling environment, but because of an adverse environment dating back to the Nkrumah period. One businessman who commented on this said "we have had to fight both the establishment and the multinational in order to get here". One explanation is that the Ghanaian indigenous businessman or businesswoman has always been well organised. In the colonial period farmers initiated the revolt in 1937 against produce-buying interests, and the businesses, action against British rule (1948) began the process of independence. They then financed the early politicians, and have since financed all political groups including the military governments. It has not been possible for us to estimate the contribution that the Ghanaian businesses could have made to development if a better environment had existed.

5.8.4 The crucial contrast between indigenous entrepreneurs in Ghana and Côte d'Ivoire concerns performance in the agricultural sector. Ghanaian farmers in the post-independence period have failed to organise themselves into a pressure group against state-centred radical public policies and have therefore been victims of government repression and rural-urban fragmentation. This has resulted in rural underdevelopment (Paragraph 2.10). Such has not been the case for the Ivorian farmer.

5.8.5 To summarise, Ghana and the Côte d'Ivoire illustrate the contrasting environments that exist in Africa for the private sector. The factors which emerge as important are a liberal, non-discriminatory economic environment, emphasising agricultural production and processing and their recognition by the Government, and appropriate policies for the provision of suitable transportation, storage and marketing.

6. Improving Efficiency of Production

6.1 Recent political discussions on deregulation and the liberation of market forces have focused on appropriate methods of increasing productivity in Africa. People today discuss freely the disciplines of risk and reward, compare the productivity of state-owned enterprises and private companies, and suggest policy recommendations for the privatisation of certain areas in the state enterprise sector in Africa. Though such ideas are not new in Africa, they have usually been isolated and have surfaced at times of political change from radical to liberal In Ghana in 1966, several state enterprises including farms, bakeries, laundries and textile mills were sold to the private sector. Today's discussions are general in nature and have been given credibility by the decision of the OAU last year to review the relative roles of the state and private sectors in Africa's development.

6.2 To be able to place new discussions on privatisation in a historical context a brief reminder of the factors leading to the creation of state enterprises in Africa may be useful. To quote Nkrumah in 1957, "it would be many years before the Gold Coast (Ghana) would be in a position to find from its own resources people who could combine capital with the experience required in the development and management of new industries" **34.** The solution was to use state capital and international expertise to develop those strategic enterprises which could not be left in foreign hands and the economic infrastructure which private initiatives did not consider to be commercially viable.

6.3 The failure of state enterprises has taken place for different reasons in different countries and solutions to the problem cannot be generalised. State interference has been identified as one reason. It dates back to the early days, as an observation made by W. Arthur Lewis in 1958 illustrates:

> "The IDC has greatly suffered from outside interference, in the shape of Members of Parliament and other influential persons expecting staff appointments to be made irrespective of merit, redundant staff to be kept on the payroll, disciplinary measures to be relaxed in favour of constituents, businesses to be purchased at inflated prices, loans to be made irrespective of security, etc" **35.**

Evidence of difficult management and comparatively poor results, despite state patronage, has been well documented for many countries **36.** In one example, the output of large-scale modern state owned farms only represented 22 of peasant agriculture, and worker productivity was only 18 of that of the peasant farmer **37.** Thirdly, in the more ideological examples of state intervention, neither comparative advantage, management efficiency nor productivity was the primary objective. As Nkrumah, a pioneer of state economic initiatives in Africa, described one example:

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34. K. Nkrumah, "Autobiography" PANAF 1973, P. 128.

35. Arthur Lewis, cited in Killick 1978, page 245 (Ghana).

36. E. J. Wilson III. "Public-Private Sector Reforms in Africa: What prospects for privatization?" Michigan, undated and unpublished.

37. Killick (1978) Page 193.

> "It may be true in some instances that our local products cost more....But even if it were substantially the fact, it is not an argument we can accept. It is precisely because we were, under colonialism, made the dumping ground of other countries' manufactures and providers of primary materials, that we remained backward; and if we were to refrain, for example, from building a soap factory simply because we may have to raise the price of soap to the community, we should be doing a disservice to the country.......
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> In connection with the founding of Ghana Airways........naturally, it increases our self-confidence to observe our own people helping to control the intricate mechanisms involved in the functioning of our own airway services, and we certainly experience a glow of pride in seeing our flag flying on planes and ships travelling to other countries" 38.

Generally, in this type of state involvement, the losses are legitimated by long term political vision and other less immediate and less economic factors. The pioneers did accept the possibility of higher appropriate prices, but for political reasons they were not able to implement them.

6.4 In the present attempt to find solutions to the problems of the state sector two approaches are being followed. One distinguishes between ownership and management in those enterprises that should no longer benefit from the non-economic effect. In this category are those enterprises that were originally designed to be economically and commercially viable, but which no longer are so, chiefly for management reasons, as well as those, like airlines, that were never conceived as profitable ventures. It has been argued that the former group of enterprises could come under private management while remaining under state ownership. In some cases it has been suggested that this process of semi-privatisation be limited to technical partnerships which enable the private partner to contribute equity, mobilise resources for rehabilitation and undertake the management. Examples of this approach are found in rehabilitation programmes in the Côte d'Ivoire, Mali and Niger. A more recent attempt is being made in the rehabilitation of the State Gold Mines in Ghana by a Canadian firm. The latter group, largely the non-viable projects, pose greater problems. The proposals that have been heard are to scrap them altogether or to undertake radical rationalisation to make them commercially disposable.

6.5 The other, and more dramatic, approach to privatisation is the complete withdrawal of the state from those productive forms of economic avtivity which can be more successfully undertaken in the private sector. The objectives are two: to reduce inefficiency in these otherwise profitable and productive ventures, and to use the process of privatisation as a source of external resources in present conditions in which large external debt burdens tend to limit direct bank borrowing. The assumption of inefficiency has not been difficult to prove 39; there is evidence also to show that in a number of instances, the external debt situation can be eased by the

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38. K. Nkrumah, "Africa Must Unite", International Publishers, New York, 1970. Pages 112-113.
39. E. J. Wilson III, Opus Cit.

sale of certain large scale state enterprises to their previous owners **40**. This process amounts to denationalisation. It would appear from our investigations of this subject **41** that the response to this idea is somewhat cool. In the course of our study we posed the problem to policy-makers, politicians and expatriate and indigenous businessmen in those countries in our sample that appeared to be most affected, and received the following responses:

6.5.1 Most policy-makers are of the firm view that proposals to improve the management and productivity of state enterprises will be very difficult to achieve if such projects remain in the state sector. Policy-makers are generally not interested in selling off viable state enterprises. Their greater concern is with those enterprises that are a drain on national resources (Para 6.4). Some of these enterprises were initially not well structured, feasibility studies were not properly carried out, some enterprises were not designed to operate in the most profitable sector, etc. Most of them cannot, therefore, be sold without considerable post-sale subsidisation. The question that most policy-makers face in such situations is whether some of the current subsidy could be saved by denationalisation, and whether the trade-off in the assumed higher level of productivity against the probable loss of employment would, in the medium term, be socially justified. Faced with such questions, and despite the current liberal wave of deregulation and denationalisation, most policy-makers prefer to consider the denationalisation of state enterprises, whatever the economic justifications, as a political problem to be decided at the highest political levels.

6.5.2 At the political level the question of selling to previous owners was seen as distasteful. One politician put the argument against it this way: "if we have not done as well as we could in the initial post-independence period, it does not simply imply that we should suggest a return to colonialism". Politicians who think this way are more radical: they believe that present problems are a necessary phase that must be experienced and overcome. Other, more moderate politicians would have no objection to the sale of non-controversial enterprises to joint indigenous/foreign investors, but they were cautious with regard to other enterprises. The implicit recognition of failure seems to be one which African politicians are not yet prepared to face. But more importantly the idea of handing vital areas of the economy back to former colonialists is simply repugnant. Most politicians would prefer another solution, and some believe that the political will and ability exist in Africa to take radical decisions and actions without selling out.

6.5.3 The views of businessmen, both indigenous and expatriate were very pragmatic. They drew a clear distinction between enterprises that should be scrapped and those that should be restructured. In the case of uneconomic state-enterprises, particularly those with a history of industrial disputes, private interests would be difficult

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40. There is evidence in Zambia that the previous owners of some copper mines would be interested in a repurchase.

41. The negative responses are more generalised than was previously imagined. Even moderate politicians are hesitant on this subject.

to mobilise. It was generally felt by indigenous businesses that an attempt to save such enterprises was, from a national economic point of view, a needless waste of scarce resources. Expatriate enterprises were of the same view. At the same time, they felt that the atmosphere for new direct investment would be improved if the state decided to denationalise those enterprises that could be salvaged alongside the less viable enterprises, and provided adequate post-sale subsidies to meet the cost of restructuring and rationalisation. It was clear from our studies that for some multinationals, there were other factors involved, such as their international marketing capability and other trade-offs that were not available to the indigenous entrepreneurs.

6.6 We can conclude as follows regarding privatisation as a factor improving the "enabling environment" for the private sector in Africa. First, the private sector in Africa considers the present debate on denationalisation a vindication of its superior role in business and in that sense it sees it as a favourable trend. Secondly, the debate on privatisation is seen by many people as an indication that governments now want to come to grips with some of the fundamental problems of economic development that have been ignored for several years. In this sense also privatisation helps to improve the environment. But the real value of this debate depends on some major steps being taken in those countries that have been leaders in Africa in the ideology of state initiatives. That has yet to happen and it is our view that a strong act of political will will be required for such steps to be taken.

7. Economic Conditions and Prospects

7.1 We began our analysis with the primary conditions for economic development from the pre-industrial state and emphasised the importance of the agricultural foundations which a number of African states have apparently neglected. It would be appropriate to conclude this discussion with a general assessment of the future of the African economy and the relevance of an enabling environment for private business contributions to African economic recovery and growth. We can examine this via trends in macro-economic policies, policies towards the principal growth sectors, and the way these affect the sectors that are judged to be productive.

7.2 There is evidence to show that most African governments are now, more than ever before, prepared to undertake economic reforms that would place Africa on a viable economic growth path. The recent decisions at the OAU and the several IMF stabilisation programmes testify to this desire. In the ECOWAS study 42 on sixteen West African countries, it was concluded that in all the member countries, except one, monetary trends were on a path away from disequilibrium; at the beginning of this year, in only two of the member states, were the real effective exchange rates outside their 1960 equilibrium. These factors indicate that if the will exists, a very large majority of the countries in West Africa will have little difficulty in liberalising their exchange rates and harmonising them. The picture in

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42. ECOWAS: J. H. Frimpong-Ansah, et al, opus cit.

East and Southern Africa shows similar trends with only three countries currently in serious misalignment.

7.3 In most current discussions with African policy-makers and politicians one cannot fail to notice the strong emphasis that they now place on agriculture. This is a most favourable development. Two decades ago the debate centred around massive industrialisation. As an African scholar put it in 1976 "only two decades ago anyone advocating more vigorous development of agriculture than was the case under the outgoing colonial authorities risked the danger of being ranked with neo-colonialists. Industrialisation was seen as the answer to the African economic problem" **43**.

7.4 Thirdly, current experiences of stagnation and decline will inevitably sow their own seeds of determination, enabling Africa to grow out of these difficult times. Left-wing radical governments are now seeking IMF stabilisation programmes, testifying not only for a change in faith, but also to an overwhelming desire for economic improvement that now appears to prevail over ideology. There were times when exchange rate adjustments were regarded as the surest way for a government to get itself overthrown. That is no longer the case in Africa. Today most countries have elevated their blackmarkets to parallel markets and even to second windows in their central banks. The trend towards acceptance of the "market" concept and economic prices is clearly observable.

7.5 It would appear from the general evidence that Africa is moving, in this period, towards improved and more pragmatic policy formulation. The next step will be the identification of the suitable framework within which to implement the appropriate policies. The objective of this paper has been to investigate the environment within which the private sector could play an increasing and productive role. We have shown in our analysis that there are a number of constraints that have to be removed to enable the private sector to make its optimum contribution in the current context. These have been summarised in recommendations at the beginning of this report. We have also shown that the greater problem that faces both governments and the private sector in the effort to promote development is the sub-optimal state of agricultural production and marketing.

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43. H. A. Oluwasanni "African Institutions and Rural Development" Land Tenure Centre, Madison, Newsletter No. 53, July-Sept., 1976. Page 15.

THE ENABLING ENVIRONMENT CONFERENCE

Nairobi, Kenya - 21-24 October 1986

THE ENABLING ENVIRONMENT FOR ECONOMIC DEVELOPMENT IN AFRICA

A PRIVATE BUSINESS PERSPECTIVE

Equator Holdings Limited

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RECOMMENDATIONS

1. Institutionalise a business code of ethics by creating an international association of African businessmen and businesswomen.

2. Identify and foster geographic relationships that promote trade and production, including regional markets and trade zones, as well as strong city to hinterland and city to city trade links.

3. Improve or rehabilitate infrastructure essential to business, especially transportation and telecommunications; use radio and television to increase and broaden education at all levels; concentrate secondary and higher education on technical and business management skills.

4. Reduce state-owned corporate monopolies through encouragement of competition, including privatisation.

5. Offer dependable legal protections equal to the best available in other parts of the world.

6. Face and overcome the population predicament, primarily through planning and coordination of policies to create social services, employment, and purchasing power for the increasing population.

7. Relax government intervention in smallholder farming, informal sector business, and modern manufacturing by reducing or eliminating price controls, marketing boards, foreign exchange deposit requirements, etc. Permit exporters to retain foreign exchange earnings for investment in productive capacity.

8. Establish realistic exchange rates to protect and stimulate domestic production.

9. Promote the development of African capital markets.

FOREWORD

In the paper which follows, our recommendations are keyed, by number, to the foregoing list. We know that our recommendations, indeed any recommednations by foreigners to Africans, may appear presumptuous. We know that Africans themselves must create their own enabling environment based upon social and cultural foundations that are distinctively African. The specific recommendations that we make are, therefore, designed more to provoke debate among the Conference participants than to offer infallible prescriptions. Our purpose is to stimulate thinking that will lead to social change of a particular kind, an increase in Africa's ability to produce economic goods and services.

These recommendations are the outcome of one company's extensive experience of doing business in Africa. Equator has been serving African clients exclusively throughout its eleven years of existence; moreover, its officers, North American and European as well as African, have spent the better part of their lives working within this market. Thus, we draw upon several hundred man-years of experience in African economies.

In addition, Equator takes a strong interest in questions of economic development, especially as they pertain to Africa. The company is currently encouraging research that examines the Western pattern of economic growth and its transferability to the entirely different contexts of cultural, social, and political relationships in Africa. Our research project is in its early stages. The topic is both large and subtle; although it has been studied closely before by many able scholars, it continues to be difficult, and the practical results have been elusive. However, it is possible even today to state a general observation: the factors governing the onset and continuation of economic development in the West were many, diverse, and mutually reinforcing, involving relationships throughout society; it seems inescapable that Africa must create similarly pervasive and complex relationships if true economic development is to occur there. Thus, the choice of the phrase "enabling environment" for the present Conference is not merely felicitous, but profound, because nothing less encompassing does justice to the problem of economic development.

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INTRODUCTION

In examining the relationships influencing the success or failure of economic development in Africa, we are forced to treat a very large problem analytically, breaking up the whole into pieces small enough to be amenable to study. The Conference organisers have already begun this task for us by calling for papers on a number of topics such as the roles of governments, multilateral institutions, and private development agencies in creating the enabling environment; the needs of profit-making businesses; and the social responsibilities of businesses in a developing economy. These differing analytical perspectives may help to give the conference participants a clearer, more complete understanding of what economic development is and what sort of society is required to achieve it.

Perhaps it will even raise the question of whether Africans want that kind of society and, if so, what changes they are willing to institute, what social costs they are willing to pay, in order to achieve it. Since changes are taking place anyway (and since Africans will pay perhaps greater social costs if development fails to succeed), we assume economic development to be a legitimate social goal, one worth fundamental, irreversible changes in people's lives.

This paper deals with the needs of profit-making businesses. That is, it seeks to answer the following question: What do private businesses need from the environment that will enable them to contribute to economic development? Posed in this way, the question embodies several assumptions that we should make explicit. The first is that private business does in fact contribute to economic development. We believe emphatically that it does; in fact, throughout this paper private business, capitalism, individual initiative, free enterprise, and free markets are assumed to be positive forces in the economy leading to increased productivity and to greater social good. While these institutions may cause economic distortions and hardship under certain circumstances, in the long run their contribution outweighs the damage; furthermore, wise government policy can often mitigate the damage without undermining the contribution.

The second assumption is that private business has a legitimate role in African economies. In some African intellectual circles, capitalism is still a dirty word, implying dishonesty and venality, the exploitation of man by man. We argue that both capitalism and its variants, on the one hand, and socialism and its variants, on the other, have spawned their share of corruption in the world, including Africa. Exploitation and inequity can appear at any place on earth where men gather in groups; they are by no means uniquely characteristic of free market economies, any more than they are uniquely characteristic of African societies.

The third assumption is that private business needs certain things from the environment in order to survive and thrive. Such is, in fact, the subject of this paper. Experience in a number of independent African countries during the past quarter-century demonstrates that individual entrepreneurs can survive here and there under harsh repressions indeed, but private business has certainly failed to thrive in the arid soil of economic dogmatism as practiced in more than a few African nations. Happily for development prospects, Africa's leaders today are demonstrating a new practicality, experimenting with economic policy reforms that are already producing modest improvements.

The Conference on the Enabling Environment, therefore, is very timely. The decision to free the economy of dogmatic policies, to allow the private sector

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greater scope for participation in the economy, is political in its essence, and thus it lies completely within the authority of sovereign African governments. The advocates of private business, ourselves included, stand ready to help Africans create their enabling environment as a logical consequence of that crucial political decision.

Because the enabling environment is so complex, we have broken it down into several categories of analysis: moral foundations, the social contract, political objectives and governmental responsibilities, legal principles, and economic policies. In each instance, we examine the requirements for an enabling environment that will nurture and support private business, so that business can contribute to economic development.

MORAL FOUNDATIONS

The time-honored custodians of a nation's moral values are its religious leaders, its philosophers, and perhaps its poets. An individual's moral basis is the core of his integrity; it holds his soul together. But moral foundations are also essential to society: without moral precepts and mutually understood rights and obligations, the people are an aggregate, lacking the glue that binds the individual to the whole. Thus, every society needs moral foundations appropriate to its people, to their deepest spiritual beliefs, and to the daily acts that bring them in contact with each other--and with outsiders.

This is as true of the economic sphere as any other. Who gets what, on which terms, raises moral issues of a high order. The transformation of the West's moral standards for economic activity, which in the fourteenth century were still firmly grounded on the precepts of the Christian church, into a code of commercial transactions based on laws and shared business practices, took several centuries and continues to evolve today. It was and is imperfect, and its violators were and are legion. But enough Western businessmen stuck firmly enough by their moral principles to make the industrial revolution successful and to raise the West's living standards to unprecedented levels.

Likewise, Africa's precolonial societies possessed highly developed and sophisticated religions, moral traditions, and ethical codes governing a broad range of behavior, including economic life. The continent's geographic, linguistic, and other barriers prevented the creation of unifying code of behavior, but commerce flourished nevertheless. Unfortunately, much of the accumulated wisdom of African traditional society was swept away during the colonial period, but the potential for creating or recreating a distinctively African ethical code is indisputable.

Although Africans have no doubt observed at first hand the willingness of Westerners to violate their own moral traditions, we argue nevertheless that a moral code for African business is the first requisite of an enabling environment. Its essence must be honesty, integrity, and responsibility.

These are demanding qualities, yet they are common in all societies, including Africa's. Everywhere there are men and women who are honest, incorruptible, and responsible. Society, through appropriate institutions, can help individuals strengthen these traits; this is the role of parents, teachers, and priests, but it can also be the role of colleagues and friends.

Recommendation No. 1:

Africans should institutionalise a business code of ethics by creating an international association of businessmen and businesswomen. An African institution based upon traditional African values, a formal organisation with chapters in every town and nation, can strengthen business people's ethical precepts. If African businessmen and businesswomen are members of the same moral community or extended family, all dedicated to mutual support, a manufacturer in Dakar need have fewer qualms about shipping to a brother in Harare, or buying from a sister in Luanda.

With respect to religion, race, and other cultural or ethnic identities, this organisation must be broad and inclusive, able to welcome all who earn their livelihood by commerce. Its leaders must be dedicated, gifted, inspired communicators who devote themselves not only to their own businesses, but also to fostering the organisation's ethical values.

SOCIAL CONTRACT

Africa's moral foundations can be a part of its social contract. However, each individual needs not only a clear internal guide to moral behavior, but also a set of external relationships that offer freedom of action, stability, and support from others. The world's existing societies offer a spectrum of workable solutions to the problems of daily life, ranging from a high degree of individual autonomy to a high degree of social integration. In the most liberal nations of the West, personal freedom is more highly valued than the good of society; in fact, the exercise of personal freedom is assumed to produce automatically the greatest good for society as a whole. In nations of the Marxist persuasion, the good of society is most highly prized, and the individual is assumed to fulfill his highest function through his contributions (and personal subordination) to the collectivity.

Human beings are self-consciously individual creatures, yet they inevitably seek the company of fellow humans, and any social contract must take both aspects of human nature into account. Each African nation must determine for itself, on the basis of its historical development and values, where on this spectrum it wishes to belong. During the twentieth century, Africa has been offered two major models--the capitalism practiced by the colonial powers, and the socialism practiced by the countries of the Soviet bloc. Each has its variants, from the social democracy of the Scandinavian countries to the radical experimentation in China during the Great Cultural Revolution.

Yet the mere availability of these two powerful models does not guarantee their relevance for Africa. The African experience since independence suggests that uniquely specific solutions to Africa's requirements for a social contract (or contracts), on African terms, have yet to emerge. This is clearly a major task in the continent's development, one that transcends the economy because it must encompass all aspects of society. One of the strengths of African societies has been that community ties are abundant and supportive, while individuals retain scope for personal initiative and growth. The choice between extreme individualism and extreme collectivism has often been introduced into Africa from the outside, whereas Africa itself already embodies the best of both aspects of human behavior.

Having said this, we feel obliged to point out, in the context of seeking to create the enabling environment, that the nations of the world most successful in achieving economic development have been, thus far at least, those which emphasized a free economy and rewarded entrepreneurial initiative. This has been true in societies otherwise as different, say, as the Japanese and the British or French. Certainly for business to succeed in contributing to economic development, the social contract must allow free people to make their own informed decisions, nevertheless binding them together through shared loyalties and mutual benefits.

The reader will note that this discussion does not lead to a specific recommendation for our list at the beginning of the paper. This is a matter requiring initiatives from Africans, not outsiders.

POLITICAL OBJECTIVES AND GOVERNMENTAL RESPONSIBILITIES

Our recommendations with regard to politics have to do with the scope of government, in two senses: first, what sort of territory, and second, what range of social activities, government should control.

The existence of numerous concrete exceptions notwithstanding, the abstract idea of the nation-state involves a unified, independent people, occupying a contiguous territory, controlled by a government. The independence is both political and economic, although in exceptional circumstances the people may depend temporarily upon outsiders either for protection or livelihood. However, the essence of statehood includes at least potential self sufficiency in both categories.

As everyone knows, Africa's national borders are products of colonialism. As everyone also knows, Africa's leaders wisely recognised, at the founding of the Organisation of African Unity, that unless existing borders were declared sacrosanct, attempts to change them might lead to unimagined disaster. As a result, an enormously destructive force has been kept in check for more than a generation. Yet the cost has been high, because the existing boundaries are inefficient both politically and economically.

The African reader will, we hope, forgive us for drawing an example from the American historical experience. In 1781, during the fifth year of a seven-year war to wrest independence from England, the leaders of the thirteen former colonies created political institutions intended to promote successful prosecution of the war, win their independence, and promote their economic development. They adopted a document, known as the Articles of Confederation, which was intended to enable the thirteen independent states to regulate economic and social intercourse among themselves. Each state was free to choose its own form of government, raise a militia, regulate commerce, issue money, and collect taxes, including import and export duties--in short, to conduct its affairs as an independent nation. The national Congress was intended mainly to coordinate defense, diplomacy, coinage, and postal service.

Despite the talents of a brilliant generation of political leaders, as well as a natural resource base and industrial investment that were respectably substantial for the times, the system soon showed fatal weaknesses. The rebellious armies emerged victorious and a treaty of peace was signed with England, but great powers continued to threaten, the states' economies failed to prosper, internal political disagreement flared, and administration became a bureaucratic nightmare. The situation was, in short, not dissimilar from that facing African nations following their own independence. In 1787, a special convention met for the purpose of designing a new, federal system with a central government. This convention produced the American constitution, which has proved sufficiently powerful and flexible to remain the nation's basic law for almost two centuries. When the new constitution took effect in 1789, it exercised the sovereignty previously reserved to the states, but it still allowed each member state to choose its own form of government, raise a militia, regulate internal commerce, and collect its own taxes within its borders. The federal government was charged with creating a national army (which remained very small because the militias were available in time of war), conducting diplomacy, issuing money, and collecting federal taxes, including import duties. Export duties were abolished; people and goods were allowed to pass freely among the states.

It is not the purpose of this example to advocate a United States of Africa; after all, Europe has prospered without unification. The point is that America experienced a system much like the one Africa has today (in practice, the Continental Congress was not much more powerful than the OAU), and it failed to produce economic development. It performed so miserably that the people abandoned it. They then created a new system based upon what they had learned from the failure of the old. The new system established an environment for economic growth while preserving desirable social and political institutions. The new, overarching political structure helped to link the diverse geographic parts, stimulate the formation of markets, and lift the burden of bureaucratic administration. Key trade activities, from city to hinterland and from city to city, received a strong impulse by being freed to grow uncontrolled.

Since the redrawing of Africa's national borders has a very low probability, we must look for other ways to rationalise the situation. Some African nations may be permanently deficient in resources, while others may be unable to take best advantage of their resources because they cannot achieve economies of scale. Most African nations, despite repeated efforts to create regional markets and lines of transportation and communication, find it difficult to cooperate with their neighbors because of natural or administrative barriers.

Recommendation No. 2:

Africans should identify and foster geographic relationships that promote trade and production, including regional markets and trade zones, as well as strong city to hinterland and city to city trade links.

The second fundamental issue with regard to political objectives has to do with the range of social activities governments should attempt to control. The American natural philosopher Henry David Thoreau, writing on "Civil Disobedience" (1849) asserted his position unequivocally: "That government is best which governs least." We believe this holds true for the governance of Africa's economies today. Thoreau's statement accepts the necessity for government, but provides a sharp challenge to any extension of its authority. It reserves to government the things that only government can do--monopolise the legitimate use of force through police and defense powers; provide certain basic social services (mass education, public health, social security) that involve the whole of the population; and succor those otherwise without help and unable to provide for themselves.

Clearly, government in Africa has legitimate, even essential economic functions. We argue, however, that African governments have tried to accomplish an important group of tasks to which they are unsuited, for which they lack adequate resources, and which can be performed better by their own private citizens. That is, governments have attempted to be the main engine of progress, the primary economic actor, the employer and producer of last (in some cases, first) resort. This was a responsibility for which national leaders had insufficient expertise, trained managerial manpower, funds, or material goods. Given the resource shortages, the attempt to fulfill this role has not only prevented increases in productive capacity, it has also severely curtailed government's ability to meet its other economic responsibilities.

Government can and should be society's final arbiter of economic justice, this being an extension of the police power to prevent the abuse of economic power by one person deliberately to injure another. Government can and should shape the direction and promote the growth of economic activities through financial, monetary, fiscal, labor, and trade policies. Its programs for population control, education, health, land distribution, and other social needs profoundly affect the economy. Its regulation of investment (including foreign investment), resource development, environment, transport, communications, and the like all protect the legitimate interest of the nation's people as a whole; these regulations can be arranged so as to stimulate economic production rather than retard it. In an economy that relies upon private initiatives to generate increases in production, government continues to play a supportive role, creating the social and physical infrastructures that facilitate private efforts, and protecting the people against abuse of economic power on the part of private interests. Perhaps the Japanese experience can serve as a model: while production rests almost exclusively in private hands, the state works very closely with business to achieve economic objectives beneficial to the whole society.

Recommendation No. 3:

In order to provide private businesses with an environment enabling them to contribute to economic development, African governments should examine the infrastructural requirements needed to bring productive people, ideas, and resources together. Modern transportation and telecommunications are specific areas for concentration of effort. Although feeder roads in rural areas are essential, modern highway networks are not an immediate requirement because the traffic is limited; moreover, highway costs for Africa as a whole would be astronomical because of the continent's size. Similar arguments apply for railways. Africa can overcome the obstacle of distance by expanding commercial air service and general aviation, both activities that are already developing well. By moving forward on aviation without waiting to build complete ground transportation networks, African nations can leapfrog expensive obstacles to their development.

With regard to telecommunications, Africa has another leapfrog opportunity: it can bring economic information and education to the people via radio and television. The system would involve broadcasting facilities in major cities, satellites in stationary orbits above Africa, dish receiver antennas in the towns and major villages, and rugged, inexpensive TV sets equipped to draw upon local alternating or direct current, generator sets, dry cells, and motor vehicle batteries, generators, or alternators. (Radio receivers, of course, are already widespread.) The networks could carry (a) educational programming on farming techniques, use of tools and materials, family health and hygiene, literacy, preschool motivation, etc.; (b) news services providing weather, crop, and price reports; and (c) some entertainment. These services might do more to spread knowledge and improve productivity in Africa than any other single agent of change.

Education, thus widely shared, can help increase performance and improve lives on small farms and in small shops of the informal sector, but the modern industrial sector's shortage of trained technicians and especially of managers requires special efforts. The industrial nations should sharply step up management training programmes geared toward Africans--both abroad and within Africa--so as to fill the frustrating gap between the few effective senior executives and the many wage earners who can do the work if given proper supervision.

One of the reasons why African governments have had such difficulty in providing the necessary social and physical infrastructure for the economy is that, in trying to be the main engine of economic progress, they have diverted resources from these efforts into inappropriate economic activities. Lacking steel, leaders borrowed abroad to create a government steel mill; lacking sugar, they planted a huge government estate; finding local bricks too crude, government built a modern brick factory dependent on foreign machines, driving scores of small, private brick makers out of business. African governments have spent billions in donor grants and loans, as well as private foreign loans, on state-owned production facilities that were and are uneconomical. Many continue to absorb scarce funds, including foreign exchange, while losing money and operating at a fraction of capacity.

There are essential differences between government and private sector production: government exists to serve political rather than economic purposes; it can operate at a loss for an indefinitely long time; it need never declare bankruptcy and liquidate its assets. Thus, economic efficiency is not among its required characteristics.

Unfortunately, economic efficiency is required for economic development, just as it is required for the survival and success of private sector firms. The firm that produces less than it consumes is destined for oblivion; it cannot buy raw materials, pay its workers, repay its bankers, borrow money for expansion, reward its investors, attract new capital. It must produce or perish within a relatively short time. The entrepreneur who cannot produce a net gain in value for his efforts in one business must shut its doors and seek another opportunity that is more productive. Because he must compete with other producers of similar goods, he must constantly strive to provide better goods at lower cost.

Recommendation No. 4:

Diminish the role of state-owned corporate monopolies through encouragement of competition, including privatisation. These days, no set of recommendations for improving African economies is complete without some reference to privatisation. In African countries there exist a wide variety of state-owned and state-operated corporations created to provide goods and services to the people. While their economic inefficiencies are widely recognised, they were established originally for political reasons, and there remain political reasons why they are difficult to abandon. These have to do with the misguided role of the state as economic engine, creating economic activities by fiat. The solution is for government to

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step back, save its limited resources, and encourage private initiatives to create the productive capacity essential to development.

In the first step toward dismantling this apparatus, government performs a kind of triage, identifying those firms (a) that should remain under government ownership (those thought to be essential to national defense or social welfare, such as heavy weapons manufacture or postal services), (b) those that should be closed down and abandoned, and (c) those with viable products or markets and saleable capital assets.

The third category contains the candidates for privatisation, but it is precisely here that governments find it most difficult to let go. It is hard to persuade political leaders that they should give up a going concern, especially one providing a needed service that yields a real or potential profit. Nevertheless, it is only these firms that are attractive to businessmen as acquisitions.

It may not be easy to find a buyer able to make the substantial capital investment needed to acquire the firm's assets, particularly if a large amount of imported machinery or raw material is involved. In such cases, foreign financial assistance can make an important difference. To cite a hypothetical case, if an African government wants to sell off the domestic airline linking the capital with the hinterland, it must find qualified buyers possessing the necessary management skills and able to pay for the aircraft, spare parts, hangars, telecommunications equipment, and so forth, most of which was imported and for which the government may still be paying in hard currency under long term loans. Unless someone helps the government to pay off those loans, in effect recouping its equity in the airline, the government will be reluctant to divest the firm, despite its drain on the national budget and its inefficiencies in serving the public. The local buyer cannot pay in foreign exchange, the government's long-standing policies having made it difficult or impossible for private citizens to hold foreign currencies or maintain accounts abroad.

In such cases, foreign assistance can be the critical catalyst making privatisation possible, by providing the government, directly or through the local buyer, with the foreign exchange necessary to pay for the assets; if directly, the money could be in the form of a grant, or a concessionary, long-term loan to be repaid in local or foreign currency. If the foreign assistance passes via the local private buyer, he acquires an obligation to repay the foreign lender either in local currency or, in the case of a firm with export potential, in retained foreign exchange earnings. Better still, an agency of the assisting foreign government might guarantee or insure such an obligation funded by a private bank.

Parenthetically, without reference to the privatisation process, we would add that donor nations can also put some of their aid resources directly into the hands of small private producers, providing grants or loans to joint ventures involving local African entrepreneurs working with foreign firms. The foreign partner would then be a likely source of hard currency equity as well, again guaranteed or insured by the donor government. This is <u>not</u> to argue that multinational business should move into the African economic vacuum and take over; Africa will never attain self-sustaining growth unless its people master the skills of building and managing their own enterprises, thus achieving their own economic successes.

LEGAL PRINCIPLES

One of the key elements in the enabling environment is dependability. We deliberately choose this word rather than the more common one, stability, because we recognise that societies must change, and they can change at varying rates--now quickly, again more slowly. A society can achieve dependability by relying upon traditional custom, but in modern societies, where technology and institutions change very rapidly, relying upon tradition becomes difficult. The Iranian attempt to make modern technology subservient to tradition is an experiment whose outcome awaits the passage of time, but already the resulting stresses are readily apparent.

In the West, by contrast, the process by which tradition gave way to secular law closely preceded the rapid development of technology and the unparalleled increase in economic productivity that we call the industrial revolution. Over the course of several centuries, increases in activity by guilds and merchants built up a body of commercial law that provided the framework for new social structures well suited to business and production; it included statutes and precedents governing land ownership and use, banking and foreign exchange, trade, maritime transport, taxes, labor relations, patents, insurance, and the like. These laws continue to give welcome structure to businessmen's lives. Africans know them well because they were imposed upon Africa by the colonial powers, and because they continue to govern transactions between Africa and the rest of the world.

Some of these legal principles are embodied in the constitutions of African countries, but businessmen have come to feel that laws are less dependable in Africa than in other parts of the world. In some countries the authorities have displayed little concern for legal niceties or for the opinions of businessmen who complain of ill treatment. In others, the desire to undo colonial institutions has meant the undoing of past legal systems. Determination to level the differences between haves and have-nots has weakened the rights and protections of private producers and traders. The result has been that businessmen have simply looked elsewhere for opportunities. Foreigners regard Africa as a distant last alternative for enterprise and investment. Africans who achieve any modest success in business may spend more effort on protecting their gains by exporting them to more attractive countries than they do on the business that produces the income in the first place.

Recommendation No. 5:

African governments must offer dependable legal protections equal to the best of those available in other regions of the world. Since any legal system is a reflection of its society, the laws that support economic development must be a reflection of the enabling environment. Unless the spirit of growth, diversity, and enterprise prevails, legal protections may fail to be upheld vigorously. Legal protections are critical to attracting and holding investment in African countries. They are far more important than investment incentives such as protection against competition, tax havens, subsidies, or long term contracts.

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ECONOMIC POLICIES

In order to contribute to economic development, the private sector in Africa needs resources, knowledge, finance, labor, and markets. The resources are ample and knowledge is growing. As Africa pursues policies that reveal opportunities, funds will seek them out.

Labor and markets have to do with twin attributes of population. As the questions of population and its rate of growth are sensitive ones in Africa, touching on social values and political choices, to mention it here under the rubric of economic policies may seem out of place. Yet we are not advocating population policy here; rather, we seek to deal with the economic consequences of uncontrolled population growth.

Africa's population is growing at a high rate, and the arguments about constraining it are too well known to recount. Certainly, were population growth to slow or stabilise, the task of economic development would be much easier. However, population growth is a social phenomenon that operates in Africa, today at least, with the force of nature. Thus we may take it as given that population will double and perhaps double again in the decades to come. As a result, the economic consequences of that growth require urgent attention.

Recommendation No. 6:

Africa must face and overcome the population predicament, primarily through planning and coordination of policies to create social services, employment, and purchasing power for the increasing population. The continent must generate real growth well in excess of the three to four percent annual increase in the population if the quality of life per capita is to improve. Moreover, the high birth rate guarantees that children and young adults will constitute a majority in virtually every country, requiring expensive social services-especially education--while their productive contributions to society still lie in the future.

African governments must bend every effort to making these young people productive, for it is only through their labor that Africa will develop economically. Africa's economies must put the fruit of that labor into the hands that earn it, because the purchasing power of the working masses will be the magnet that calls forth ever greater production. Most critical to this outcome are education and freedom of economic opportunity.

The only economic system that will meet the needs of future Africans is one that produces a steadily increasing wealth. It will not do to redistribute existing wealth by taking it away from others. After a generation of concentrating on leveling through redistribution -- which underlies, after all, African socialism and the African argument in the North-South dialogue -- the emphasis is shifting now to production. Give the people work, give them incomes, and they will buy the resulting increase in production. From the perspective of the working masses, this is the heart of a successful economy based on private initiatives. Do a few become rich? Yes. Do the many prosper? Yes. How else would you have it?

Given the dynamics of population growth, creating wealth by means of steady output of goods and services is not enough. Economic development goes well beyond mere increases in wealth; it requires in the productive capacity to create wealth: not just more maize, but new strains of seed maize that increase output; not just more cloth, but more textile mills; not just more pharmaceuticals, but new cures for tropical diseases.

The urgency of this situation demands pragmatism. Fortunately, there are signs of this new pragmatism in many African countries. Governments are experimenting with policy reforms that already are yielding modest improvements in performance. In particular, we recommend that African governments take the following steps:

Recommendation No 7:

Relax government intervention in smallholder farming, informal sector business, and modern manufacturing, freeing private citizens to use their own best judgement about what to produce and where to market it. Peasant farms remain the backbone of virtually every African economy, employing the majority of workers and providing a substantial portion of GDP, yet governments have discriminated against them systematically, using controls on producer prices and subsidies for food sales in the towns and cities. Government marketing boards paid low fixed prices for output while charging high prices for inputs such as credit, seed, and tools. State-owned wholesale or retail outlets in the towns and cities marketed food at artificially low prices. These interventions have so completely distorted agriculture that per capita food production in Africa has been falling for more than a decade.

Africa's severe droughts have undoubtedly done enormous damage to the continent's food production during the past quarter-century, but food production policies have been so misguided that they may have been even more destructive than the drought itself. Certainly, had better policies been followed, the famines would have been less severe. In countries where government has raised producer prices or allowed them to rise freely to market levels, local food production has risen freely to market levels, local food production has risen remarkably (Zambia and Zimbabwe are two examples where returning rainfall and price incentives have produced recent bumper crops).

"Informal" sector business does not mean "illegal" business, although some informal sector activities have been prohibited in some countries. The informal sector comprises small craft, trade, and service activities at the edge of the money economy, often family businesses in the villages and towns--furniture makers, bicycle repairmen, street hawkers, jitney drivers, and the like. These businesses have difficulty obtaining credit, pay high taxes and graft to local officials, and often suffer from administrative harassment of various kinds. Nevertheless, some of Africa's most successful businessmen and women have gotten started in the informal sector; it is the incubator of private initiative. As such, it has earned the right to be left alone, which is probably all it needs in order to thrive.

The modern sector of the economy includes producers of industrial commodities (fertilisers, metals, minerals, petroleum), agricultural products (cereal grains, edible oils, fibers, fish, flowers, fresh fruits and vegetables, meats, sugar), manufactured goods (consumer items, machinery), and services (transportation, telecommunications). At present, virtually all of these productive activities require foreign exchange, because they tend to require inputs not produced in Sub-Saharan Africa; likewise, much of their output is aimed at markets in industrial countries, so that sales generate hard currency earnings.

These modern-sector activities are essential to development, because they incorporate very large increases in productivity as compared with traditional methods. Their potential contribution to the quality of life is correspondingly large, but at present they tend to operate at a small fraction of capacity. There are several reasons for this. First, they fit the pattern of industrial development begun under colonialism, in that they rely upon imported inputs and export unfinished goods to metropolitan markets; this leaves them at the mercy of prices set abroad, over which they have no control. Second, they find few consumers in among their African neighbors, their natural market, who are in the same predicament. Third, they depend upon, and earn, foreign exchange. Since the government suffers a chronic foreign exchange shortage, it tends to sequester export earnings in the central bank in order to use them for its own urgent requirements, leaving the modern sector without the raw materials, replacement machinery, spare parts, and supplies it needs to operate competitively. The insufficiencies create a downward spiral of diminishing foreign exchange earnings; eventually, the modern sector is virtually shut down.

The solution is to begin feeding foreign exchange, as scarce as it is, back into the modern sector. Two methods that are being used today to do this are the weekly foreign exchange auction, at which companies can bid for the hard currency they need, and foreign exchange retention schemes that allow exporters to keep some of their export earnings to be plowed back into plant rehabilitation. Both methods have produced production improvements in the short time they have been in use. Both offer the hope that an upward spiral of hard currency earnings can replace the decline. Success in exporting will stimulate the modern sector generally, creating additional investment opportunities.

Recommendation No 8:

Establish realistic foreign exchange rates. This policy decision, which can produce far-reaching improvements in economic conditions, is also among the most difficult to implement because it produces short-term suffering throughout society. Inflated exchange rates are seductively attractive because an artificially high value for the national currency makes imports cheaper and exports dearer: given a choice, the citizens buy imports. The resulting massive outflow of foreign exchange leads the government to control imports by imposing quotas, issuing export licenses, prohibiting specific items, closing ports and borders, and the like. Such controls reduce availability, but not demand, so people pay more for the scarce items on the black market. The main beneficiaries are the wealthy, who can afford the black market prices.

Because the country's export goods cost more to produce, foreign competitors gain an advantage in markets abroad, so that the country earns less foreign currency than it would otherwise. Eventually foreign exchange becomes so scarce that essential imports are rationed or foregone entirely. Only those with special permission from the government may import at all, and permission is usually beyond the reach of the man in the street.

In such a situation, a major devaluation of the currency causes a sharp jolt to the economy. Everything that is imported--i.e., everything that is cheap--suddenly becomes expensive. Inflation surges, for it follows that if goods are more expensive, everyone must charge more for his output in order to maintain his economic place: wages go up, driving up the prices of domestic goods and services. It takes some time toofor these effects to work their way fully through the economy, so the pain is protracted.

On the other hand, a consistently undervalued currency, while it precludes enjoyment of foreign delicacies, provides solid, long-term benefits. It is the financial equivalent of a protective tariff barrier used to protect domestic producers. Because foreign food is expensive to import, domestic farmers are able to sell at a profit. The price advantage enables craftsmen and manufacturers to market their products competitively; for example, the maker of tire-tread sandals cannot compete if traders can import machine made leather sandals at low cost, but if the imports are expensive, the cheap sandals become acceptable for ordinary wear. Low cost local products and expensive imports thus come to occupy different competitive niches. The domestic producer can survive and thrive.

Why should the government support crude sandals when, by manipulating the value of the national currency, it can make better foreign sandals affordable? The answer is that the long-term benefits outweigh the short-term savings. The local manufacturer uses no foreign materials, no foreign exchange, to produce his sandals. More important, he employs local labor, creating local purchasing power; both he and his employees acquire skills that, in time, enable them to improve their products and create new ones. The skilled employee can leave to establish his own shop, making sandals or some related product. As the history of Japanese industrial development clearly shows, this process can lead eventually to global leadership in manufacturing. Repeated throughout society, it is the essence of economic development.

Recommendation No 9:

Promote the development of African capital markets. More than twenty years ago, an African Marxist economist remarked that "You can't be a capitalist if you haven't any capital." He referred, of course, to the poverty of his compatriots after a century of colonialism; yet his point acquired a new irony in the ensuing years, as state interventions in economies effectively blocked the accumulation of funds for investment in production. As a result, the natural evolution of small and medium-sized financial institutions never occurred, and the withdrawal of government from the economic arena will leave a void that may take many years to fill if left to local skills and resources alone.

Three conditions are essential to the nurturing of capital markets: (a) faith in the business environment such that businessmen believe their investments to be secure from government interference not only today, but for the future, (b) relinquishment of government control over a share of the nation's total capital large enough to enable individuals to accumulate it in quantities suitable for investment, and (c) either a lengthy period of slow institutional evolution or an injection of foreign capital to speed the process.

A number of successful African entrepreneurs have started with small "equity" loans from commercial banks; there were and are few venture capital firms in Africa. The existing intermediate-sized financial institutions lack funds and the means to deliver them to would-be entrepreneurs. African governments can stimulate the development of these institutions by allowing realistic interest rates competitive with institutions outside the country and with domestic alternatives such as real estate holdings and retail trade inventory. Foreign government and multilateral aid agencies can help by offering guarantees to foreign lenders who put funds into these intermediate-sized financing activities. The recent Baker Plan proposals, to have foreign private banks restore and increase their lending to developing countries, offer an opportunity to channel a portion of that money into the creation of capital markets.

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CONCLUSIONS

Thus far in history, only a handful of nations have undergone the transforming experience of economic modernisation or industrial revolution known as "economic development", a process that visibly increases productive capacity and improves the quality of life for a majority of the people during their own lifetimes. The historical examples of economic development strongly suggest that it emerges from a complex background of cultural, social, and political as well as economic forces. We should bear in mind that the Industrial Revolution was neither planned in advance nor consciously perceived as it was occurring, at least not in its early stages; it simply happened.

With the example of the economic transformation of Europe, North America, and Japan before us, mankind is no longer willing to await economic development as an accident of history, nor even as a slow process of evolution. We want economic development now. We want to know what to do to achieve it.

A process of such complexity resists facile analysis. Grand solutions have been proposed, some even tried, with disappointing results. Nor does economic development appear to be particularly responsive to central planning; too many variables, too many levels of activity, and too many centers of initiative are involved to make unified direction effective. Rather, policy makers who wish to emulate successful industrialisation and to enjoy the benefits of economic development (and who are willing to submit themselves and their countrymen to its stresses and cost) can best achieve it by creating an environment hospitable to the private initiatives that lead to increases in productive capacity.

This is what we believe the Conference on the Enabling Environment is about. The outcome of the Conference should be, not a grand experiment, but many small experiments, all aimed toward constructing the enabling environment. Some of the experiments will fail, but those which succeed will hasten the process of transformation. Our recommendations are proposals for experiments. We believe they can contribute to success.

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THE ENABLING ENVIRONMENT CONFERENCE

Nairobi, Kenya - 21-24 October 1986

A CASE STUDY -
THE H. J. HEINZ COMPANY INVESTMENT IN ZIMBABWE

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INVESTMENT IN ZIMBABWE

The delegates to this conference have come together to consider the question of establishing and maintaining an Enabling Economic Environment in Africa. It may be useful to make known some of the features connected with an investment which H. J. Heinz made in Zimbabwe in 1982, in order to see how the investment was made, and to consider briefly whether it has borne the fruit hoped for by the parties concerned.

The background to the proposed investment was this:

H. J. Heinz Company began in 1980 to review investment potential in the entire Sub-Saharan region, an exercise prompted by a World Bank Study that showed that while the US share of the World GNP was declining, that of developing countries was dramatically on the increase. Although a company with annual sales of over US $4 billion, it was realised that Heinz had no production or distribution in the countries that contained 85 of the world's population. Their Third World interests were confined to Mexico and Venezuela, and it was agreed that if Heinz wanted to grow as a company, then increased involvement in the Third World, including Africa, had to be a vital part of that strategy.

Heinz drew up a list of criteria by which they would assess a project's desirability. The factors considered took into account both a prospective acquisition's performance and the performance of the country in which it was located.

Looking at the company's requirements first, they were seeking a concern:

- in a field similar to their own, preferably in the food business.

- staffed by nationals of the country and not reliant on expatriates.

- of a sufficient size to give them a "critical mass" and a continental base from which they would be able to spearhead their expansion within the country and the region.

- that was not dependent on imported raw materials since foreign currency is a severely limiting factor in most Third World countries.

- that had ready markets for its products within the country and was not dependent upon exports.

- that had good profit potential to justify the greater risk of investment in the Third World. Only investments with significantly superior financial ratios would be considered.

On the national level, they assessed the country's investment potential taking the following factors into account:

- the mineral and metal resources of the country.

- the country's balance of payments and growth potential.

- the population size and growth rate.

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- average income and growth prospects, with particular attention to actual income distribution.

- agricultural potential, water table, irrigation availability and rainfall level.

- government policy on foreign investment in food processing and attitudes to free enterprise generally.

- regulations affecting the importation of machinery and essential raw materials.

- corporate taxation and debt regulations for foreign controlled entities.

- regulations relating to the repatriation of capital and the remission of dividends.

- the level of economic and government infrastructure, in particular, roads, railways, telecommunications and the civil service.

- the likelihood of expropriation, inconvertibility and civil unrest/war risk.

- the outlook for political stability.

- the availability of insurance of the investment, for example, is the country a member of O.P.I.C.

These exacting conditions called for exhaustive research that went on for some considerable time. Eventually they narrowed the field down to Zimbabwe, and within Zimbabwe to a family-owned company called Olivine Industries that manufactured soaps and candles, edible oils, fats and margarine.

The edible oil business in Africa is a crucial one, as, after maize, oil is the second most important element in the diet and accordingly ranks high on the list of essential commodities. Olivine Industries was the market leader in edible oils, and the largest producer of soap in Zimbabwe. Their plant was extremely sophisticated, using the most up-to-date technology; their main raw materials - soya beans and cottonseed - were locally grown; and the finished products were of a very high quality, readily acceptable not only everywhere within Africa but also in Europe, the Middle and Far East. The owners were wanting to sell for private reasons, and both Olivine Industries as a company, and Zimbabwe as a nation, satisfied enough of Heinz's requirements to make the project look attractive.

The sale of a Zimbabwean company to an external concern, however, had to receive the blessing of the Government of Zimbabwe. Their position was a difficult one. As a newly fledged independent nation, they were endeavouring to rehabilitate the economy after eight years of civil war, and were in addition confronted with the pressing need to redress the social and political imbalances of the past. While keenly aware of the need for industrial expansion and overseas investment, they were most anxious not to become the victims of unscrupulous speculators. They had a wary mistrust of the hard-nosed entrepreneur, and they dreaded the commercial carpet-bagger whose ambition it was to cut into the country's economic blood stream, make a quick profit and get out again. In order to protect themselves from these hazards, they in turn had drawn up a code, on the basis of which they could assess the worth and the sincerity of a potential investor. Most significant among these were the following principles:

An investor should introduce new foreign capital to the enterprise. Preference would be given to investments made in the rural areas. An investor should bring with him meaningful expertise, managerial or technical, to the net economic benefit of Zimbabwe. He should incorporate a training programme for Zimbabwe nationals. Local participation should in no instance be less than 20%, and shares in the venture should be made available to Government on request. All private enterprise must be conscious of and dedicated to the economic and social advancement of Zimbabwe and her people.

While the Government of Zimbabwe were not signatories to an O.P.I.C. agreement, they maintained that the country's constitution provided sufficient safeguards for the foreign investor, in that property can only be expropriated **in terms of a law** and adequate compensation in foreign currency must be paid in such an event. Although there are no tax incentives for the foreign investor, the standard rate of corporate tax is 51,75% and there are generous allowances for capital expenditure.

Here then, were the stated priorities of two of the parties concerned, Heinz and the Government of Zimbabwe. On either side there were grey areas where the needs were not satisfactorily accounted for, but substantially the two sides keyed in together. The third party to the deal, the Margolis family, which was selling Olivine, had only one major stipulation, and that was that a portion of the purchase price should be paid in external currency.

Negotiations commenced in October, 1980. During the following two years there were numerous ups and downs, hopes were raised on one issue only to be dashed on another. One month would see expectations soar, the next would plunge the entire issue into confusion. There were several disappointments and set-backs time and again. As the weeks and months went by, however, it became increasingly apparent that although there were misgivings on both sides, there was also emerging the basis for a frank and forthright understanding, and a strong desire for the venture to go through.

The major stumbling block to the agreement was that the Government of Zimbabwe had declared in May, 1981 that it would not, except in exceptional circumstances, permit a locally controlled company to be externalised. This obstacle was finally removed in January, 1982 following a meeting between the Hon. Robert Mugabe, Prime Minister of Zimbabwe, and Dr. Tony O'Reilly, the President and Chief Executive Officer of Heinz. As a quid pro quo, Government stated that it wished to participate in the venture.

This was not the end, however, for a further stumbling block all but derailed the whole project. In May, 1982 the Government of Zimbabwe withdrew a subsidy it had previously granted to the edible oil industry and at the same time would not permit an increase in the retail price of oil.

Negotiations continued for a further five months until on October 8th, 1982, the Government gave its approval for an increase in the price of edible oil. Five days later the agreement was signed between all the parties concerned, and it is not too much to say that there was an air of euphoria in Harare that day. It had been a long hard road. The final agreement granted to the Government of Zimbabwe a 49% shareholding and 51% to Heinz. Contrary to popular belief, no other concessions were given to Heinz.

It would be presumptuous for the parties to this agreement to speculate as to why their negotiations succeeded where others have failed, since within the African context there are many variables, and no two companies, no two nations, have the same priorities. Nevertheless there were certain striking aspects of the negotiating process which could be of interest to others who are involved in similar exercises. To borrow an image from the Arabian Nights, I would suggest that the lock to Investment in Africa can be sprung by a kind of "open sesame", and the key-words which activate the mechanism all begin, conveniently, with the letter "P". They are: **preparation, perseverance, partnership, pragmatism** and **patience**.

I would like, briefly, to elaborate a little on each of them. Firstly, then:

PREPARATION

In this regard the onus is on the potential investor, and it is very much in his interests to prepare his case thoroughly before submitting a formal application. By the detailed and specific nature of his proposals, the investor has the opportunity to demonstrate the scope and extent of his commitment. Airy promises are not enough. Thorough research and preparation will show the investor fields in which his own particular skills will be of greatest value to the host country, and it is very encouraging when the people who evaluate an application can see a serious intention to make a contribution to the overall welfare of the economy. An investor who is grudging with his expertise does not present a friendly face, and his chances of success are accordingly diminished. And it should be emphasised that promises made initially need to be practical and appropriate and must be fulfilled.

Heinz promised Zimbabwe assistance in the fields of agriculture and food production, in the training of personnel, in the expansion of new product lines. Within weeks of making the acquisition, Heinz personnel were in Zimbabwe preparing a feasibility study for the growing of the Michigan Pea Bean. Since 1982 Heinz agronomists have assisted with and promoted the crop from an experimental five hectares to three hundred hectares in 1986. These beans are exported to the United Kingdom and are already a valuable earner of foreign currency. Recently this project was further expanded by the launching of Heinz Baked Beans in Zimbabwe, the forerunner of other Heinz products. Heinz agronomists are also involved in the production of new strains of tomatoes. Zimbabwe has been given access to valuable tomato hybrids which have been bred and developed by Heinz in Canada, the U.S. and Australia.

Since its acquisition of Olivine, Heinz has established a training school at the factory, and many members of Olivine's staff have benefited from attending courses run by Heinz affiliates in other parts of the world. The fields covered include management, accounting, computer techniques, personnel management and a wide range of technical subjects.

Over and above these fundamental benefits, Heinz's presence in Zimbabwe has exerted a favourable ripple effect both at home and abroad. For example, the Heinz Foundation together with five U.S. companies have donated over US $200 000 for the building and running of a clinic near the Mozambique border, and recently Heinz made a donation of US $50 000 towards the building of a hospital at Kutama Mission.

As an unofficial ambassador for Zimbabwe, Heinz is active in promoting Zimbabwe's interests abroad, particularly in the U.S. It maintains pressure on the news media to adopt realistic attitudes towards Africa in general and Zimbabwe in

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particular, urging on them the merits of fair reporting as opposed to sensationalism. In 1984, Prime Minister Mugabe was invited to present the H. J. Heinz Distinguished Lecture in Pittsburgh, a useful platform for publicising Zimbabwe's position in the United States.

If I have seemed to belabour this point, it is because there is a need to emphasize the fact that an investor's initial preparation must incorporate this type of proposal.

PERSEVERANCE

During those two years of negotiations there were many occasions on which either side could pardonably have said, "This is the end. Let us withdraw". The vital ingredient here was perseverance. From Heinz's point of view, it was necessary to maintain the momentum, to argue their case with Ministry after Ministry and department after department. A rebuff was never treated as final, it was followed by a new initiative, a new approach.

There are certain differences between doing business in Africa and doing business in New York. Preparedness for risks, however, is as necessary in New York as it is in Harare. The fact remains that business can and does prosper in Africa, even though the conventions and instruments are unfamiliar. Perservance is an essential ingredient to success.

PARTNERSHIP

In any joint venture there is a need for give-and-take by the parties concerned. The concept of partnership, of joint-participation, was vital in the negotiations between Heinz and the Government of Zimbabwe.

To the capitalist-oriented investor, the notion of State participation is customarily viewed with abhorrence. The mere mention of socialist principles will wither the timid investor's aspirations. By the same token, many African States view with profound mistrust any business concern that insists on total control. Both the investor and the State have to demonstrate a measure of trust in one another. What is needed initially by both sides is an act of faith.

The rewards are considerable. A joint venture has the great advantage that both parties rapidly come to a practical understanding of what they can and cannot do. It's like a three-legged-race: if one is not to tumble in disarray, one has to respect the other party's needs. A partnership of this kind opens up a clear channel of communication between the public and the private sectors, a useful facility in the Third World environment.

PRAGMATISM

If the onus of preparation is on the investor, then the need to be pragmatic rests with the state.

Most newly independent nations are understandably preoccupied with redressing the errors of the past. In striving to uplift the conditions of their people they have on occasions resorted to measures that brought short-term benefits, but long-term poverty. There is at present a renewed awareness in Africa that the Enterprise Tree, if treated well, will yield good fruit to those around it. This awareness, this pragmatic approach was demonstrated by the Zimbabwe Government in its negotiations with Heinz.

The Government of Zimbabwe's stated policy of "Growth with Equity" is a masterpiece of commonsense. Worthy goals and necessary ideals are tempered with realism. As Zimbabwe's Minister of Finance, Dr. Bernard Chidzero, observed at the time: "We cannot have 100% equity with 100% growth".

This bold and dynamic pragmatism was a vital factor in the negotiation process, and a nation which has the courage to implement such a policy deserves all the prosperity which its foresight made possible.

It is interesting in this connection to glance at the advantages which the joint venture has brought to the Government. In the outflow of money from Olivine, 78% of every pre-tax dollar of profit is paid to the Government, while the remaining 22% goes to Heinz. This does not take into account the additional benefits which accrue to the Government in the form of taxation, both direct and indirect, from the 1400 odd employees of the company. The significant factor here is that all dividends remitted come from profits. It is, I think, a useful illustration of the fact that a vital and flourishing private sector provides the most lucrative source of Government revenues.

PATIENCE

The fifth, and possibly the most important key to success in the Heinz/Government negotiations was patience. Africa places upon time a different value from that found in Europe or the United States. A hasty decision is not necessarily a good decision, and a weighty matter deserves serious deliberation. The African method of solving problems may seem irksome to the potential investor, but it would be as well for him to adjust his pace to accommodate it, bearing in mind that many of his demands and reservations will be equally irksome to the other party. Patience is the oil in the lock's mechanism, without it, the other four components of the "open sesame" are less likely to be allowed to function. Patience, after all, is the grain of truth at the heart of the fable of the hare and the tortoise, and it is perhaps worth bearing in mind that Aesop wisdom was rooted in the soil of Africa.

So much, then, for the process of negotiation. It is natural to ask at this point, how has the marriage worked out? Has the venture been a success?

The answers to both question must be an unqualified "yes". The partnership is a happy one that is working well for both parties. Since the joint acquisition of Olivine Industries by the Government of Zimbabwe and Heinz, the company has increased its share of the edible oil market, the soap and margarine markets, and has doubled the capacity of its oil and soap manufacturing plants. Local demand for Olivine products has risen so steeply that despite our increased capacity, the market is still unsatisfied. Since the acquisition in 1982, the company's sales have soared by a spectacular 124%. The return on capital invested not only brings Olivine into the blue chip category, but also enables it to compare favourably with other companies in the Heinz group. It would be appropriate here to quote from a recent article[1] written by Dr. A. J. F. O'Reilly, the President and Chief Executive Officer of H. J. Heinz Company:

> "Today, we have a superb, profitable and dynamic partnership in Zimbabwe that has exceeded our mutual expectations and even more importantly, one which has prompted plans for further investment in that country and indeed, in all of the surrounding territories".

I trust that this case study of Heinz's investment in Zimbabwe will serve to illustrate that the environment for investment is alive and well and exists in Africa today.

1. Africa Report. May/June 1986. Page 39.

THE ENABLING ENVIRONMENT CONFERENCE

Nairobi, Kenya - 21-24 October 1986

"ENABLING ENABLERS TO ENABLE: RELATIONS OF AFRICAN GOVERNMENTS AND PRIVATE NON-PROFIT DEVELOPMENT AGENCIES"

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ENABLING ENABLERS TO ENABLE:

RELATIONS OF AFRICAN GOVERNMENTS AND PRIVATE NON-PROFIT DEVELOPMENT AGENCIES*

Private non-profit development agencies (PDAs) have in one form or another long been a part of the African scene, whether one thinks of their incipient forms as in traditional labour exchange groups or their more modern varieties exemplified by church groups or women's savings associations. Yet it is only in recent years that governments have begun taking a serious and positive look at PDAs as suitable partners in the development process. Until recently -- and for many this is still the case -- governments merely tolerated PDAs, considering them to be nuisances, competitors or outright trouble-makers. At best they viewed them as minor entities which, while occasionally helpful to small groups of people appeared insignificant when measured against large-scale government programmes.

THE NEW INTEREST IN PDAs

What explains the growing interest among governments in PDAs and their potential? What is new in the African situation that appears to be encouraging a new respect for PDAs on the part of governments?

A key factor is the widespread recognition that the promise of post-colonial independence with its anticipated benefits to the populace has not in fact been realised. The dream of self-reliant communities producing enough to feed themselves while generating sufficient surplus to support their urban counterparts and the export trade -- all that has faded. Structural and operational constraints have hampered government efforts to reach peasant populations as widely and effectively as earlier hoped. Yet many PDAs have proven their capacity to do just that, although on a much smaller scale commensurate with their own size. From largely emergency-disaster and welfare-oriented groups focusing on orphans, the sick, the disabled and the like, PDAs have shifted into medium and longer-term developmental programmes that find them working intensively with poor communities and local groups. Conscious now of their coverage limitations, they are taking further steps to foster linkages and new alliances with other PDAs and with governments. If successful these could bring about a quantum leap in the people's well-being.

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* Paper prepared for a Conference on "The Enabling Environment for Effective Private Sector Contribution to Development in Sub-Saharan Africa", Nairobi, 21-24 October 1986, sponsored by The Aga Khan Foundation, the World Bank and the Government of Kenya. The author of this paper is the United Nations Children's Fund (UNICEF) Regional Director for Eastern and Southern Africa, Nairobi. The views she states here, however, are made in her personal and professional capacity as a sociologist and not as a representative of UNICEF. The author wishes to express her gratitude to the many colleagues in various UNICEF offices in Africa who either themselves completed the survey questionnaires or identified other knowledgeable persons and requested them to do so. The contributions of all have enriched the presentation.

CONTRASTING DEVELOPMENT STYLES: GOVERNMENTS AND PDAs

Why have governments proven less capable of releasing the energies of people for development at the grassroots level than PDAs? Public administration expert Korten advances eight reasons 1. He does so in a provocative manner, so as to challenge government officials to re-examine their assumptions and approaches to people's development. Although the contrasts between governments and PDAs may appear overdrawn and even biased -- these generalisations are derived from numerous observations worldwide and therefore merit careful attention.

1. Centralised control and standardisation versus flexible community-generated initiatives

Governments have generally espoused centralised control as their means of reaching the rural poor. Decisions about proposed programmes in distant villages are taken in the capital city by officials who choose to ignore the enormous variety of situations in existence. They develop their nation-wide blueprint, consulting little if at all with the prospective beneficiaries, and uniformly superimpose that design on hundreds of peasant communities. The latter in turn are expected to respond as programmed.

One has only to look at the enormous expenditures entailed, with their questionable results, to judge the appropriateness of this standardised approach. A former Federal Minister of Health from Nigeria put for his assessment:

> I appeal to those who are not trying to reconcile requirements with resources and produce the fifth plan to stop assuming from the distance of Lagos, they can guess the needs of the rural areas. They must open a dialogue with the village people so that the plan they are about to produce may reflect the needs and social organisation of rural Nigeria. The greatest failings of previous plans in the country was the absence of any active dialogue between the planners and the people 2.

PDAs, on the other hand, located as they are at the district or village level, encourage local residents to identify their own problems, needs and priorities, and decide on the kinds of actions they wish to undertake. People learn to devise ways of achieving their aims and of assessing the results in light of their own criteria for success. In the entire process the focus of decision-making rests with people living in the district or the community rather than in a far-removed capital. To be sure, many PDAs have not yet reached this level of sophistication in their relations with local residents, being more prescriptive than catalytic. But in time they are soon drawn into more egalitarian or collegial interaction by the very

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1. This discussion draws heavily on David C. Korten's "Social Development and the New Professionalism". A commentary for the Social Development Alternatives Conference, Nagoya, Japan, U.N. Centre for Regional Planning, October 1985. Manuscript.
2. J. A. Ekpere, "The Role of Non-Government Agencies in National Development Planning and Rural Development," quoting The Punch, 30 November 1985, page 16. Paper presented at the International Workshop on Designing Rural Development Strategies, University of Ibadan, 2-7 December 1985. Manuscript.

nature of their involvement at the grassroots level. The centralised decision-making of governments likewise emerges in the allocation of resources by capital city technocrats through centrally-controlled bureaucrats. PDAs look rather upon people as resources; they search for ways of strengthening the capacity of the poor to control and mobilise assets largely for the latter's own needs.

2. Communication flow: "top-down" versus "bottom-up"

Consistent with its centralised mode of operation, government channels of communication move from the top down through layers of bureaucracy, skimming off resources at each level until they reach traditional elites at the community base. Contrast this with PDAs which make direct contact with the poor, and which believe government's role should be that of an enabler. Government, however, assumes that it, and not the people, must be the lead force in all aspects of development. Its involvement in grassroots activity is organised by technocrats, politicians and bureaucrats in ways that more often than not serve to increase their own power rather than the people's. In contrast PDAs espouse direct conscientisation and organisation of the poor while simultaneously working with local governments to enhance their ability to support self-reliance and empowerment of the poor. In this manner the poor no longer remain a faceless mass but through PDA "bottom-up" efforts become visible to planners and resource allocators.

3. Criteria for success

In establishing their criteria for success governments take a macro-view of development that concentrates on the highest rates of return on capital, with people seen as an anonymous mass of recipients. Capital transfers serve as the primary instruments of action, while efficiency is measured by the amount of money moved per staff person. PDAs also seek the highest returns, but to people's labour and investments. Allocation decisions address the needs of the poor. Small amounts of funds made available to people quickly and flexibly characterise their operation.

4. Differing data bases

Governments rely on a data base that measures wealth and the productive output of the national economy: in so doing they ignore the informal economy thereby leaving out the majority of the citizenry. The problems identified therefore reflect the concerns of those in the modern sector, and channel benefits toward the already privileged. To the more progressive PDA's, establishing a data base requires first and foremost identifying who the poor are, sub-groups that are particularly vulnerable like women-headed households or outcast ethnic minorities, where they live, the assets they control, their survival strategies, the overall determinants of their poverty and how the modern formal economy blocks their access to and control over resources. Government emphasis on macro-planning to cover a wide range of local situations fosters a drive for quantitative measurements to the detriment of the more qualitative judgments and values on which PDAs prefer to rely.

5. Macro versus micro focus

The outlooks of governments and PDA's diverge in that governments favour large-scale undertakings as necessary for quick results encompassing many people: the domestic arena of family and household is seen as yielding little if anything useful for development. For PDAs the domestic arena is the scene of action.

6. Definitions of social development

For governments, social development means increasing social service budgets and strengthening the service-delivery capacities of bureaucracy in, for example, health, education, nutrition, water and sanitation, housing and the like. To more and more PDAs, the true meaning of social development rests in the empowerment of people through their raised consciousness to seek greater control over resources -- including health, education, nutrition, etc. -- and a voice in the affairs of the community and nation.

7. Working procedures

Being physically remote from the community, government officials cannot match the level of knowledge PDAs have of location-specific conditions and solutions owing to their actual residence in communities and empathy with the residents. Highly motivated and frequently altruistic, PDAs derive their dynamism from the largely voluntary character of the membership. The paid staff, if any, receive low wages but willingly make sacrifices and endure hardships to achieve the group's objectives. Their frequent contact with community members instills a sense of trust that promotes effective working relations. Contrast this with government officials who are frequently transferred from one duty station to another and rarely have the opportunity of getting to know people personally for mutually reinforcing working relationships. Demoralised by the intrigues and complexities of the bureaucracy, officials lack that kind of commitment to people and the corresponding satisfactions its brings.

8. Use of funds

In government programmes funds are taken for granted and often wasted, with accountability a minor concern. PDAs, on the other hand, must necessarily adopt a regime of economy, even frugality. The chronic shortage of funding demands financial discipline and allows for only modest salaries or allowances. The small amount makes it feasible to monitor financial accountability. Volunteers pursue a labour-intensive approach interacting with community residents so as to tap their skills and energy. For it is the participation of the community in matters affecting their lives that turns plans into reality and assures monitoring, maintenance, and continuity. The flexibility of PDA operations further enables them to learn from their mistakes and make mid-course corrections thereby profiting from feedback and decentralisation. Government, which is bound by centralised rules and the constraints of civil service mechanisms, adopts a more rigid stance that makes mistakes difficult to correct and discourages feedback. Because it must impose a legal system upon an entire population and defend allocations already made, government reacts negatively to criticism. One may interpret this in Africa also as a carryover of the traditional expectation of an unquestioning attitude toward persons in authority.

PDAs by comparison not being part of government take as one of their functions the development of demand for public resources and service. Beyond that they often see themselves as facilitating people's ability to review existing government allocations and argue for a shift that takes the community's own wishes into consideration. While this process may indeed develop a confrontational situation as often occurs in Latin America or

Asia, PDAs in Africa tend more to facilitate people-government negotiations and agreements at the community level with complementarity and partnership as the themes.

For all these reasons, Forten asserts, government and PDA objectives, structures and operational procedures have significantly different impact on people in communities, with PDAs acknowledged as generally more effective within limited coverage areas. The stark contrast he makes must of course be tempered by actual variations in practice especially, for our purposes, in the African context. Nor should one over-romanticise PDAs as many of them display the same negative characteristics attributed to governments -- in addition to difficulties of their own. Moreover, PDAs are not a homogeneous lot. Their objectives, leadership structure, organisational styles and relations with government range far and wide. Yet despite divergent perspectives, many PDAs and government work well together.

Problems of role definition persist, nevertheless, leading to misunderstandings and counter-productive tensions between the two parties. These tensions, together with positive examples of co-operation need to be identified and sorted out if the synergistic approach combining the strengths of the two entities is to have the desired impact on African development. We shall examine these aspects of the problem in a later section reviewing data from 11 countries in Sub-Saharan Africa.

THE AFRICAN CONTEXT OF PDAs

While it is difficult, indeed foolhardy, to speak of Africa as a single homogeneous entity, one can nonetheless characterise the African social heritage as one of personalised clans whose strategic linkages reinforce traditional security systems. This economy of affection, as Hyden terms it, gives structure and meaning to the business of everyday life and addresses the intermittent crises that afflict every society 3. It defines relationships in a range of circumstances -- which combination of people cultivate a field together through reciprocal labour exchange, organise fish-smoking activities, engage in negotiations for a marriage or prepare a body for burial. Collaborative groups in village or other residential settings may be seen as incipient forms of PDAs in that they are small and represent a common interest. They also differ, however, being more informal and less voluntary in the sense of activities being largely culturally prescribed. Moreover, they rarely question authority.

These traditional linkages were disrupted by the coming of the colonial powers and the concomittant introduction of a cash economy. Where trade already existed, it was redirected into a new production and commercial stream. The accumulation of cash to pay taxes or fees of one kind or another, or to purchase goods became a necessary condition of life. Men dominated in gaining access to and control over cash as they, rather than the women, engaged in wage labour and generally controlled the marketing of household products. Under these circumstances women formed rotating credit associations with the little cash they received from their

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3. Goran Hyden. No Shortcuts to Progress: African Development Management in Perspective. London, Ibadan and Nairobi, Heinemann, 1983.

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husbands or from the sale of their own garden produce. These together with the religious associations fostered by the missionaries formed the basis of indigenous PDAs.

With the end of colonialism, independent African governments had to address the issue of clan politics now transformed to encompass the national arena. The state set new conditions for food and agricultural production, pricing, and marketing, thereby reducing private local initiative. Although governments aspired to democratic forms, the continuing deference to authority ingrained in African tradition counterbalanced this ideology. Concepts of constructive criticism or loyal opposition found little support in the continuing economy of affection in which kin or clan relationships pursued harmony for their effective functioning. To be in opposition was tantamount to a confrontation, possibly even a declaration of war.

It is in this context of shifting values that PDAs have played an important role 4. They serve as an intermediate structure to bridge the gap between universalistic (democratic modern government) and particularistic (economy of affection) norms. By coming together to pursue a common set of objectives, members learn to handle a common fund, gain experience in management and gradually internalise the norm of accountability to a largely non-kin cluster.

Moreover, although local and national PDA's operate in close personal groups, they have a broad interest in the institutional setting that influences their operation. Hence, they look outward as well as inward. It is to their advantage to link families or clans with local and national authorities. In this process they will be making a needed input into the reform of the state structure by facilitating looser control from the centre and fostering the feedback necessary for effective action by all parties concerned.

Working out the modalities of co-operation with PDAs in real-life situations will develop new institutional capacities and norms in the government bureaucracy, redefine institutional and local government groups and promote self-reliant people's organisations. This arena of micro-policy reform may find government officials engaged in new behaviour, like holding more consultative meetings in villages to listen to people's views and ensuring that women participate in these meetings, assigning government extension agents to longer stints in one place, or relaxing stringent formal education requirements for local facilitators like community health workers or nutrition assistants.

As each party learns to operate effectively under this new dispensation and recognise its strengths, the sequence by which institutional values and structures move away from a centrally dominated one will become more familiar and therefore less threatening. The role of PDAs as the enablers in coalition building and institutional learning is crucial to the evolution of this participatory mode.

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4. David C. Korten, "Micro Policy Reform: The Role of Private Voluntary Development Agencies", Community Management: Asian Experience and Perspectives. D. C. Korten, ed., Connecticut, Kumarian Press, 1986.

THE THIRD GENERATION OF PDAs

Not all PDAs exhibit the capacity for working out viable relationships between government and local community. This task represents a relatively new departure for some progressive PDAs, identified by Korten as being in the Third Generation 5. The category emerges from PDA actions in forging sustainable systems' development through mutual government-PDA linkages as well as deliberate complementarity among PDAs.

To start at the beginning, the **First Generation** encompasses PDAs focused on the marginalised fringes of society, like victims of disaster or family tragedies -- orphans, widows, disabled and the like. Curative health care and educational approaches provided immediate solutions. As time passed, these PDAs and others entering the scene realised that their piecemeal efforts were not touching the heart of the matter -- the poverty, disease or mass illiteracy that spawned the symptoms they had been treating. And so they shifted into small-scale developmental **Second Generation** approaches that focused on whole communities rather than on individuals or families as in the past. Increasing the capacity of the poor to meet their own needs in a self-reliant community development style led in turn to the concept of empowering people. Raising community awareness of the social, economic and political situations in which they lived and which rendered them poor, triggered a process of transformation more decisively than did visible projects like chicken-raising, school building or well-digging.

So long as the early community development mode flourishes, whereby people basically accept the power status quo and carry out programmes and projects designed for them by others, they see little need for reformulating government institutional arrangements. But once people recognise, on the one hand, the importance of they themselves deciding what is needed and how to accomplish this and, on the other hand, that the power to allocate resources, services and information still lies outside their community in a centralised government structure or in private elites supported by the social system, they begin to demand change in the form of power-sharing.

Nor are PDAs themselves immune from this rethinking. More of them now acknowledge that if they retain their traditionally independent, mistrustful stance of avoiding collaboration with other PDAs -- or the government for that matter -- they will seriously undermine their own enabling function. We thus notice coalitions of PDAs evolving. Sectarian and other differences are being submerged for the time being in favour of collaborative action and a united front to support PDAs and to influence government toward elaborating an enabling role of its own instead of its more customary constraining one vis-a-vis PDAs. In summary, sustaining the results of self-reliant village development and initiatives relies on the creation of effectively linked local and private organisations bolstered in turn by larger systems of regional and national institutions and policies which integrate local initiatives into a national development system.

The sense of urgency felt by PDAs to bring poor people into the mainstream of development and facilitate their gaining access to resources on their own terms also forces PDAs to reflect on their own limitations. Although they will necessarily continue First and Second Generation activities, the addition of

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5. Ibid.

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Third Generation responsibilities requires greater expertise in strategic management, policy and institutional analysis, networking and coalition building. It calls for motivated professional managers, disciplined organisation and good leadership in the private sector.

PDAs IN SUB-SAHARAN AFRICA: SURVEY RESULTS

African governments have adopted a range of attitudes toward PDAs, from supportive or "laissez-faire" through merely tolerant or neutral to the other extreme of unsupportive or control-oriented and occasionally even hostile. These vary also according to whether the PDA is an international one, a national body affiliated with an umbrella international organisation, a second type of national body that is completely independent, or a local, indigenous, grassroots association.

In an attempt to locate more precise patterns characteristic of government-PDA relations in Africa, a survey questionnaire on the subject was circulated to knowledgeable persons in several African countries seeking their views on: (1) government attitudes to PDAs; (2) PDA attitudes to government; (3) PDA relations with the business community; (4) ways for governments to strengthen PDA's; and (5) ways for PDA's to develop better relations with governments. The results of the tabulated returns from eleven countries reveal some interesting trends 6.

Government attitudes to PDA's

Supportive attitudes generally characterise government perspectives on all four types of PDAs. This is either in the sense of outright positive support or a laissez-faire attitude in that government lacks the means and organisational capacity to exert any significant control over PDAs. In some cases governments give neither support nor non-support but merely tolerate PDAs, ascribing little significance to them in daily governance. One country reported unsupportive control-oriented attitudes toward groups at the community level.

Specific examples of government support to PDAs lies for most countries in the participation or attendance of officials in PDA events, and even in some cases in their serving as PDAs committee menbers. Provision of budgetary support is mentioned for seven coutries but this can serve, adds one observer, as "a most useful weapon to impose control while appearing supportive." International PDAs in six countries get tax exemptions or are allowed to import items like drugs and vehicles duty-free. In four cases, governments facilitate access by PDAs, especially women's groups, to foreign and local funds. Different countries described as supportive such measures as government-sponsored training of PDAs staff, secondment of civil servants to PDAs, giving recognition to a permanent secretariat for all PDAs operating in the country, and a political stance espousing the empowerment of people and by extension their PDA initiatives. The degree of government support in all the actions mentioned above ranges widely from strong to mild, with emphasis on the latter since many of the linkages are of a sporadic ad hoc nature.

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6. The countries are Botswana, Burkina Faso, Congo, Ghana, Lesotho, Madagascar, Mali, Somalia, Tanzania, Uganda and Zambia.

Where governments are unsupportive, or have tried to assert their control over PDAs, they make it difficult for the latter to obtain permits for their activities or, in the case of international PDAs, work permits for their foreign members. Stringent registration requirements are applied along with foreign exchange restrictions and import/export constraints, so that PDAs find themselves hard-pressed to implement programmes in a timely and efficient manner. Emergency situations, exemplified in the drought/famine crisis of 1983-85, exacerbate the tensions. In one country, for example, PDAs involved in rapidly and successfully deployed health programmes for severly affected populations came into conflict with Ministry of Health officials, who resented the lack of consultation and by-passing. At the same time emergency assistance needs had surpassed the government's capacity to respond (and officials knew it), forcing the latter to allow PDA field activities to go unchecked at the height of the crisis. The resentment persists.

Most of our correspondents, however, see a trend toward more favourable government attitudes to PDAs in the last five years. Others detect no shift, while the emergency country mentioned above reflects a less favourable outlook.

The positive attitudes emerge in the following ways: (1) greater government financial or budgetary assistance to PDAs; (2) the creation of an office attached to the Presidency which monitors PDA activities throughout the country and provides a co-ordinating, information-generating facility; (3) greater public appreciation of PDA efforts owing largely to the personal interest exhibited by a head of state (who has re-emerged into a position of power); and (4) the holding of regional workshops that have brought government officials and PDA members together specifically to explore avenues of closer collaboration. (5) PDAs themselves have also contributed to improving government attitudes as they are now better managed, more supportive of government priorities, more willing to work with and through government agencies, open to providing training for government personnel and generally exhibiting more responsibility than in the past, leading the government to accept them as serious development partners.

PDA attitudes to government

International and national PDAs in half of the countries in question relate to government in a harmonious, open and co-operative manner; in the other half they adopt a more neutral stance, keeping a respectful distance while they undertake their projects. Local community groups, however, generally maintain co-operative links with the government. No country mentions hostile, suspicious or unco-operative attitudes.

The reasons cited by individual countries for the harmonious, open and co-operative attitudes of PDAs toward government are the following: (1) the government maintains an open door policy with all groups, encouraging PDAs to call on the government for support, which they receive where possible; (2) government-PDA committees have been formed which meet to discuss matters of mutual interest; (3) PDAs accept the validity of government directives guiding their activities in terms of the national interest and ensuring an integrated approach that avoids wastage and unnecessary duplication of efforts; (4) PDAs needs government's moral support or "blessing" to gain access to communities and obtain the co-operation of local government authorities; and (5) the equitable orientation of a new government's social service policies makes it attractive, or at least acceptable, to PDAs to work collaboratively with the government than had been the case under a former regime.

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PDA relations with the private business community

Interaction between PDAs and the business community appears to be extremly limited except for occasional fund raising drives and donations in cash or kind. This is due in part to the small size of the formal business community in many countries. Some initiatives are underway, however. In one country the town councils now grant PDAs unrestricted permission to contact local business groups for fund-raising purposes. Formerly this was illegal without the express permission of the authorities on each occasion. In another country, tax-deductible contributions to PDAs encourage businesses to make donations. Still others report that government officials have been publicly exhorting the business sector to join government and PDA efforts to bring the fruits of development to the less advantaged citizenry. This posture creates a favourable climate for establishing positive PDA-business linkages.

Ways for governments to stengthen PDAs

Several measures will enable governments to encourage the growth and development of PDAs, especially national and local groups. Recommendations fall into three categories: (1) policy and outlook; (2) resources and funding; and (3) procedures.

Policy and outlook

First it should be recognised that for some countries with a Socialist perspective, PDAs are regarded with suspicion. Hence there are relatively few of them there. Even with this political climate goverments would do well at least to take PDA contributions into account in overall sectoral planning. Governments might also in future create a more positive environment for those private groups which, while not organised by the government, nonetheless undertake activities that fall within government programme priorities.

The same principle of goverments incorporating PDA accomplishments into sectoral planning data bases applies to non-Socialist countries as well. Mechanisms for involving PDAs in the process will strengthen the government's search for effective responses to people's needs, especially at the grassroots level. In addition, by participating in goverment planning efforts, PDAs will feel more committed to carrying out policies and programmes they helped formulate and at the same time will discard the negative sentiment that these are being imposed on them with little if any consultation. At the very least, PDAs welcome clear policy guidelines and consistency in their implementation.

Resources and funding

Because PDAs usually face a chronic shortage of funds and other resources, relying as they do on voluntary contributions and public goodwill, this area deserves special attention. Governments can assist by allocating funds for PDA administration and also for projects. A fixed annual budgetary allocation would help greatly as long as it does not result in undue government control over the recipient PDA or the undermining of PDA independence and flexibility. If governments are not prepared to render direct financial support, they can still help by creating favourable conditions for PDAs to gain access to credit facilities and other sources of project financing. Tax-free imports of items essential to PDA operations further expand the resource base.

Procedures

Since PDAs recognise only too well their weakness in financial administration and project management, they would welcome government assistance in the form of training programmes. Organising simpler registration procedures and workable systems with government for channeling funds from external agencies to national and local PDAs would also represent a significant breakthrough, as would government designation of a single Ministry as the focal point for PDA matters. This Ministry would not only serve PDA needs but also defend their interests before other government ministries and units.

For example, in some countries Ministries of Health apparently feel threatened by PDAs engaged in primary health care activities, often because PDA successes put the government's less laudatory efforts in a poor light by comparison. The focal Ministry charged with PDA matters could dissuade the health ministry from taking the counter-productive position of defending its turf and restricting the activities of the "offending" PDAs. Instead the focal Ministry would try to convince colleagues in the health ministry to take a broader view that encompasses PDAs as positive extensions of government in that they expand the total population reached by health services. In the long run, this kind of coverage brings credit to the government as a whole.

Ways for PDAs to develop better relations with governments

Many of the problems PDAs encounter with government stem from the latter's knowing little about what the former is doing. Better communication and information will go far toward dissipating the suspicion and mistrust that governments sometimes feel toward PDAs. Regular meetings and joint committees help, but more than that PDAs must show by word and deed that their activities fall within established government policies and objectives. In addition, by maintaining regular and closer contact with government personnel in the field, PDAs can project an image of collaborator rather than competitor. This contact will also tend to link their local level actions with national plans, a subject of concern to government. In the case of PDAs which focus their activities on a narrow constituency, as in the case of some churches for example, a broadening of their programmes to cover non-believers is appreciated by a resource-poor government health service. Openness among PDAs about the resources and technical assistance available to them will similarly build a sense of trust. Of key importance are friendly inter-personal relationships between PDA and government personnel. PDAs should, as one respondent urges:

> Be more convival! The largest problem is an attitudinal one. Government workers so often feel PDA personnel, whether local or expatriate, look down

at them as corrupt and inefficient. This is perceived by government workers as unfair as PDA staff get much higher salaries or allowances or in-kind assistance. They also get overseas support for their programmes (through church groups in donor countries, etc.). All too often the government worker has to walk to the village when the PDA staff will get there in a donated vehicle!

CONCLUSIONS AND POLICY OPTIONS

Because the greatest resource of any nation is its people, the challenge facing African governments today rests on finding more effective ways for the citizenry to emerge out of poverty and contribute to as well as benefit from development efforts. Significant changes will necessarily take place at the local level, calling for new institutional capacities, norms and roles, power sharing between the national and local levels and self-reliant beneficiary organisations. What happens in the next decade in what Korten terms the micro-policy arena may well make the difference between development or decline.

The process of reform at the grassroots level will require conscious re-thinking of structures and institutions by community members and entail corresponding behaviour changes on their part, even as higher level officials engage in a similar exercise. The active involvement of PDAs can facilitate the entire process. Given their long experience at the grassroots level -- whether as outside entities or local groups -- they can help identify appropriate strategies for this transformation. By offering community residents the opportunity to diverge from kin-based traditional group norms to more universalistic behavioural criteria for dealing with friends, neighbours and kin around a common interest, PDAs set the stage for changes which are acceptable to the people because the latter work them out themselves. From there it will not be such a quantum leap to building coalitions with other groups and forming wider networks linked by collective concerns. This more sophisticated level of larger-scale organisation will allow groupings of the poor and voiceless to make themselves heard by those in the seats of power. This in turn can lead to the kinds of policy and institutional changes at the national level that makes an equitable society a reality.

Governments that wisely recognise the strengths and potential of PDAs, especially as they move from First to Second to Third Generation entities, will take definitive steps to create the kinds of environment these groups need. They can start with four policy options:

1. Undertake structural and institutional reorganisation of the government which aims at strengthening local communities, as in decentralisation of authority from national to local levels and developing a participatory planning mode spanning all levels;

2. Emphasize the government's explicit recognition of PDAs as partners in development by incorporating the message into policy statements, legal provisions and administrative circulars, and by giving concrete evidence of collaborative ventures;

3. Acknowledge that in Africa women's PDAs make the dominant contributions to social development and economic production activities, especially at the community level, and support women's ability to continue and expand their involvement; and

4. Facilitate better communication and active collaboration between governments and PDAs through such institutional mechanisms as:

   4.1 an effective focal point in the government for linking with PDA's;

   4.2. facilitated PDA access to funds and other resources; and

   4.3. simplified operational procedures like registration and permits to work, hold activities, solicit funds, import essential items and the like.

Governments and PDAs need each other for the collective attack on poverty, hunger, disease and mal-development. As the larger and more powerful entity of the two, governments must take the initiative to assure PDAs that they are welcome partners in the struggle for a brighter future in Africa.

THE ENABLING ENVIRONMENT CONFERENCE

Nairobi, Kenya - 21-24 October 1986

"TOWARDS AN ENABLING ENVIRONMENT: INDIGENOUS PRIVATE DEVELOPMENT AGENCIES IN AFRICA"

Mr. Jacob N. Mwangi, Executive Director,
Voluntary Agencies Development Assistance (Kenya)

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I: BACKGROUND TO THE PAPER

1.1 This document attempts to describe the current status of indigenous Private Development Agencies (PDAs) in Sub-Sahara Africa and emerging issues within the context of the proposed conference on "The Enabling Environment for Effective Private Sector Contribution to Development in Sub-Sahara Africa".

1.2 The information for this paper was gathered through an initial search for relevant documentation and useful contacts for a brief survey of indigenous PDAs. The survey area covered Nigeria and Cameroon in West Africa, Zimbabwe and Malawi in Southern Africa and Kenya in the East African sub-region. The initial information search was followed by interviews with knowledgeable individuals, who provided essential information and in some instances, supplementary documentation on operations of PDAs and their areas of involvement. Information from the interviews provided the basis for making broad generalisations which were thereafter verified in personal contacts with representatives of the different 'types' of PDAs, and government officials.

1.3 The purpose of undertaking this exercise was to gather information about the operations of indigenous PDAs, with particular reference to their current thrusts and the significance of their contribution to socio-economic development, their strengths and weaknesses, constraints and concerns. The information provides a basis for analysing the environment that specifically affects PDA operations and their potential relative to the theme of the proposed conference.

1.4 Beginning with a general introductory statement, this paper attempts to arrive at a working definition that is acceptable to indigenous PDAs. The next section reviews the contribution of PDAs and provides some illustrations, drawn from the survey area, of PDA work in different sectors. This is followed by a brief look at the weaknesses and constraints that are generic to PDAs. The final section analyses the strengths and some possible opportunities which could be exploited by PDAs. These factors give substance to the conclusions and recommendations of the paper which, in essence, are posited as challenges for collaborative efforts between the three sectors - government, the private sector and PDAs.

II: CONCLUSIONS AND RECOMMENDATIONS

2.1 Emerging independent African nations, who in spite of their limited resources are expected to provide expanded economic and social services to rapidly growing populations, are sometimes uneasy about the growing role of PDAs in supplementing these services.

2.2 To improve the effectiveness of indigenous PDAs, there is a major need to resolve the constraints they face and promote greater cooperation among the three sectors - government, private business and PDAs - to accelerate national development.

2.3 The contribution of indigenous PDAs, particularly as a useful vehicle in strengthening self-reliance in the development process, has been insufficiently documented. There is an urgent need for accurate and comprehensive documentation and effective publicity of such information. The strong and important community traditions of self-help in Africa constitute the essential aspect of PDA work. PDAs should be encouraged and supported in their efforts to nurture these unique traditions.

2.4 Most African PDAs, with the exception of indigenous and traditional rural associations, are largely foreign-funded. It is necessary to develop innovative and aggressive strategies for domestic fund-raising. Such a strategy will need to aim at creating mechanisms which both increase and foster the private sector's awareness of its social responsibility, in a manner which stimulates the release of resources to PDAs. There is also a need to encourage governments to grant tax deductions to the private sector for any resources allocated to PDAs for development work, as a means of motivating such resource flows from the private sector.

2.5 In Africa, institutional infrastructures like the civil service are relatively well developed and facilitate the work of PDAs. However, encouraging localised institutions such as development committees requires more effort in creating relationships and building their management capacity through PDAs. Existing channels for meaningful and productive dialogue, linking government, private businesses and PDAs particularly in the policy and planning areas, should be urgently exploited through exchange of information. This will enhance mutual trust for greater collaboration.

2.6 Increasing public demand has led to the quantitative rather than qualitative growth of PDAs. There is now an urgent need to strengthen these institutions through training and similar capacity-building programmes. Such programmes should seek the support and collaboration of the private and public sectors and should form the basis for the establishment of advanced institutes of management and development where all three sectors can collectively train professional staff of high calibre. Existing institutions of higher learning should also be involved in this process.

III: INTRODUCTION

A: Making The Best of What We Have

3.1 Most colonised African countries experienced unequal development characterised by rural-urban and regional disparities. Post-independence development has therefore been highly sensitive both politically and socially as evidenced in the tendency of state and central governments to monopolise development management despite decentralisation programmes.

3.2 The tendency towards highly centralised bureaucracies has been especially noticeable in Francophone African states and to a slightly lesser extent in Anglophone states. This has resulted in over-extended central government bureaucracies, which have tended to stifle development. Sometimes this has led to loss of faith in the state as an agent of development.

3.3 The current development crisis in Africa could therefore be viewed as a crisis of traditional state institutions like central government bureaucracies. The exact nature of this institutional crisis differs from country to country depending on political history as well as political and economic philosophies. At the same time, this crisis has led to a noticeable trend towards considering non-profit development agencies as viable and desirable partners in development.

3.4 The increasing role of PDAs calls for a critical look at their activities and their view of such activities. Assuming that PDAs will continue to play an important development role, the crucial question is how to create a suitable environment in which they can work freely. The existence or absence of such an 'enabling environment' depends, once again, on individual countries. Such an environment does not exist in quite a few African countries, and where it does, it needs constant encouragement.

3.5 One way of overcoming the current development crisis in Africa is for all the parties involved in development work to cooperate in trying to make the best of what we have. Such parties include central government ministries, local authorities, community organisations, the private sector, foreign governments, foreign and indigenous PDAs.

3.6 The role of indigenous PDAs is underscored by the fact that ultimately, the bulk of development work in Africa will have to be done by Africans themselves. The communal spirit characteristic of rural Africa is one of the best institutions we have. In this respect, PDAs are not culturally foreign. Rather, they build on that communal tradition of self-help and as such are seen even by governments as crucial partners who help to foster the spirit of self reliance and encourage sustainable development approaches.

3.7 What then is needed to establish the spirit of partnership we advocate and the resulting enabling environment for indigenous PDAs?

3.8 Part of what is needed is an understanding of what African PDAs are currently involved in and of their current constraints and strengths. It is also necessary to understand what constitutes indigenous PDAs and their environment.

IV: DEFINING INDIGENOUS PDAs

4.1 Creating a special role for PDAs implies defining what they are vis-a-vis foreign PDAs. The distinction between foreign and local PDAs may be irrelevant to their development activities. What is important is the fact that PDAs tend to be guided by a common philosophy and common operational principles and procedures, which make it irrelevant to dwell on local and foreign distinctions. All PDAs tend to respond to certain institutional bottle necks regardless of whether they are extensions of well known international PDAs or simply local women's groups in rural areas.

4.2 Some qualities credited to PDAs generally include:

o being innovative and complementary to other institutions such as central government ministries and local communities;

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- o having managerial and educational skills needed by local communities and their leaders;
- o playing an advocacy role in the development sector;
- o being flexible in their operations;
- o demonstrating achievements and correcting failures over a relatively short period of time;
- o being able to deliver goods and services faster than conventional public institutions;
- o being able to go beyond emergency activities like relief work and engaging in actual development work.

4.3 While one would like to agree with the universal nature of PDAs as described above, one cannot help asking whether:

- o the local/foreign distinction is important in terms of availability of funds, personnel and patterns of influence;
- o the distinction is important in the organisational distribution of power as reflected in management positions;
- o the question of who initiates the PDAs is also important as is the question of whether or not the PDA is limited in its operations to one or several countries;
- o the declared objective of strengthening local institutions is demonstrated sufficiently in international PDA operations.

4.4 The above questions call for some sort of definition, whatever the disagreements about the characteristics of indigenous PDAs.

One way of trying to define indigenous PDAs is to base it on:

- o Management - the PDA should be largely managed by local people;
- o Inception - the PDA should have been initiated by local people;
- o Territory - the PDA should operate mainly in one country;
- o Resources - the PDA should generate most of its resources locally.

4.5 When the above criteria were tested against PDAs in a number of African countries, it was pointed out that flexibility was needed in defining indigenous PDAs. If the above criteria were applied strictly, many PDAs would be excluded from among indigenous PDAs even where their management felt that they were indigenous.

4.6 Given this concern for flexibility, one could define an indigenous PDA as initiated by local citizens in response to local development problems, and managed in terms of decision-making by local citizens. It could further be defined as a private tax-exempt non-profit agency, managed in a particular territory by citizens of that territory and perhaps originally initiated by citizens to solve development problems that continue to guide the objectives of the agency. Such a definition would exclude branches of multinational PDAs usually managed by non-citizens, but would include organisations which function under the umbrella of 'international' movements and organisations such as Boy Scouts, YMCA and various churches, but are autonomous in management.

4.7 Strictly speaking, however, the only groups that qualify as indigenous are local development groups such as the market women's organisations in West Africa and the thousands of Harambee groups in Kenya.

V: THE STATUS OF PDAs IN AFRICA

A: Their Role and Contribution

5.1 What do we know about PDAs in Africa? Part of this question is answered later in this section where PDA activities are briefly reviewed. In sum, we could safely say that we know a lot about their activities, of which we have little systematic evidence. This ignorance applies largely to indigenous PDAs, except in Kenya, where activities of Harambee groups are fairly well-documented. But even in Kenya, little is documented on the activities of other types of PDAs.

5.2 The extent of our ignorance about PDAs is seen in the fact that few African countries can accurately say how many PDAs work in their countries. In Kenya, for instance, it is commonly estimated that there are about 400 PDAs excluding Harambee groups.

5.3 Lack of basic data on PDAs makes it difficult to answer fundamental questions about government policies towards PDAs in Africa and the extent of their indigenisation. Nigerian PDAs, for instance, may be said to be fully indigenised, but the same cannot be said of other African countries. In terms of policy, it appears that few African governments are clear on PDAs. This again is mainly because of absence of basic data.

5.4 In Niger, the government views international PDAs purely as funding agencies, which should not be involved in project initiation and implementation. In most other African countries, the relationship between PDAs and government is much less clear although the former are generally welcome.

5.5 In spite of little knowledge of PDAs in Africa, there is enough information to give a fairly good idea of their status on the continent. One review of PDAs in Kenya has concluded that:

- o While PDAs are active in every district, they are mostly concentrated in areas of greatest poverty and need such as remote rural areas, where they complement government effort in reaching the poorest of the poor.
- o PDAs feel they have managed to reach the poorest members of society, including small-scale farmers and pastoralists.
- o PDA benefits to the community include material and technical assistance as well as provision of education and training and health care. They are

active in agriculture and rural development, business enterprise development, population activities, health and nutrition, energy and the environment, water and sanitation.

- The assistance strategy of PDAs in all sectoral activities tends to focus on community participation and decision-making. Community involvement works either through groups or established management committees composed of community leaders. PDAs are therefore highly conscious of the need to strengthen local institutional capacities for long term community growth and sustainable development.

- PDAs generally tend to have a remarkable capacity for mobilising significant amounts of human and material resources. However, indigenous Kenyan PDAs have not been successful in raising sufficient resources from the country's private sector.

- While the combined financial and management resources of PDAs may be high, they are outstripped by the existing demand for projects and services. PDAs often rely on fragile technical expertise, a thin staff and constrained financial management. They need varying levels of assistance in training and advisory services. They also need to be helped in all aspects of project development including identification, proposal writing, implementation, monitoring and evaluation.

5.6 The country-specific nature of both local and international PDAs in Africa needs emphasis. In a country like Malawi where PDAs were banned soon after independence, one neither expects nor finds many of them in spite of the recent lifting of the ban. In fact, Malawian PDAs would be called parastatals in other African countries.

5.7 Types of PDAs in Africa largely depend on the history and institutional arrangements of the various countries. In Zimbabwe, whose recent history has been one of liberation struggle, the question of when and by whom the PDA was started is crucial to its category. Because of this, Zimbabwean PDAs which were started by whites and designed to meet their minority interests had to change at independence.

5.8 One such PDA is the Voluntary Organisations in Community Enterprise (VOICE), formerly the Southern Rhodesia Council for Social Services. Zimbabwe also has a category of PDAs which were started by indigenous people during the struggle for independence, for example Christian Care. Others were started by indigenous people after independence while others still were initiated by white people and began to change before independence. The Zimbabwe Christian Council - one of the country's biggest indigenous PDAs - belongs to this category.

5.9 While existing knowledge about the role of PDAs in Africa would seem insufficient for making generalisations, it is safe to say that PDAs play a unique and indispensable role in the realm of socio-economic development. PDAs are often able to effectively mobilise grassroots groups, and are known to catalyse innovative development approaches. In addition, PDAs often function as extremely cost effective entities. Following are brief illustrative descriptions of some of the sectors within which PDAs, through their activities, have made a substantial contribution:

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B: Education

5.10 Missionary activity in colonial days was the earliest form of PDA involvement in education in Africa. This involvement continued into the 1960s after independence. Church affiliated PDAs in particular showed special concern for the plight of African youth, particularly the underprivileged, whose achievements in formal education were minimal. They have mostly tried to meet the non-formal education needs of this group of youth. Such education can be divided into several types, two of which - follow-up programmes and alternatives to formal education - are relevant to this discussion.

5.11 Follow-up could be one of the most important areas of educational involvement by indigenous PDAs. Indigenous PDAs try through their programmes to provide school leavers and drop-outs with practical skills for self-employment. The Christian Industrial Training Centres (CITCs) and the youth polytechnics movement in Kenya as well as the Zimbabwe Foundation for Education with Production (ZIMFEP) are examples of this type of programme. The collaborative spirit between the government and PDAs in Kenya is illustrated by the adoption of youth polytechnic movement into a national youth training strategy following the pioneering work in this area by the National Christian Council of Kenya.

5.12 National literacy campaigns and education for the physically handicapped deserve special mention as regards alternatives to formal education. Many African governments have stepped up adult literacy campaigns. This has resulted in a steady increase in the demand for adult literacy teachers. In Zimbabwe, the Adult Literacy Organisation of Zimbabwe (ALOZ) has successfully responded to this challenge by training an average 80 teachers a year. In 1984, there were about 350 ALOZ trained teachers for 20,000 students.

5.13 In Kenya, a 1969 survey revealed that nearly 70 percent of adult literacy students in the country had been enrolled in classes run by indigenous PDAs or self-help groups in 1965. Similar work is going on in other African countries like Nigeria, Cameroon and Malawi underlining the complementary role of PDAs to government literacy campaigns.

5.14 The physically handicapped are obviously disadvantaged in education facilities. Normal schools are not equipped to cater for the needs of the physically handicapped. Equipping schools for the latter groups is expensive and the important contribution of PDAs towards education for the handicapped cannot be over-emphasised.

5.15 Kenya is a good example in this regard. A 1981 survey shows that there were about 65 institutions in Kenya engaged in education for the physically handicapped. Twenty of them were vocational rehabilitation centres (VRCs), and the rest were special schools. Nine (45 per cent) of the VRCs were government-run, eight (40 per cent) were run by missionaries and three (15 per cent) were run by PDAs. Of the 45 special schools, 40 percent were run by local authorities and a similar number by missionaries, while the rest were run by PDAs, notably the Association for the Physically Disabled in Kenya (APDK), the National League of the Disabled and the Lions Clubs of Kenya.

5.16 The Malawi Council for the Handicapped (MACOHA) and the National Association of Societies of the Disabled (NASCOH) in Zimbabwe are good examples of PDA work in the training and rehabilitation of the handicapped.

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C: Health

5.17 The work of church missions in health care goes back to early colonial days, when mission hospitals were the only health delivery institutions in many places. Today, religious indigenous PDAs continue to make a vital contribution to health care through the maintenance of extensive networks of health care and health training facilities. Collaboration between PDAs and the public sector in this area is extensive and includes the provision of government subventions to PDA health facilities and creative initiatives such as applying the primary health care concept.

5.18 Health services are an important component of the Christian Service Committee (CSC) of the churches of Malawi. The committee has been working in health for the last 15 years. Is has built clinics in rural areas and provided medical personnel. CSC works alongside the Private Hospitals Association of Malawi. Other aspects of health services include primary health care and nutrition, and CSC and its member organisations provide 40 per cent of medical and health care in Malawi.

5.19 Private Hospital Associations exist in many African countries. Among them are international PDAs like the Red Cross, St. John's Ambulance, African Medical and Research Foundation (AMREF) and church-oriented indigenous PDAs already mentioned. AMREF is providing a wide range of health services to the less privileged. Its work includes curative and preventive health services, family planning and carrying out of medical examinations in schools. In 1981, AMREF visited at least 4,171 patients through its Flying Doctor service and immunised 10,846 people.

5.20 Family Planning Associations (FPAs) are also active in health care throughout Africa. In Kenya field educators are currently reaching some 2.5 million people through home visits, group discussions, film shows and seminars. FPA work extends beyond mere recruitment of members, and educators are mainly women recruited from women's groups.

D: Environment and Energy

5.21 The African environment has seriously deteriorated in the last decade. The alarm has been raised, making the problem a public issue in many countries. Cameroon, Malawi, Zimbabwe and Kenya have witnessed tremendous public response to the problem. Public response in Kenya has been translated by the growth of indigenous PDAs with environment conservation as the primary objective. They are involved in tree-planting, and research into alternative and more efficient forms of energy.

5.22 Environmental PDAs work closely with the Ministries of Energy and Environment and Natural Resources of the government. But in Kenya for example, they have also found it useful to work under KENGO - an umbrella organisation whose main objective is 'to link government research and effort with community resources and international resources'. KENGO was established in 1979 - 1980 in response to the energy crisis and currently has 130 registered members. Two-thirds of the members are based in the rural areas and range from very small informal groups to big organisations such as Maendeleo Ya Wanawake.

5.23 KENGO's main activities include giving technical assistance in agro-forestry to local communities, training through seminars, development of educational materials and research particularly in improved charcoal stoves. It also provides seeds to rural communities and illustrations on their planting and care. The organisation has successfully supplemented government efforts in energy and the environment. Its activities and relevance to the African situation call for closer ties with other African organisations.

E: General Rural Development

5.24 Indigenous PDAs in many parts of Africa are becoming increasingly interested and involved in rural development, and women's groups and organisations have made worthy contributions in this area.

5.25 The National Council of Women's Societies in Nigeria is an umbrella organisation which mobilises women particularly in poor rural areas and establishes incentives and concrete programmes for their increased participation in development and decision-making.

5.26 In Kenya, the Harambee movement has mobilised thousands of groups in active work involving building of schools, health centres, water projects, cattle dips, among others. It represents indigenous efforts to organise at the community level for rural development. Kenya's Women's Bureau has about 15,000 women's groups with over 572,000 members. Group sizes range between 40 and 1,000 and are found in every corner of the country, although the economically better-off provinces like Eastern, Central and Rift Valley have greater numbers.

5.27 Similar groups are active in Zimbabwe, where their main activity is food production. A 1981 survey shows that 64.5 per cent of the women's population was in agriculture as opposed to 0.75 per cent in public administration. "We carry a Heavy Load" is the Zimbabwe Women's Bureau's summary of the status of African rural women.

5.28 The impact of women's groups in rural development has not been systematically assessed. But it constitutes a critical entry point to rural areas by government development agents and by international and local PDAs, and their impact is probably more than most estimates have shown.

VI: THE WORKING ENVIRONMENT: Constraining Factors/Weaknesses

6.1 The working environment of indigenous PDAs has both constraining and enabling factors. A number of factors hinder the progress of indigenous PDAs. Some factors are common to all or most of the indigenous PDAs while others are specific to rural situations or particular economic sectors.

6.2 Traditional PDAs are largely involved in social development work, while new PDAs have entered rural and urban development with a specific technical mandate.

6.3 The fast rate of growth of technically oriented PDAs outpaced the rate of training of staff to man them. Lack of technical staff is therefore a common constraint among indigenous PDAs. A lot of indigenous PDAs have to make do with ill-trained and incompetent technical staff due to great demand for technically qualified and competent staff by government, private business and PDAs.

6.4 There is also a shortage of personnel to facilitate organisational expansion. In most cases, indigenous PDAs are understaffed, overworked and overstretched. Where there is poor pay and lack of incentives, dedication and commitment - both essential for effective running of PDAs - are lacking.

6.5 At project operation level, it is common to find field workers insufficiently trained in proposal writing even though they could identify areas of need and appropriate projects. This is a serious shortcoming when local implementing committees have little sense of direction. Technical projects are sometimes the brainchild of powerful politicians or a spillover from grassroots enthusiasm and demand. Pressure rather than developmental merit become the determining criteria.

6.6 Lack of funding - frequently mentioned as a major constraint - is sometimes related to lack of competent personnel. Due to the prevailing positive attitude to PDA work, it is very likely that a well formulated project will be funded. Many donor agencies find PDAs to be more cost effective, more innovative, better at reaching the poor, more participatory in their approach and able to disperse money faster than bureaucracies. These 'PDA advantages' have created a rapid desire to fund their work, resulting in a situation of surplus funding and difficulty in spending. Still many indigenous PDAs have serious shortage of funds. Some of them are trapped in the chicken-and-egg syndrome whereby they will only get funds if they have competent personnel, which they cannot obtain without sufficient funds.

6.7 The erratic nature of PDA funding makes long term planning difficult. Most indigenous PDAs are funded on a one-to-three year basis by external donors whose contribution accounts for an unacceptable 98 per cent of total funding. Result: management time is spent on fund-raising instead of institution-building.

6.8 Another problem relates to lack of PDA co-ordination and co-operation. They have a tendency to mind only their own programmes. There is definite need for more information exchange among PDAs to avoid duplication.

6.9 Similar coordination with government projects is needed. Information exchange between PDAs and government will remove mutual distrust between them. At the moment, neither of the two fully grasps the role of the other, hence lack of government policy on PDAs in African countries.

6.10 Transport and communications are major rural problems. Lack of the two hinders PDA work in rural areas, which also need postal services and telephones.

6.11 Commendable efforts have been made to overcome some of these problems, but a lot more needs to be done. Some of the favourable measures which have so far been implemented are discussed below.

VII: THE WORKING ENVIRONMENT: Enabling Factors/Strengths

7.1 Economic development PDAs are newcomers on the African scene, unlike health, education and social welfare PDAs. But their contribution within the short period of their existence has already made a major impact. What factors in the environment have enabled and facilitated their work?

7.2 Governments have played a major enabling role in the work of indigenous PDAs. The latter generally feel that African governments on the whole appreciate their work, evidenced, for instance, by the quick registration of apolitical PDAs.

7.3 Tax exemption is routine for all genuine cases. PDAs usually depend on material donations from abroad, and when it is clearly shown that donations are for voluntary work, customs duty is waived. Indigenous PDAs in Zimbabwe would appear to be an exception. They complained about difficulties in getting tax exemption - a privilege which is automatically extended to international PDAs.

7.4 Most countries have joint projects between government and PDAs. Malawi's CSC and Save the Children Fund run joint projects with their government, as do PDAs in Zimbabwe and Kenya. In Francophone countries, however, governments have been uneasy about the role of PDAs and apparently have not recognised PDAs' complementary role in their development efforts.

7.5 Senior civil servants are regular guests at PDA fora, where they have praised the role of the latter. At the recent launching of the Voluntary Agencies Development Assistance (VADA) in Nairobi the head of the Civil Service praised the role of PDAs. And while opening a primary health care seminar in Zimbabwe, the Health Minister told the organiser, VOICE, that the Government recognised the historical role of churches and PDAs in providing health care.

7.6 Traditionally generous rural communities have also played their part. Apart from attending PDA meetings, they have freely interacted with them. At the same time, it should be pointed out that rural communities tend to demand a lot from PDAs, at the expense of projects.

7.7 Rural institutions including women's groups, Harambee groups and Kenya and Malawi district development committees (DDCs) provide an essential network for PDA efforts.

7.8 The urban communities are more complex than rural ones. But there is good cooperation between PDAs and urban communities especially in the poor sections, where the latter's work is concentrated.

7.9 Private business is generally sympathetic to PDAs in such areas as energy development where there are commercial interests. In many countries, local fund raising involves visiting and appealing to both private and public sectors, and private businesses are known to contribute to such efforts. But this still leaves a lot to be desired. While private businesses might be interested in supporting research, for instance, many indigenous PDAs are not keen on it.

7.10 For the business community to increase its support for indigenous PDAs, it needs to be educated on the latter's role in development. Business circles, for instance, see PDAs as competing with the government - a misconception that can only be corrected through more information and education.

7.11 Political and economic ideologies play a big part in enabling or constraining PDA work. The latter generally agree that an economic ideology which emphasises a mixture of entrepreneurship and state participation is conducive to their efforts in partnership with the government.

7.12 There could be exceptions to this generalisation. Until recently in Malawi, it was very difficult for PDAs to operate freely although the country upholds a mixed economy ideology. In fact, many Malawian PDAs had to stop their work because the political environment was hostile to their existence. But the situation is changing, and is likely to lead to growth of PDAs in the country in the near future.

7.13 In Kenya, the Harambee ideology is particularly favourable to PDAs' work in rural areas. Harambee is for self-reliance and involvement in development efforts with minimal government interference. Many PDAs find it easy to link up with different types of Harambee groups. A strong co-operative movement ideology - in many ways similar to the Harambee movement - is also compatible with PDA partnership.

7.14 Institutional infrastructure is necessary to the success of PDA work. In most rural areas where institutions are few and scattered, development slows down. Sufficient and efficient institutions result from development, and areas lacking such institutions are those that have not been given priority by government and the business community. This in turn reflects lack of political and economic power in such a community - a phenomenon that poses a serious challenge to PDAs, whose objective is to reach the poorest sections of the society.

7.15 While government concern for some rural communities comes late, it always leads to the establishment of badly needed institutions, in arid and semi-arid areas, for instance.

7.16 In Kenya, the District Focus for Rural Development, which emphasises local participation, should help PDA work in arid and semi-arid areas. The approach should decentralise government machinery, bringing in a bottom-top as opposed to a top-bottom norm.

7.17 If district planning in Kenya and Malawi, where it is already government policy, is implemented, there will be a significant improvement of infrastructure in the rural areas. But it is equally worth noting that some PDAs feel threatened by District Development Committees (DDCs). This fear is based on the fact that DDCs are expected to review and approve all development projects in their districts. Previously, PDAs have not had to be vetted.

7.18 A well-established civil service, particularly in the rural areas, where respect abounds, makes it easier for PDAs to work in an atmosphere of security. Where the civil service has broken down and security is uncertain, the work of PDAs is greatly hampered. The work of ORAP (Organisation of Rural Associations for Progress) in Matabeleland, Zimbabwe, suffered a lot at the height of insecurity in 1984 and 1985. It is estimated that it will take a long time to recover from this setback. The same situation prevails in other areas of military conflict.

7.19 Church institutions provide a respected and permanent infrastructure and network favourable to PDA work. They are the only dependable institution in many rural areas. It is because of this that many PDAs are working with church or church-oriented organisations.

7.20 The important role of the church in development work cannot be over-emphasised. In many countries, organisations such as National Christian Councils are the biggest indigenous PDAs in terms of members and areas of operation. The CSC in Malawi, NCCK in Kenya and ZCC in Zimbabwe could be said to be the biggest PDAs in the three countries. In Cameroon, FEMEC (Fédération des Eglises et Missions Evangéliques du Cameroun) is perhaps the only indigenous PDA worthy of the name.

7.21 Many new PDAs are going into rural areas for the first time without an infrastructure of their own, and have found it very useful to work with the churches.

7.22 Cultural and religious values could constrain or facilitate the work of PDAs. Some religious sects, for instance, do not believe in medical treatment. Such values are detrimental to development especially when adopted as religious beliefs. Fortunately, only a minority of the African population uphold such beliefs in a continent where cultural and religious beliefs and values are very positive.

7.23 Communal welfare, mutual self-help and reciprocal work are strongly upheld traditional values by the majority of African peasants. These values easily accommodate PDA efforts. Many PDAs are emphasising the participatory mode of working for community development, which has been the natural way of doing things.

7.24 Christian charity and caring for the underprivileged is strong in most African countries, especially in rural areas. The Islamic tradition embraced by quite a big African population deserves special mention. Both Islam and Christianity, when correctly practised, have a bias in favour of the poor - a basic philosophy of PDAs.

7.25 The international community contributes a lot to the work of indigenous PDAs. The specialised agencies of the United Nations like UNDP, UNICEF, ILO, etc. provide both financial and technical assistance. They also provide ideas in so far as most of their staff are experts in different fields. On the whole, they are willing and available to participate in the numerous seminars and workshops organised by PDAs. Their literature is also a valuable resource, especially in places where such literature is both scarce and costly.

7.26 Foreign missions are another contributor to PDA work. In most cases, their contribution is in the form of donations like technical tools and instruments. Provision of scholarships for further training is another welcome gesture from foreign missions.

7.27 Interaction between PDAs is also an enabling factor. Forums for exchange of experiences and ideas are always highly valued, although they generally lack coordination - a factor which is regretted by PDAs in many countries.

7.28 Indigenous PDAs also enjoy the support of the academic community, which provides valuable resources through research and participation at seminars, workshops and training courses. The academic community also helps project

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formulation and evaluation, mostly on a consultancy basis. Some members of the academic community support indigenous PDAs' work by serving on the latter's committees and boards of management.

7.29 It should be emphasised in conclusion that without those enabling factors in the environment, PDA work in most African countries would be greatly impeded, if not actually terminated.

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THE ENABLING ENVIRONMENT CONFERENCE

Nairobi, Kenya - 21-24 October 1986

THE ENABLING ENVIRONMENT
FOR
INTERNATIONAL PRIVATE DEVELOPMENT AGENCIES (IPDAs)

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SUMMARY OF RECOMMENDATION

International PDAs

- should emphasize their role as a catalyst and partner to other institutions, particularly African PDAs;
- should work to ensure that their projects fit into a country's overall development program;
- should strengthen their own management systems, particularly in evaluation and communications;
- should continue to strengthen their role as development educators in their home countries.

African Governments:

- should consider more systematically making use of the resources and experience of IPDAs;
- should strengthen the administrative framework under which IPDAs operate in their countries.

Business:

- should encourage IPDAs' role as resources for small and micro business development, including the informal sector;
- should provide financial support to IPDAs, as an expression of corporate responsibility; including grants of blocked assets to IPDAs, for economic and social development within the respective country;
- should provide leadership in major collaborative ventures involving IPDAs and governments;
- should work closely with IPDAs to seek ways to improve business' image in individual countries.

African PDAs:

- should seek more, new ways to collaborate with and take advantage of the resources and experience of IPDAs.

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THE ENABLING ENVIRONMENT FOR INTERNATIONAL PRIVATE DEVELOPMENT AGENCIES (IPDAs)

There are at least 300 international private development agencies (IPDAs) which are trying to promote development in Sub-Saharan Africa. They go by such names as NOVIB (Netherlands), CUSO (Canada), Community Aid Abroad (Australia) and AFRICARE (USA). They provide about $1 billion dollars in development and relief assistance to Africa each year. They are, therefore, a significant -- though in some circles under-recognized -- resource for economic and social development in Africa.

This paper describes these organizations; makes a number of generalizations about their effectiveness and role in Africa; describes their relationships with each other, with African governments, and with the business sector; and makes several recommendations to strengthen the enabling environment which would improve their contributions to Africa's economic and social development.

First, however, an important working definition: Economic and Social Development in Africa means that jobs, capital and the resources to acquire desired goods and services are increasingly available to all elements of African society, prominently including those men and women not now benefiting from the formal economy -- and the basic needs like education, health and shelter, and the quality of life for all elements of African society are increasingly enhanced. Essential to economic and social development in Africa is the increasing strength of African institutions - governments, businesses, and private development organizations.

IPDA CHARACTERISTICS

International private development agencies (IPDAs) are sometimes called non-governmental organizations (NGOs), private and voluntary organizations (PVOs) or voluntary agencies (VOLAGs). IPDAs are international by virtue of operating transnationally, by having a multinational composition, or by having an educational or advocacy program which significantly addresses issues of international development. IPDAs are headquartered outside Africa, mainly in the North Atlantic and Commonwealth countries. They are private in the sense of being non-governmental; and they are not-for-profit organizations. As voluntary agencies, they are established and directed by uncompensated private individuals. And they have a declared purpose of serving the public wellbeing in some way - in the context of this paper, by supporting social and economic development in Africa. They usually have professional staffs. Their funding comes primarily from voluntary contributions from their own countries, though many also administer financial resources provided by their respective governments.

Such organizations exist in many societies, usually as the product of some individual's or group's perception of a need, and their subsequent organization of a structure to meet that need. Moreover, there is ample evidence in some countries that the PDAs play a very important role locally, particularly where government programs and the normal workings of the economy do not or can not meet commonly felt needs. In the United States, for example, this sector plays a powerful role in providing private education and health care, and makes up five percent of that country's GNP. Though less structured in Africa, African PDAs like the Harambee groups in Kenya also play a significant role in the economic and social development of those countries, as detailed in other papers prepared for this conference.

There is increasing evidence that this International PDA sector plays an important role in the economic and social development of the Third World. As noted above, IPDAs bring with them $1 billion worth of resources to Africa each year. Though more is known about PDAs in Latin America and in Asia than in Africa, there are numerous illustrations of their importance in Africa. In Burkina Faso, for example, almost twenty percent of development expenditure flows through international and African PDAs. In short, a PDA sector exists in Africa and is making a strong contribution to social and economic development.

International PDAs have been active in Africa for many years. Many of them were closely associated with Christian missionaries in the early part of the century; but more recently international PDAs from both North America and Europe tend to be secular institutions, backed by resources and individuals concerned about Africa's wellbeing. The means by which international PDAs assist Africans in their economic and social development programs vary considerably. Some are project implementors in much the same way as official bilateral assistance programs. Others provide technical assistance to local organizations or entities; and others are primarily providers of financial or in-kind resources, like the private grantmaking foundations of Europe and the United States. Of particular note are those IPDAs which view their function as institution-building or strengthening - particularly of African PDA counterparts or colleague organizations. Special mention should also be made of those which play an important role in informing and educating their own home countries' citizens about African needs and resources.

International PDAs are active in virtually all kinds of assistance programs ranging from village water projects, to training project managers, to providing credit programs for small-scale enterprise development, to administering food for work programs, to adult literacy, and so on. According to a recent InterAction survey of IPDAs from the United States which work in Africa, multi-sector community development, food production and agricultural development, and medicine and public health are the priority sectors for IPDA project aid.

It is also important to note that IPDAs represent an extraordinary array of origins, sizes, purposes and capacities. They are headquartered in nearly twenty different countries outside of Africa and work in countless different ways in their programs in Africa. This diversity, of course, presents both an opportunity and a problem. It promises for African societies many choices of partners, types of assistance, points of view, and channels to communicate with industrial countries; and it also permits diversified sources of foreign assistance. But IPDA heterogeneity can also create substantial difficulties for African governments in monitoring and relating their efforts to governmental development plans and programs. Moreover, many IPDAs - in seeking to work directly with people, free of host government restraint or bureaucratic impediment - pose a particular challenge to governments which understandably are mindful of their own prerogatives and coordinating responsibilities. Indeed, some IPDAs' orientation toward empowerment of low-income, dispossessed people is sometimes seen as threatening. IPDAs, in short, are difficult to "coordinate."

It is also important to note that international private development agencies engage virtually millions of individuals directly in their work, as key volunteers, program participants, and donors. CARE, in the USA, for instance, has over 1 million individual donors. Church-related IPDAs alone can communicate with millions of people in Europe, Australia and North America.

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Clearly, IPDAs are often very influential in the international development process, by mobilizing their constituencies, pooling their resources, concerting their action as a community, as well as by their direct program work.

THE ROLE OF IPDAs

Though dangerous to make generalizations about this very diverse group of over 300 organizations, they share a number of characteristics.

First, though there is no overwhelming consensus of IPDA performance, external evaluators and development professionals tend to agree that IPDA project assistance has been reasonably successful. Individual evaluations note particularly useful, quantifiable achievements in primary health projects, community development, credit programs, and micro and small business enterprises. There is also considerable literature suggesting that IPDAs have a "comparative advantage" over other development organizations in the broad area of human resource development - the training of Africans for a wide variety of development programs. This comparative advantage comes, in part, from the relatively low cost and people-to-people orientation of IPDAs compared to the larger infrastructures of international and bilateral assistance programs. Other areas of IPDA strength include their capacity to reach under-served rural populations and the informal sector in many urban centers, to promote participation in development projects, to adapt technologies to local conditions, and to be innovative.

On the other side of the ledger, the most frequently cited weaknesses of IPDA contributions in developing countries are the difficulty of extending or replicating their small-scale projects to a larger context; their management and technical capacity; the sustainability of their projects, since they are often so dependent on external resources and/or operate so independently of other organizations; and their often incomplete internal systems for data collection, planning and evaluation.

Second, it must be stressed that IPDAs are a form of extension of the good will of individuals and groups in so-called developed countries to bring needed resources to Africa. Their private character, therefore, stems from the varying motivations of those who created and continue to sponsor IPDA activity in Africa. Moverover, because of their relationship with publics in their own countries, IPDAs are perhaps the most important source of information and insights about Africa that exists in the industrialized nations. This "development education" capability represents an enormous resource for economic and social development in Africa, since IPDAs clearly help shape attitudes in the North about opportunities and challenges in the South.

Because IPDAs as private organizations are not directly accountable to their own governments - though many use resources from their governments to complement their private funding - and because IPDAs do not need to turn a profit on behalf of their shareholders, IPDAs have a certain freedom that many institutions in societies don't have. This freedom enables them to focus singlemindedly on helping to devise and implement strategies to enhance the wellbeing of people. It also allows them to take risks and to innovate. The freedom also, however, places some tension between IPDAs' operations and local authorities who appropriately expect some coordination and accountability. Indeed, as noted earlier, IPDAs sometime orientation to bypass local governments and to "empower" the poor is occasionally challenging and threatening to governments in developing nations -

as indeed it often challenges their home governments which must be mindful of diplomatic considerations.

IPDAs most typically seek to work with low-income people in Sub-Saharan Africa and thus have a grass-roots orientation not normally found in larger projects sponsored by governments and international organizations. Their "bottom-up" orientation in itself represents a resource for economic and social development in Africa. (There are, of course, other IPDAs which deliberately seek to work directly with local governments and business operations in the more established, formal economic sector, but they are in a minority.)

Finally, and most importantly in terms of this paper and conference, IPDAs are most effective when they are cooperating and serving as a catalyst or a bridge between other institutions, whether they are African PDAs, African governments, other IPDAs, or the business sector. In other words, IPDAs' greatest potential value comes in their partnerships with other institutions. Their relative freedom and private character enable them to bring resources together and to stimulate other institutions in a rich variety of relationships. This characteristic - and strength - can not be overstated, though there are numerous examples of IPDAs' failure to promote this partnership role.

ENABLING ENVIRONMENT FOR IPDAs

In general, IPDAs flourish and make their most effective contribution in an environment that gives maximum opportunity for IPDAs to carry out their linkage and bridge-building role. In other words, IPDAs work most effectively when they are encouraged to seek collaborative relationships with African governments, with local African PDAs and communities, with other IPDAs, with international and African businesses, and with bilateral and international assistance programs.

With African governments, experienced IPDAs like Save the Children, AMREF and AFRICARE work effectively when their contribution is acknowledged by the African government and when their resources are integrated into the development planning of the African government. Moreover, African governments can offer a range of incentives to strengthen IPDA contributions, such as the provision of tax-exempt status, the freedom to make contacts throughout the country, and the invitation to IPDAs to participate in policy discussions within their areas of expertise and experience. Such collaboration, of course, implies that the IPDAs are themselves prepared to accept the responsibilities of a guest in a host country, including consultation, respect for local regulations and priorities, and adherence to political and cultural requirements and standards.

It is with African PDAs that many observers feel international PDAs make their most effective contribution. International PDAs are most helpful when they are transferring their resources and expertise to indigenous institutions in a way that strengthens the capacity of those local institutions to carry out their own development and social programs. Many church organizations, the YMCA, OXFAM and other IPDAs are rightfully proud of their emphasis on such institution strengthening. The YMCA, for example, has helped to sponsor the independent establishment and growth of local YMCAs; and it has fostered Pan-Africanism by helping to create and now supporting the African Alliance, with 21 autonomous YMCA members. Christian Aid in the United Kingdom works almost exclusively through "partner" African organizations, like the Ethiopian Coptic Church. Similarly, many European and Canadian NGOs and several of the larger American private foundations have this institution-building priority in their funding/grantmaking programs.

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Since IPDAs have no inherent role or right to work in Africa, their transference of resources and capabilities to lasting indigenous structures is their hallmark, in the best of circumstances. Clearly the IPDAs which make the most lasting contribution to Africa are those which seek to strengthen local institutions.

In strengthening the private sector, IPDAs' role is an increasingly active one. First, many IPDAs work to strengthen or to create small and micro businesses in Africa which themselves create jobs and develop a functioning economy, particularly in rural areas and the urban informal sector. Thus, as advisors and as sources of credit for otherwise un-bankable projects, IPDAs do much to strengthen African business, particularly in the informal sector, but some in the more formal business sector - like the International Executive Service Corps from the USA.

With international business interests, IPDAs are also increasingly active, particularly US-based IPDAs. Organizations like AFRICARE or Technoserve accept grant funds from businesses to carry out programs in countries in Africa where the international business seeks to make a positive contribution to Africa beyond its business operations. Few European PDAs work closely with multinational businesses, partly because there is little tax incentive and partly because the two groups have not yet sought each other out as much as in the US.

Particularly noteworthy is the increasing practice of American IPDAs' using local currencies earned by the international business but blocked from repatriation by African governments because of international economic or foreign exchange considerations. The IPDAs, taking advantage of their capacity to receive tax deductible contributions from US corporations, represent a way to free these blocked resources for productive economic and social development purposes, administered by the IPDAs, in individual host countries. The new Fund for Private Assistance in International Development is a particularly good example of an institution working with US corporations to take advantage of US tax law and free important financial resources for economic and social development purposes. It has, for instance, brought important new resources from blocked funds held by US corporations to the International Institute for Tropical Agriculture in Nigeria.

Finally, there are numerous examples of IPDAs using international business resources in joint projects which serve both the IPDAs' mandate and the long-term or indirect interest of the business. AFRICARE's work in The Gambia with the Pharmaceutical Manufacturers' Association and related companies provides an excellent example of such collaboration. AFRICARE, with grant support from PMA, provided direct management assistance to facilitate the distribution of pharmaceutical drugs in rural areas, a project so successful that PMA subsequently extended the model to Sierra Leone.

Many - though not all - IPDAs also work closely with their own government development assistance programs or with programs of international organizations. Normally, these relationships work best when an IPDA like VITA, ITDG or PACT is extending the resources of the big donor program to local areas and to local communities which are difficult for official programs to reach effectively. In such cooperative relationships, however, the PDA's flexibility and autonomy is important to maintain if the international PDA's private character is to be preserved and remain credible with African peoples and governments.

RECOMMENDATIONS

To facilitate and enhance IPDA contribution to Africa's economic and social development and to focus IPDAs' activities where they are most welcome and effective, a number of recommendations about the optimal enabling environment for IPDAs are in order.

Recommendations for IPDAs

1. Though most IPDAs are increasingly sensitive to this need and priority, IPDAs must continue to strengthen their role as a catalyst and as a bridge to strengthen African institutions - particularly African PDAs - rather than overly protect their own autonomy and independence. There are a number of examples of IPDAs which appear to operate deliberately at a distance from local institutions and governments to give themselves the greatest freedom of action. While such a strategy might be effective in the short term, it ultimately erodes the principal strength of IPDAs and does little to promote lasting long-term institutional development in Africa. Moreover, there are increasing indications that African governments will not tolerate such aloofness. This tension between independence and collaboration with local entities is probably the toughest strategic decision most IPDAs working in Africa must make.

2. IPDAs need to view their contributions as a part of a development system within the country, not simply as individual projects with no relationship to the whole. This recommendation implies that IPDAs need to work carefully with African governments and private structures to ensure that their programs are fully compatible with African needs and priorities. It also implies that IPDAs need to be sure that their experiences are adequately documented and evaluated, and that their policy implications are carefully and regularly communicated to African governments and other local organizations.

3. Almost all informed observers of IPDAs agree that IPDAs need to evaluate, document, and publicize their role and their contributions in Africa far more systematically than they typically do today. Their bridging role and their success in many of their activities throughout Sub-Saharan Africa need to be understood better, particularly by African governments, businesses and African PDAs. IPDAs must improve their effective and professional communication with governments and businesses.

4. IPDAs should continually strengthen their role as development educators, informing and educating their home constituents about need and resources in Africa. No institutions in the northern nations are as well placed to serve this role, given the relative trust they enjoy in their home countries. European and Canadian IPDAs, and some US groups, are already seized with this priority; but much more needs to be done.

African Government Activity

5. Most important, African governments would be well advised to learn about and make efforts to integrate the capacities of IPDAs into their planning and development activities. In Sudan, for instance, Save the Children/UK is working with the Government to develop a hospital system

in Khartoum. SAVE/UK as a matter of policy works with governments, rather than African PDAs or alone, in an effort to enable the governments to extend their program. Another example is its relationship with the Ministry of Health in Zimbabwe, where SAVE is training personnel in a nationwide immunization program.

African governments might consider developing or supporting coordinating councils whereby communication among IPDAs and with the government can be encouraged and facilitated. (Examples already exist in countries like Kenya, Burkina Faso, Togo and Zambia.) And, where appropriate, IPDAs should be encouraged to participate in relevant policy discussions about economic and social development in the individual countries.

6. There are certain common measures that African governments can take to improve the administrative structure which supports and forms the framework for IPDA activity in their countries. Minimizing internal red tape in dealing with IPDAs is one such step -- and a most important one. There are some IPDAs which won't consider working in those African countries where the governments are excessively "bureaucratic" and unresponsive, or in some cases indifferent to corruption by their officials. One PDA reported that one sophisticated project agreement involving interdepartmental coordination required <u>three</u> years to be signed.

   Creating a single liaison department or focal point for IPDA activities is another step African Governments might take. (The Community Development Trust Fund in Tanzania successfully plays this role.) Granting IPDAs tax-exempt status for their activities and duty-free entry for their imports of equipment and material is another such step. Reducing the restrictions on IPDA personnel's entrance to the country and travel within the country is a third such step. And, finally, individual African governments should consider establishing a basic agreement with IPDAs that carefully defines the parameters of their work, the African government's expectations of the IPDA, the IPDA's expectations of the respective African government, and an appropriate reporting structure.

<u>Business</u>

7. As noted above, many IPDAs are effective in providing technical assistance, management assistance, and credit to encourage the growth of small-scale enterprise in Africa. Such activity should be encouraged by appropriate local structures. Individual African countries might also do well to create intermediary business-oriented structures like chambers of commerce to encourage small enterprise, as one way of coordinating and channeling the resources of the IPDAs involved in this sector.

8. The range of cooperative possibilities between IPDAs and international businesses is impressive, particularly for IPDAs and businesses from the same country in the North. Many IPDAs, for instance, already benefit from financial assistance from multinational corporations. Such grants are a convenient way for multinational corporations to express their own social responsibility and to support economic and social development activities within the country. In this way, IPDAs - particularly from the US - offer the corporations a tax deduction from

US taxes as well as a vehicle for the corporation to express its corporate citizenship within the host country.

9. There are many examples of private firms working with IPDAs in what amount to joint ventures. A typical format might be an international PDA working with local producers of a cash crop which ultimately is processed by the company. Benefiting from financial assistance from the corporation, the IPDA is carrying out an activity true to its own focus on low-income producers; and a product is produced which is directly beneficial to the business' production goals. Again an example from Kenya: a local trading firm is trying simultaneously to secure a steady mango supply for export and to serve national concerns to involve Kenyan women in enterprises, in this case, assisted by the Kenyan YWCA.

10. Businesses which have assets in local currency or property blocked and unable to be repatriated to the home office in the originating industrialized country will find IPDAs capable of accepting these resources as a grant to carry out a program serving economic or social development in the country, to the credit of the corporation and the benefit of the country. (Host governments can encourage such transactions through fiscal policies as well, as exemplified by the previously mentioned F-PAID's success in Turkey.)

11. Businesses can also take the lead in large-scale partnerships between multinational corporations, national governments, and IPDAs. For example, the Industry Council for Development (ICD) representing some 41 multinational corporations, has recently initiated an African development consortium with IPDAs to establish joint coordinating services for agro-forestry projects throughout the Sahelian region of Africa. This ambitious scheme, though still unproven, could well serve as a model for other major collaborative relationships between the three sectors.

12. IPDAs can also do much to break down the frequent local suspicion of multinational corporations' motives and benefits. Such a role implies that IPDAs themselves should seek opportunities to dialogue with business leaders and to involve them in IPDA programs as board members or other resource volunteers. Many IPDAs now resist relationships with businesses, on the assumption that their interests and motivations are too divergent.

African Private Development Agencies

13. There is no more natural and needed alliance than that between IPDAs and African PDAs. The two groups generally share goals and methods and have a common focus on the less privileged elements in the society. African PDAs should seek new ways and structures to take advantage of the resources and expertise of IPDAs. They can do much to assist IPDAs to integrate appropriately into individual countries. It is no coincidence, for example, that IPDAs are particularly active in Zimbabwe, where there are numerous African PDAs to guide them and collaborate with them. And, by their insistence on their own lead role within development activities in the country, local PDAs can encourage IPDAs to play their appropriate role as catalyst and bridge.

CONCLUSION

IPDAs are by definition bridges, poised between their home countries, where they generate their resources and have access to influence, and Africa, where they promote and support development activities. This positioning has implications for their impacts on both environments. The recent outpouring of private international aid to victims of famine in Africa reflects the potential role of IPDAs as educators of publics outside of Africa, since IPDAs played the lead role in England, the US and other countries in alerting the media and then the public to the crisis in Africa. As a result, African decisionmakers and IPDAs themselves should not focus entirely on the IPDAs as sources of funds or expertise, given this potential role as a shaper of public opinion in the affluent North. Indeed, impressive as their contributions in direct assistance to Africa may be, history may well prove that their more lasting contributions are in this consciousness-raising and educational role in the industrialized nations of the North.

$1 billion dollars each year and millions of constituents ... these are the resources that IPDAs bring to Africa. This impressive statistic and the role of IPDAs as a bridge and a partner with African governments, businesses and African PDAs - as well as their own home constituencies - bode well for a continuing and increasing contribution by international private development agencies to economic and social development in Africa.

THE ENABLING ENVIRONMENT CONFERENCE

Nairobi, Kenya - 21-24 October 1986

"AN INDIAN PERSPECTIVE ON SOCIAL RESPONSIBILITIES OF BUSINESS IN AN ENABLING ENVIRONMENT"

Dr. Nani A. Palkhivala, Director,
Tata Sons, India

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A responsible society is a joint venture between the government and the people for achieving development and enhancing the quality of life through humane and efficacious means.

In this joint venture the responsibility of the government is to provide the enabling environment which necessarily postulates a humane and efficacious policy; and the responsibility of business is to participate in development and enhancement of the quality of life.

One of the few eternal verities of economics is that growth takes place fastest under conditions of economic freedom. West Germany and East Germany, South Korea and North Korea, are classic examples of how two segments of a single people, alike in every respect, reach vastly different levels of development when one operates under conditions of freedom and the other has a state-controlled economy.

Indian socialism

India serves as perhaps the most telling example of what lack of economic freedom can do to a country. India is a singularly gifted nation, endowed with intelligence and skills, the natural resources and the spirit of enterprise needed to make it one of the powerful economies of the world. An Indian can buy from a Jew, and sell to a Scot, and yet make a profit! But see how different the reality is from the potential.

India is the fifteenth poorest nation in the world, the annual per capita income being no more than $260. It became a republic in 1950, and during the 36 years of self-rule its per capita income in real terms has risen no more than 58 per cent. Hong Kong has twice the trade of India. If Hong Kong with 0.7 per cent of India's population and less than 0.03 per cent of India's land area (without even water as a natural resource) can be so far ahead of India, it is clear that India serves as a warning in the art of economic management.

How does India manage to remain poor? The credit for that accomplishment goes to the politicians who were wedded to doctrinaire socialism and practised it as the national policy till 1984. When Mahatma Gandhi was asked whether he believed in socialism, his answer was, "No. But I believe in social justice."

Socialism is to social justice what ritual is to religion and dogma is to truth. State ownership and state control are the shells of socialism which were really intended to protect and promote the growth of the kernel; but rigid shells merely stunt its growth. The fanatical devotion to nationalisation as an end in itself and the confluence of all controls in the hands of the government made Professor J. K. Galbraith observe that in the old days the principal enemies of public enterprises were those who disapproved of socialism; while now it is the socialists themselves.

Fundamentalism is the triumph of the letter over the spirit. It spurns the lesson taught two thousand years ago that the letter killeth but the spirit giveth life. Secular fundamentalism is as dangerous as religious fundamentalism. Many socialist countries of the South today practise economic fundamentalism. The government respects the letter of socialism -- state control and state ownership -- while the spirit of social justice is left no chance of coming to life. This archaic style of socialism has become the currency in which politicians play their unending game. They have made socialism the opiate of the people. Where

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such socialism becomes the national policy, people may continue to dream of a higher standard of living but will never manage to underwrite their dream in terms of output. No amount of slogan-mongering or munificent promises can get over the basic law of economics, -- you cannot divide more than you produce.

The State is too much with the people of the South. Socialism heavily subsidises an inefficient public sector, imposes labyrinthine controls over private enterprise, and politicises the labour market. Corruption is the inevitable consequence of a system which leaves every decision to the arbitrament of bureaucrats. Further, economic freedom is inter-linked with political freedom. If profit is a dirty word today, liberty will become a dirty word tomorrow.

While it is possible to have economic growth without social justice, it is impossible to have social justice without economic growth. Economic growth without social justice is inhuman, but social justice without economic growth is impossible. And economic growth is equally impossible unless we combine the humanism of true socialism with the dynamism of private initiative which is loosely called 'capitalism'.

How many countries of the South have perpetuated poverty by their mindless belief in state ownership and state control? They have set up the public sector which can boast of a large herd of white elephants; while they have failed to tap the boundless reservoir of the peoples' response and initiative, energy and endeavour, prosaically termed "the private sector". The vital point to remember is that the public sector does not necessarily spell public good, and the private sector does not merely spell private gain.

The new Government's policy

A sea of change has taken place in the Indian national policy under the new Government of Mr. Rajiv Gandhi since the beginning of 1985. Direct taxes have been drastically lowered and the Byzantine controls have been liberalised.

We have now moved from economic theology to economic rationalism. In the words of J. M. Keynes, "Man will do the rational thing, but only after exploring all other alternatives." Today India believes in fruitful egalitarianism in place of sterile socialism. However, this is not openly admitted, because many politicians find something indecent about the naked truth.

Responsibilities of business

To Candide's optimistic dictum "This is the best of all possible worlds", the pessimist's reply was "I am afraid so". Even in 1986 India is certainly not the best of all possible Indias. Occasionally we have the triumph of hope over experience, but those are short-lived moments of Pollyanna optimism, and even the cheer-mongers are driven to rejoin the ranks of "despairing optimists".

Among the best business houses in India there is a growing consciousness of the social responsibilities of business. Gone are the days when it was held to be sufficient if a company paid reasonable wages to workers, gave quality goods to consumers, paid fair dividends to shareholders, and bore its due share of taxes.

It is increasingly realised that business is pre-eminently suited to play a vital role in the development of a nation because it can supply the four elements, the combination of which can lead to development. First, leadership -- the incalculably important factor. Secondly, organisation. Dr. Schumacher rightly said that the underdeveloped world needs three things -- education, organisation, discipline. Thirdly, human resources. Human energy and human software are indispensable. Fourthly, financial resources.

It is futile to expect everything from the government. A perceptive thinker observed that there are two categories of persons -- those who expect the political system to produce humanity and care, and those who practice humanity and care in the faith that it would produce the system.

What is required is not merely involvement but total commitment on the part of business to national development. The distinction between development and growth is crucial. In our obsession with the Gross National Product, we have forgotten Gross National Happiness. Growth is concerned with the former; development with the latter. Growth is quantitative; development is qualitative. Quantitative growth counts; but qualitative development matters. A standard of living is import; but standard of life is vital.

Gandhi's doctrine of Trusteeship

The one person who presented to the business community the Vision of Voluntarism most eloquently was Mahatma Gandhi. He taught the timeless lesson of "Obedience to the Unenforceable". According to him, the seven deadly sins were the following:

> "Commerce without ethics;
> Pleasure without conscience;
> Politics without principle;
> Knowledge without character;
> Science without humanity;
> Wealth without work;
> Worship without sacrifice."

Mahatma Gandhi believed that while there is the unacceptable face of capitalism, there is also the attractive face of capitalism. Cynicism corrupts, and absolute cynicism corrupts absolutely. The one ailment which businessmen have to guard against is fatty degeneration of conscience.

Single-minded pursuit of money improverishes the mind, shrivels the imagination, and desiccates the heart. "The golden age only comes to men", said G. K. Chesterton, "when they have, if only for a moment, forgotten gold." Mahatma Gandhi taught businessmen that you can be engaged in commerce but without having a commercialised outlook. He exhorted young men to cultivate their mind, but not merely with a view to offering it as a commodity for sale in the market place. Businessmen should go into business to do well, but stay there to do good.

It was Mahatma Gandi who evolved the doctrine of Trusteeship. Your wealth, your talent, your time and energy, are all held in trust for society at large. As he observed, once the doctrine of Trusteeship is accepted, philanthropy would disappear. A man who is only a trustee of a public charitable trust does not get kudos for merely discharging his trust and disbursing the funds for public benefit. Dr. Raghavan Iyer sums up Mahatma Gandhi's doctrine of Trusteeship in the following words:

"A trustee is one who self-consciously assumes responsibility for upholding, protecting, putting to good use whatever he possesses, acquires or earns. For an individual to be a trustee in any meaningful sense implies that he is self-governing and morally sensitive. He is acutely aware of the unmet needs of others and, simultaneously, is capable of controlling and transmuting his own appropriating tendencies. He is deeply committed to cultivating his most generous feelings and altruistic hopes for others, while consciously and patiently freeing himself from all recognised exploitative attitudes and relationships. He tries to become self-regulating, reliable and sacrificial."

Corporate philanthropy

Corporate philanthropy can be such a potent force that at a conference held in Britain in August 1985 it was called the Fifth Estate.

The social responsibilities of business can be discharged in one of three ways:

(a) The very undertaking of the enterprise may involve public service, e.g., supplying essential goods to the community at little or no profit.

(b) The manner of running the undertaking may itself result in public benefit, e.g., giving employment to the handicapped.

(c) Extra philanthropic activities, involving men, materials or money.

The quality of life

Shorn of old cliches and exhausted slogans, the quintessence of an improvement in the quality of life can be summed up under four headings:

(a) Public health and nutrition,

(b) Family planning,

(c) Education, and

(d) Ecology.

Year after year India persisted in its cardinal blunder of taking no effective steps to make investment in family planning, education, public health and nutrition, ignoring the truism that investment in human development is far more important than physical investment.

One thing is clear. Aid from the rich countries is no substitute for self-help. The under-development of a nation has never been cured by a massive transfer of wealth. No country, however rich, can develop another country merely through finance. In fact, official aid accounts for only 13 per cent of the total investment in developing countries. Dr. Drucker uttered a profound truth when he said, "There are no under-developed countries. There are only under-managed ones."

Between two and three people out of four in India have no proper sanitation and no clean drinking water. Thomas Hood's words are still true:

"Oh! God! that bread should be so dear, And flesh and blood so cheap!"

India can never make significant progress so long as the population keeps on increasing at the present rate. Every half an hour, the Indian population increases by over 1000.

It has been said that development is the best contraceptive. But development itself would not be possible if the present increase in number continues.

The rich get richer, and the poor get children which helps to keep them poor. More children does not mean more workers but more people without work. The World Bank's latest World Development Report rightly suggests that population control is one of the first imperatives of development, since economic advance is so severely diluted by rapid population growth. It is not suggested that human beings should be treated like cattle and compulsorily sterilised. But there is no alternative to family planning at a human level without introducing an element of physical coercion. The choice is really between control of population and perpetuation of poverty. Anyone familiar with Indian conditions would have no doubt that the hope of our people would die in their hungry hutments unless population control is given the topmost priority.

Article 45 of our Constitution enacts, "The State shall endeavour to provide, within a period of ten years from the commencement of this Constitution, for free and compulsory education for all children until they complete the age of fourteen years". Even 36 years after the Constitution came into force, 66 per cent of our people are literally illiterate, making meaningful democracy impossible but making it easily possible for politicians to have a vested interest in illiteracy and public ignorance.

Thomas Jefferson, one of the founders of the United States of America, remarked, "If a nation expects to be ignorant and free, it expects what never was and never will be". When a republic comes to birth, it is the leaders who produce the institutions. Later, it is the institutions which produce the leaders. The question -- where are the leaders of tomorrow? -- can only be answered by the other question -- where are the nation-building institutions which can produce the leaders of tomorrow?

Do we have educational institutions which aim at generating excellence, and which are equipped to produce "movers of people, mobilisers of opinion" -- integrated personalities whose minds, hearts and character have been developed in the noble traditions of our invaluable heritage?

I am using the word "education" in its profound sense. Animals can be trained; only human beings can be educated. Education requires personal participation and transformation. It cannot be given to anyone; it must be inwardly appropriated.

H. G. Wells wisely observed that human history is becoming more and more a race between education and catastrophe. This observation indicates what our people without education are heading for.

More than 27 million acres of tropical forests are disappearing every year, or almost an acre a second, according to the latest Report of the UN Food and Agriculture Organisation. Wood is becoming scarce, because men in their commercial greed have been causing the death of forest. In the zoo at Lusaka, there is a cage where the notice reads, "The world's most dangerous animal". Inside the cage there is no animal but a mirror where you see yourself.

The earth itself is a living organism -- an enormous being, of whom we are parts. It has its own metabolic needs and vital processes which need to be respected and preserved.

The least noticed part of the First Brandt Report, which should have met with the widest measure of agreement, was the one dealing with ecology and environment. The Report asked the question -- "Are we to leave our successors a scorched planet of advancing deserts, impoverished landscapes and ailing environment?"

India, like far too many other countries of the world, has been guilty of strident deforestation and shameful damage to ecology.

In all the aforesaid areas which touch upon human development and the quality of life, the business houses can play a leading role. The House of Tatas affords a good example of how the social responsibilities of business are being discharged in India while ensuring a fair return to the shareholders.

(a) Afforestation

Forest cover which was 43 per cent of the land mass when British rule ended, has been reduced to 11 per cent in India today.

The Tata Electric Companies and The Tata Engineering and Locomotive Co. (TELCO) have taken on programmes of afforestation. The Hydro-electric Companies have considerable catchment areas in their charge which have not only been protected but enriched over the years. Wild life flourishes. In the lakes, fisheries are cultivated and fishes are flown to different parts of the country, generating employment in other areas.

TELCO presents to each villager in a wide surrounding area, without charge, two fruit trees. The villagers will protect the fruit trees from cattle, -- which they will not do readily for other trees. Wherever forests are created, the ground water level goes up; and even at the height of summer the wells show an increase in water level.

(b) Creating rural skills and employment

The Tata Iron and Steel Co. (TISCO) has the largest social development programme of any private company in India. It runs a city (Jamshedpur) for over half a million people and its five-year rural development programme reaches 75,000 people over 300 sq. km. Its aim is to develop crop extension and village industries (like dairy and poultry) around the city. For example, where cane is available, the traditional handicraft of basket-weaving is revived. The company provides marketing for the village people.

(c) Family Planning

Family planning is dealt with by mobile health vans of TISCO. In India, as in Africa, the family unit provides social security, hence sons are valuable for the old age of parents. If parents are assured of medicare for their children, family planning is acceptable to them. So health and family planning go hand in hand.

(d) Catalysts in the Development Process

A Trust founded by Tatas started one of the first integrated rural development schemes 33 years ago. Today it acts as a catalyst, helping the villagers to get loans from the Government for lift-irrigation and other programmes. Starting its experiment in the early 1950s in a parched area, today almost every family in a group of 13 villages has a transistor and a cycle.

(e) Road building

Tata Chemicals has built up a great reputation for social service. So the State Government requested the company to undertake road building in its vicinity, -- the Government meeting half the cost of the roads, the company bearing the other half.

(f) Encouraging talent

The Tata Trusts have assisted in training five generations of scientists and engineers. They spotted and encouraged a young man who came along -- before the Hiroshima explosion in 1945 -- and said that if India could develop atomic energy it would meet its power needs of the future. The young man was Dr. Homi Bhabha, and the institution that the Trusts built around him became the cradle of India's impressive atomic energy programme.

One does not have to be necessarily a philanthropist to bestow social benefits. Companies in their own self-interest can assist in production of the goods they want, and thereby alleviate the poverty of the people. For example, in India, Cadburys have pioneered plantations of cocoa; Richardson Hindustan (better known as 'Vicks') have encouraged the growth of menthol on the hills of Northern India. There are countless ways in which industry can create wealth. The fallout is bound to benefit society at large.

In several parts of India the condition of women has improved greatly by their taking industrial jobs to which they are well suited. This way industry helps to bring about a quiet social revolution.

Appropriate technology

Dr. Schumacher, the author of 'Small is Beautiful', related how one day when he was driving through a countryside in Africa he saw a whole lot of people besieging the walls of a factory. He thought there was a minor riot. His host corrected him and explained that there was a textile mill set up by a European company with highly sophisticated equipment that absorbed only 300 workers. Everybody in that nigh-unemployment area was fighting for a job. This incident set Dr. Schumacher thinking about the benefits of "appropriate technology".

India sets great store by technology appropriate to its stage of development. Generous fiscal incentives and financial support are given to units in the small-scale and medium-scale sectors.

Divisiveness

India became independent on 15th August 1947 and since then we have observed the 15th of August every year as the Day of Independence. I have suggested that hereafter we should celebrate the 15th of August as the Day of Inter-dependence -- the dependence of the 22 States upon one another, the dependence of the different communities upon one another, the dependence of the different castes upon one another.

It is amazing how far business can help to eliminate the differences between different regions, communities and castes and thus help the cause of national integration.

Civilisation is an act of the spirit. The business world has a major role to play in disseminating the benefits of civilisation. In the words of Arnold Toynbee, "Our age will be well remembered not for its horrifying crimes nor its astonishing inventions, but because it is the first generation since the dawn of history in which mankind dared to believe it practical to make the benefits of civilisation available to the whole human race."

THE ENABLING ENVIRONMENT CONFERENCE

Nairobi, Kenya - 21-24 October 1986

"THE CORPORATE RESPONSIBILITIES OF BUSINESSES IN AFRICA"

Mr. James A. Joseph, President,
Council on Foundations

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RECOMMENDATIONS

The key recommendations in this paper are:

1. African Governments should encourage and support the development of the private sector in their countries, and in ways that contribute to economic growth, increased self-reliance and wider opportunities for wealth and income. They should support the efforts of local entrepreneurs to gain access to adequate financing and work toward the alleviation of the debt burdens of their countries.

2. African Governments and Business, both locally and internationally owned, should recognize the enlightened self-interest of both parties. Government policy should create a supportive environment for the pursuit of business activities. Business should conduct its affairs in a way that is socially responsible.

3. Business, both locally and internationally owned, should recognize its obligation not only to provide goods and services efficiently and responsibly but to contribute to the wellbeing of society as a whole.

4. Business, as it considers the means by which it exercises its responsibility, should consider each of the following models:

   a) the use of technical, management and financial resources to facilitate additional business development;

   b) cash contributions for charitable purposes;

   c) non-cash contributions -- gifts of company product, land, facilities and equipment;

   d) corporate assistance activities -- loan of company personnel, use of facilities, project leadership, etc.;

   e) collaboration with other companies, government and other entities to promote local wellbeing;

   f) joint ventures with international or indigenous PDAs;

   g) direct investment to meet some local need.

INTRODUCTION

The relationship between business and society in Africa involves a mutuality of interest. A strong private sector can contribute to economic growth, increased self-reliance and wider opportunities for the accumulation of wealth and income. Decisions made in the public sector can contribute to the growth of an indigenous private sector, attract foreign capital and create new jobs or they can stifle or discourage private investments altogether.

This paper examines the social impact of business in Africa in five major areas of activity:

1) the pursuit of daily business affairs -- developing desired goods and services, providing jobs and training, investing in technology, using local suppliers and paying taxes;

2) conducting business affairs in a way that is socially responsible -- ensuring fair employment practices, job safety, reliability and safety of product, environmental protection and the conservation of natural resources;

3) corporate philanthropy -- support of social development through cash giving that is deductible as a charitable contribution;

4) non-cash giving -- gifts of company product, land, facilities and equipment that may be deducted as a charitable contribution; and

5) corporate assistance activities -- loan of company personnel, use of facilities or services, loans or investments at below-market yield and donations of cash or products not deducted as a charitable contribution.

WHY CORPORATE PUBLIC INVOLVEMENT

A few years ago, the press in the United States and Europe gave considerable attention to the development of codes of ethics, corporate responsibility programs and other forms of public involvement by large transnational corporations. Both small and large business institutions sought to define principles, describe practices and develop programs to promote the wellbeing of society. But the notion of a mutual benefit for the company and the community is not exclusively American or European. Many countries in other parts of the world are now keenly interested in the social role of business.

Business and government leaders in Japan, for example, want to know why business leaders in the West are not satisfied with simply producing a product or providing a service that pleases customers; providing jobs that please employees; and providing profits that please shareholders? Why, in other words, are they using a portion of their profits to support and sustain communities?

At least three answers are provided:

1. The idea of civic duty. Some businessmen argue that the business institution is a corporate citizen with the rights and responsibilities of citizenship. Some even argue that the corporate charter makes the business institution a trustee of the public good. It is not simply an economic institution engaged in the business of making a profit, but a social institution which also impacts on people and their communities. Corporate philanthropy, loaned executives and leadership of local charity drives reflect a larger commitment to being a good corporate citizen.

2. The idea that corporate public involvement can provide a competitive edge. Public acts of social responsibility are sometimes aligned in such a way as to enhance the company's image or promote the company's product and goals. Now called "cause-related" marketing in the United States, this understanding of social responsibility has long historical roots.

3. The idea of enlightened self-interest. Some businessmen argue that corporate beneficence is part of the cost of doing business. The corporation, like individuals, benefits from quality educational, health, welfare, and cultural activities. And, like individuals, it is assumed also to have responsibilities to support and develop such activities. The idea of enlightened self-interest acknowledges that a) corporate existence is dependent upon the consent of the various individuals and groups whose lives it affects; b) a corporation is a social organization organized to produce goods and services in a competitive environment which gets the right to do that from the consent of these individuals and groups; c) those who have a stake in the business corporation will make claims on it; and d) the long-term, self-interest of even the shareholder depends on a corporation's ability to satisfy the claims of other "stakeholders" -- employees, customers, suppliers, creditors, communities and governments.

Each of these rationales for corporate public involvement -- the idea of civic duty, the use of various forms of corporate contributions to support marketing objectives and the idea of enlightened self-interest -- reflects to some degree the notion of corporate citizenship. Business corporations have long considered the responsibility to shareholders a primary obligation. But it is increasingly recognized that there are parallel (sometimes competing) responsibilities to a wide variety of other groups with a stake in a company's operations.

MODELS OF CORPORATE RESPONSIBILITY

It is useful to look at some examples of how businesses in Africa are responding to the needs of these stakeholder groups, helping to solve community problems and contributing to social development.

1. The Indigenous Business and Social Development Model

The idea of a free-market approach to African development is now widely promoted. While those who know Africa best regard enterprise development as an important strategy, they are quick to point to the need for other approaches as well. They worry about the continent's $175 billion debt, one-crop economies at the mercy of pricing decisions made in New York and London, and the projection that Africa's population of 432 million will triple by the year 2025.

Yet, while African entrepreneurs are severely restricted by the lack of access to international financing and the critical debt burden of their countries, the potential of enterprise development should not be minimized. The work of groups like the Ghana Business and Professional Women's Association (GBPWA) is especially worth noting. This organization provides guarantees for bank loans for women in agriculture and small-scale industries as well as marketing assistance. The GBPWA also provides technical advice and introduces appropriate technology to women's groups in the fish-smoking business and dry-season vegetable farming.

The Zonta Club, another association of Ghanaian women entrepreneurs, is involved in projects to ensure a better living standard in rural areas. The Club works with village committees in self-help projects by providing financial and material (roofing sheets, cement, timber, etc.) support.

Local entrepreneurs are not only supporting the development of additional enterprises, but many are reaching out to help improve the quality of life in their communities. In Nigeria, local businessmen are contributing cash and materials through their local Rotary Clubs to build day-care centers and youth sport facilities as well as to provide refuse bins. A wealthy businessman has set up a successful center for the handicapped and is seeking local and international cooperation. A commercial bank, The United Bank for Africa Ltd., sponsored a team of officials from the Pan-Africa Relief Foundation to assess the drought situation and the relief needs of Ethiopia.

The entrepreneurial spirit is not only alive and well in many African nations, but local entrepreneurs are doing their part to promote the general welfare. However, large-scale private sector development will require increased support from the international community and wiser allocation of development resources locally. African businesses need equity participation rather than debt. Local governments and entrepreneurs need to spend more development funds on agriculture than on glamorous projects that only add to the debt burden. With population increasing faster than food resources, more attention will need to be focused on farming. The bottom line is that while there is much that indigenous African business can do to contribute to national and local development, the private sector remains very much at the mercy of factors it cannot control. The need for greater stability in world commodity markets is only one, but an important, example.

2. The Host Country Private Foundation Model

The idea of formally setting aside some percentage of profits to be used for charitable purposes in the home country has long been a practice of multinationals. What is new is the creation of foundations in the host country.

The Coca Cola Company has recently created two independent foundations to support education, housing and business development for black South Africans. The two foundations, the Equal Opportunity Education Fund and the Equal Opportunity Development Fund, will be administered by a Board of Trustees composed predominantly of black South Africans. Members of this board include Bishop Desmond Tutu, Arthur Chaskalson (Director of the Legal Resources Centre), Gert Johnannes Gerwel (Professor at the University of Zululand). The company's initial commitment to the foundations is $10 million.

The critical feature of this approach to combatting apartheid and supporting black development in South Africa is the entrustment of all spending decisions to black and colored South Africans. These trustees were selected from a number of different constituencies through consultation with a cross-section of South African religious, political and business leaders.

This approach compares in style to the arrangements established by some Japanese firms, including Hitachi and Panasonic, in the United States, with grantmaking managed by American trustees.

3. The Home Country Grantmaking Model

Some business corporations based in one country make grants to support development in other countries.

In 1978, ITT provided a three-year grant of $600,000 to the Institute of Cultural Affairs (ICA), a Chicago-based nonprofit organization, to help fund human development projects in the rural areas of Nigeria and Korea. In addition to granting funds, ITT personnel volunteered to assist villagers in their economic and social reconstruction programs.

The results of the Ijede project in Nigeria alone included the following accomplishments by 1982:

* Four industries were created, including a sewing factory employing 25 tailors, a poultry industry with 800 hens, a motorized fishing fleet, and a community farm;

* Seventeen community buildings were constructed and 123 private residences. The road was paved and 30 mercury vapor lights were installed;

* Over the three-year period, 533 people were involved in 26 training programs, including preventive health care training for 19 health care workers.

Another example of home-country grantmaking is the $60,800 grant made by the General Electric Foundation to sponsor an innovative project to coordinate private, public and non-profit aid to Mali. This initiative is a pilot project which will test the ability of several private voluntary agencies to work together to aid one country.

The GE Foundation grant covers the cost of the detailed planning to outline the collaborative strategy of the participating agencies. Funds for the initial planning were provided by PACT (Private Agencies Collaborating Together), a New York City-based consortium of organizations engaged in relief and development efforts around the world. The project will be administered by PACT with the field work funded by USAID.

The project represents an experimental approach to development aid. It is based on the premise that all development needs are inter-related. Shared resources and coordinated planning among development agencies should lessen administrative costs while increasing the impact of each agency's efforts.

While most grantmaking activities involve cash contributions going from the home country to the host country, some companies are using blocked currencies in host countries to meet their charitable commitments.

4. The Industry Collaboration Model

One of the best examples of support for African development is the work of the Industry Council for Development (ICD) in the Sahel and Somalia. The ICD is a non-profit, non-commercial membership corporation which makes expertise from industry available on a non-commercial basis, to assist the priority economic development efforts of developing agencies. Members include 41 companies from 15 countries.

Over the past year, the Industry Council for Development inaugurated a collaborative project involving member corporations, interested private voluntary organizations, international aid agencies, governments and regional organizations to assist a priority development sector in Sub-Saharan Africa. Agroforestry in the Sahel region was chosen as the focal point, taking advantage of the complementary skills and experiences of the partners.

The concept was strongly endorsed by UNDP, the World Bank, the UN Office for Emergency Operations in Africa, UNICEF, USAID and the EEC. The choice of agroforestry in the Sahel as a priority focal point represents the consensus of a working group of representatives, including foresters, PVOs, the World Resources Institute and ICD members.

The ICD will take the lead in establishing a service center to support agroforestry development efforts in the Sahel, initially on a pilot basis. The project will be organized around a central information management mechanism. If the pilot demonstrates that significant value is added to PVO efforts in agroforestry through such a support center, establishment of a broader project will be considered.

A second example of industry collaboration is a joint venture in The Gambia and Sierra Leone between Africare and the Pharmaceutical Manufacturers Association in the United States.

Africare, an American PVO, and thirteen member companies of the Pharmaceutical Manufacturers Association of the United States collaborated successfully in a twenty-one month venture in The Gambia beginning in 1982 to help improve the management and distribution of basic pharmaceuticals to allow their broader availability in rural areas. This project grew out of a meeting in 1981 when several member companies of the PMA concluded that it would be in the industry's best interest to improve in-country infrastructures in the developing world, a perennial block to drug distribution. To do this involved identifying structural weaknesses within existing LDC distribution systems, a task beyond the resources and capabilities of the pharmaceutical companies who were not development specialists. The PMA thus decided to collaborate with a private voluntary organization with development experience in Africa, choosing Africare.

Africare provided specialist assistance to the Medical and Health Department of the Government of Gambia to help strengthen systems and practices for record-keeping, inventory control, and the distribution of pharmaceuticals. Africare also supplied the specialized equipment for the new system. Furthermore, a one-time grant from Africare of $50,000 for basic pharmaceuticals allowed the government to use that equivalent for one-time costs such as training to improve the system. The pharmaceutical participants contributed $200,000 in cash and in-kind support.

A key feature of the project was its placement from the beginning under the supervision and management of the Medical and Health Department. Evaluation has shown the new system to be working well despite the high cost of petrol and a shortage of trained personnel. This project demonstrates what can be accomplished when a dedicated national government works together with the private sector and a voluntary organization. The success of the Gambian project has stimulated a replication project in Sierra Leone involving the World Bank, UNICEF, and fourteen member companies of the PMA. The former Chief Storekeeper of the MHD in The Gambia, now retired, has been engaged as a resource person.

5. The Non-Cash Contribution Model

One of the important opportunities for contributions to African development is in the use of corporate resources in ways that do not involve direct cash contributions. It may include the contribution of equipment, know-how, services or special talents or it may involve training, the development or improvement of local infrastructure or other significant contributions that do not include the direct exchange of ca

Union Carbide, as an expression of its commitment to improving the quality of life for Zimbabweans, built and equipped a technical college in the municipality of Que Que. The college, opened in 1981, is designed to train 240 students per year in electrical and mechanical engineering skills. It was intended to alleviate a chronic shortage of trained technical personnel in the country and to discourage out-migration. The cost was $4.5 million.

In addition, the company has built and equipped nine other schools in Zimbabwe and conducts adult literacy education for 400 students at various locations.

One of the largest multinationals operating in Zimbabwe, Union Carbide employs 4,500 people. The company is committed to the welfare of these employees in many ways, offering pensions and benefit programs for secure retirement, life and accident insurance, medical aid, and subsidized housing.

In the high plateau country of Thika, a city 27 miles northeast of Nairobi, Kenya, Del Monte Corporation built one of the world's most modern food processing plants, surrounded by a plantation of 9,500 acres, four years after arquiring a major interest in Kenya Canners. The company has been diligent in providing employee and community assistance. It has built housing in eight separate villages for 12,000 people, a nursery, primary schools, and a top-quality secondary school well-known throughout Kenya. Del Monte has also been active in adult education programs and has established a three-year apprentice program in the company's automotive shop.

Del Monte has been rewarded with high employee loyalty, experiencing a turnover rate of only 3%-5% annually. The Del Monte operation provides employment for 6,500 Kenyans; an additional 5,000 jobs have been created in various supporting industries.

6. The Joint Venturing with PVO Model

We have already seen how private voluntary organizations like PACT and Africare are working with industry councils, but some PVOs also work with single companies.

In 1958, Liberian-American Mining Company (LAMCO) began construction of an iron-ore mining venture near the town of Yekepa in Liberia. Under a contract with the Liberian government, which expires in 2022, LAMCO is to mine iron ore for export only with revenues accruing to its owners in Liberia (50%), Sweden, Canada and the United States.

When LAMCO began construction of its mining operation, Yekepa was a traditional rural town. Hence, from the beginning, the company provided fully for social and infrastructural needs, including housing for its employees and a railroad to the port. In 1963, mining operations began. By 1969, acting on its own initiative, LAMCO began to organize subsidiary enterprises, including a supermarket, a housing construction firm, a transportation company, a lumber company, a furniture repair shop, and a movie theater-restaurant-hotel complex.

It soon became apparent, however, that there was a lack of local skilled manpower to manage these enterprises. Furthermore, with many inhabitants attracted to work in the mines, the area was no longer producing adequate food. Thus, in 1973, LAMCO sought the services of a private development agency to assume responsibility for the company's economic and social development programs. Partnership for Productivity (PP) was identified and in July 1974 the PP Foundation/Liberia was set up with the goal of helping the inhabitants of Yekepa town and its surrounding villages to become self-supporting by the year 2022.

The Yekepa project illustrates the need for early social development planning: PP is still struggling to overcome problems created by its late entry into the area. The first years of PP activity have indicated the following:

* the need to consider development as a slow and long-term process;

* the benefits of including an intermediary development organization from the earliest stages of planning a multinational project;

* the desirability of giving the intermediary organization full responsibility for development activities in cooperation with the multinational, the local people, and the host government;

* the importance of flexibility on the part of the intermediary in responding to local initiatives;

* the need of the intermediary organization to act as an ongoing catalyst between the local people, the multinational and the government.

While an intermediary development organization cannot prevent problems from developing, it can create a center for constructive cooperative action.

7. The Business Investment to Solve a Local Problem Model

Occasionally, a foreign company makes a business-related decision to participate in a profit-making way in solving local problems.

One example is the involvement of Monsanto in the development of an energy-saving peasant farming system in Kenya. The Kenyan farmer uses an area of his land for grazing livestock and the remainder is planted for food crops. Every few years the grazing area is rotated to cropping areas. The natural perennial grass becomes an aggressive weed pest.

To combat this, Monsanto has introduced a conservation tillage system using an environmentally safe, easy-to-use weed killer. The system has taken years to develop, including training, demonstrations, and preparation of support materials. The objectives are long-term; the profits lie in the future. But Monsanto's approach represents real participation in a developing country's basic problems.

These models reflect the wide variety of socially responsible corporate activities underway in Africa. Some are traditional with business, such as providing housing, social services and education for their employees. In some cases a company contributes funds to a development agency. In more innovative approaches, private enterprises collaborate with others in their industry and with development agencies.

No models are wrong; but the recent collaborative ventures between non-profit groups, corporations and host governments demonstrate the enormous potential that lie in pooling a variety of resources.

SOCIAL IMPACT OF CORPORATE RESPONSIBILITY STATEMENTS AND CODES

Given the many ways in which businesses contribute directly to social development in Africa, it is easy to overlook the social impact of enlightened business decisions in the straightforward pursuit of daily business affairs. Some companies have adopted codes of conduct to guide employees in all aspects of their business activities. The official code of the Caterpillar Tractor Company, for example, commits its employees to busine conduct "at a level well above the minimum required by law." It begins with a statement of ownership and investment and ends with a commitment to help improve the quality of life wherever the company does business. According to Caterpillar, "the principle of mutual benefit to the investor and the country should prevail in the case of business investment in any country ... investments must be compatible with social and economic priorities of host countries, and with local customs, tradition and sovereignty."

The Code of Ethics of Cummins Engine Company, similar in many ways to the Caterpillar code, sets standards for product quality, competitive conduct, relationship with employees, pricing, corporate facilities, relationship to local governments and the observance of local laws. Most such codes confirm the notion of enlightened self-interest, acknowledging the direct benefit of operating in accordance with standards of responsibility.

But African nations seeking to foster an appropriate relationship between the public and private sectors of their economy must also contribute to the creation of an environment conducive to responsible business practices. Governments have a right to set minimum rules of the game and investors have a right to demand that these be clearly spelled out. Even businesses with strong corporate ideals dislike being put at a competitive disadvantage for being more responsible than local customs or laws demand. So, while it is important for governments to provide a supportive regulatory climate, tax and other investment incentives that can lead to increased business activity, they should also provide an enabling environment that encourages business corporations to be responsible corporate citizens as well.

Key elements of corporate responsibility that have been found to be of special interest to some African ministers and heads of state include the following:

1. A structure which permits some local control

   Joint ventures which establish a partnership between the host country and the foreign investor ensure joint accountability as well as a mutuality of interest. Some host countries opt for majority control while others integrate local private capital with the resources of the foreign investor in other arrangements. In some instances, a license agreement where the host country pays a fee for the use of foreign technology may prove to be the most useful arrangement. In other cases, the parent company may insist on full ownership in order to ensure product uniformity and protect patents and trademarks. The host country should negotiate whatever investment arrangements and corporate forms best suit its development objectives.

2. Provisions for review of agreement

   The initial agreement serves each party best if it provides for a review, at the request of either side, at sufficient intervals of all clauses of the contract.

3. An export mission

   Where practical, depending on the form of economic activity, an agreement which requires a certain level of exports may contribute vital foreign exchange.

4. A plant location which enhances local objectives

   The decision on where to locate a plant should not be either arbitrary or casual. While there are many factors involved, some countries have successfully used plant location to facilitate demographic or employment objectives.

5. Technology transfer

Technology may take many forms. It may be embodied in physical assets such as machinery, services provided by skilled manpower or information of a technical nature. Regardless of its form, it is usually expensive and often out of the reach of host countries. Yet in order to retain quality and maintain a competitive posture, a local affiliate needs not only the transfer of the original technology, but access to the continuing refinement of that technology.

6. Training requirements

A major contribution of the foreign investor can be in the introduction of management skills, providing there is a regular program for training and upgrading members of the local labor force. It is entirely in order for the host country to write requirements of this sort into the initial contract.

7. Pricing and reinvestment of earnings

It is often argued that transfer pricing techniques are used in order for a firm to show lower profits in countries with relatively higher rates of taxation. This practice is difficult for host countries to control. To eliminate suspicion and to place the working agreement on sound footing, it may be useful to agree upon standards of disclosure at the outset. Some company codes specifically require that pricing be based on ethical business principles consistently applied throughout the enterprise.

8. Disclosure

Much of the criticism of transnational corporations and of governments which cooperate with them stems from the fact that the public is often ill-informed about the activities of foreign investors. Public disclosure should begin with the attempts to communicate the mutual benefit to the host country and the foreign investor.

9. Employment Practices

A host government should ensure fair treatment of its citizens by specifically requiring the foreign investor to select and place employees on the basis of their qualifications for the work to be performed -- without discrimination in terms of race, religion, national origin, color or sex. The corporation, in turn, should adhere to universal standards of equity, going farther than the minimum requirements of government when those requirements are either discriminatory or unnecessarily low.

10. Ethical practices

Both local companies and foreign investors should resent losing a deal because a competitor pays off an official. It is incumbent on governments to force business firms to compete solely on the basis of quality, price and service.

The sum of the matter is this: there is a growing commitment to supporting strong and equitable growth in African nations. But public sector resources are severely limited. This means that African nations must find new ways to creatively use the resources of the private sector. The first step is an enabling environment which fosters mutual benefit for the business firm and the society in which it operates.

THE ENABLING ENVIRONMENT CONFERENCE

Nairobi, Kenya - 21-24 October 1986

OVERVIEW PAPER

"THE ENABLING ENVIRONMENT FOR EFFECTIVE PRIVATE SECTOR CONTRIBUTION TO DEVELOPMENT IN SUB-SAHARAN AFRICA"

Ms. Sheila A. McLean
Consultant

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INTRODUCTION

> ...Africa remains a continent of great...potential, almost all of which has so far been untapped. African States are now most anxious that these potentials be realized so that their continent should not continue to be the weakest link in the network of world economic interdependence.
>
> Organization of African Unity, Africa's Submission to the Special Session of the United Nations General Assembly on Africa's Economic and Social Crisis, April 23, 1986, p. 13.

More than two decades ago, newly-independent African nations embarked on programs of modernization intended to accelerate social and economic development. Many of these governments turned away from private enterprise, centralizing development efforts in the state. However, expectations of rapid success have long since faded and a new generation of African leaders has, especially in recent years, intensively examined the root causes of and possible solutions for prevailing economic and social problems.

African leaders recognize that

> necessary conditions for growth are the improvement of the management of the national economies [of Africa], deep reforms in the functioning of the public sector, as well as provision of sufficient incentives to private initiatives.
>
> African Development Bank and Economic Commission on Africa, Economic Report on Africa, 1984.

In their Submission to the May 1986 Special Session of the United Nations General Assembly on Africa's Economic and Social Crisis, the Councils of Ministers of both the Organization of African Unity and the Economic Commission for Africa acknowledged that the twin challenges of development and survival, in terms of education, health, employment and other basic needs, cannot be met by state initiatives alone. The Submission outlines bold strategies calling for restructuring of key government policies. Among the strategies governments are examining is the creation of environments that will enable the private sector to participate actively in the development process through well-defined and supportive national policies. At the same time, businesses and private development agencies are considering their own future roles.

This spirit of receptivity to new approaches presents an opportunity to help foster in Sub-Saharan Africa a dialogue between governments and the private sector. **The Enabling Environment Conference** is intended to facilitate that dialogue by suggesting possible ways to promote effective private sector initiatives for African economic and social development.

The Enabling Environment Conference, in focusing on the evolving relationship between African governments and the private sector, does not advocate any one economic theory or development cure. It is, instead, an attempt to present new perspectives on issues yet unresolved. Its premise is the realization that, while public enterprises will continue to play an important role in Africa's development, there is increasing scope for private initiatives.

The Conference's starting point is the recognition that the **private sector includes both private, for-profit businesses and private, mainly non-profit, voluntary agencies that we call Private Development Agencies or PDAs.** To many people, the term "private sector" means business. While business is key to Africa's future economic growth, PDAs are also an important, often unrecognized and undervalued, private force for development. Thus, the private sector's contributions in the spheres of health, education and other social services should not be overlooked by focusing solely on its potential contributions in the economic spheres of manufacturing, mining and trade. Productive capacity and entrepreneurship are heavily dependent on health, education and other social services.

In this context, **The Enabling Environment Conference** is about fostering mutual responsibilities and trust among governments, businesses and PDAs. An enabling environment is based on policies that encourage the productive release of energies of many African people, whose initiatives previously may have been discouraged. As His Highness The Aga Khan stated in Nairobi in 1982:

> Both the development of the economy and the success of social institutions depend on the creation of the right environment for progress, an environment which enables both businesses and people to realize their full potential.

He also noted,

> The creation and extension to all areas of the nation's life of this enabling environment is the single most important factor in Third World development... If given the right environment, private enterprise can do a great deal more than simply invest, it can introduce competition and stimulate growth... Private enterprise can develop the managerial skills and organizational structures necessary for effective economic growth.

The ultimate question for this Conference, then, is:

> How can environments be created that will supplement important government initiatives and public enterprises by permitting the extensive material resources, energies, imagination and creativity of the private sector -- both people and private institutions -- to participate fully in the development process?

More specific questions to be addressed by Conference participants are:

1. How can each of the Conference's three main sectors -- government, business and PDAs -- do more to foster environments that will permit private initiatives which contribute to economic and social development?

2. As governments often have legitimate reasons for mistrusting private initiatives, how can the private sector (both businesses and PDAs) better articulate contributions they can make to development?

3. Where one sector requires special initiatives of other sectors, how can they, singly or together, produce the enabling environment in which desired contributions might be successfully implemented?

4. Acknowledging that there are many private economic and social development initiatives in Sub-Saharan African countries with less-than-enabling environments, how might the environment supporting

such initiatives be strengthened? How might successful cases be replicated and failures minimized?

Conference discussions, while not expected to produce consensus, should lead to recommended action steps. The Conference organizers hope that, following the Conference, participants will introduce representatives of governments, businesses and PDAs in their home countries to Conference ideas, and work to implement appropriate reforms.

To provide participants with a framework for debate, the Conference organizers commissioned a series of papers (see Appendix A, "Conference Papers"). When reading these papers, participants should keep in mind that:

1. Conference papers are not intended to provide definitive answers, but instead to provoke constructive thinking and starting points for debate. Emphasis is on practical and longer-term solutions.

2. Many past theories of development have not worked in practice as predicted. Today's prescriptions will benefit from critical examination and constructive debate.

3. Conference papers are divided into three broad topic areas: (1) **The Relationship of Governments and Business**, (2) **The Relationship of Governments and Private Development Agencies**, and (3) **Social Responsibility -- Building Bridges among Governments, Business and PDAs.** Many of the concerns overlap. The viewpoints of international aid agencies are also featured prominently. While increased official development assistance is a key to Africa's future development (see e.g., World Bank Paper), it is not a special focus of this Conference as it is under discussion in many other fora.

This Overview Paper attempts to synthesize discussions in Conference papers; it is not intended as a substitute for careful reading of each Conference paper. In addition, this paper often generalizes about "Sub-Saharan Africa". Clearly, Africa is not a homogeneous continent and has diverse physical and human resources, geography, ecology and traditions. For greater specificity concerning differences in countries and regions, readers should refer to Conference papers. In addition to Conference papers, this overview reflects some recent important events and a wealth of recent analysis concerning African development prospects (see Appendix B).

I. THE RELATIONSHIP OF AFRICAN GOVERNMENTS AND BUSINESS

Africa is facing a crisis in output. Business has not contributed all it might to Africa's development. What has constrained Africa's growth and the business initiatives that might increase that growth? The complex answers to this question are framed by historical background and many current external and internal constraints on business activities.

A. An Historical Perspective

Since independence, the central role of government in promoting development in many Sub-Saharan African countries has been grounded in historical realities, as well as in economic and political theories. Many Africans viewed private business, particularly expatriate or foreign investment, with suspicion. The decision of many African nations to turn from private enterprise stemmed in part from wariness of foreign exploitation. This decision was reinforced by ideologies believed correct at the time, by economic theories then popular in the international aid community, and by the political will to demonstrate African capabilities (see, e.g., Frimpong-Ansah discussion of Ghana, Tanzania and Nigeria).

As the post colonial era began, most Africans were outside the modern economy. In fact, in 1960, there were probably no more than 10 million African wage earners (see, The World Bank, Accelerated Development in Sub-Saharan Africa, 1981). African-owned and operated enterprises with more than ten employees were rare, even in the relatively advanced economies of Kenya and Zimbabwe (Ibid., citing Shankar N. Achara, "Perspectives and Problems of Development in Low Income Sub-Saharan Africa", in World Bank Staff Working Paper No. 300, 1978). Nationals of non-African origin (so-called "indigenous minorities") ran small-scale businesses, often trading firms. Africans engaged mostly in household trade and small-scale agriculture.

At independence, many new African nations required that many non-African private enterprises be absorbed by state structures. Some businesses were nationalized. As Mung'Omba and Wangwe state, "The achievement of political independence is deemed not complete unless the economy is in the hands of indigenous people".

International business interest in Africa gradually diminished. In recent years, a worldwide recession, Africa's debt problems, and political uncertainties contributed to the continued decline in international business activities in Africa, particularly in the manufacturing and banking sectors.

During this period, modest-sized and small businesses -- operated either by Africans or nationals of non-African origin -- hung on as best they could, squeezed by chronic shortages, price controls, currency restrictions and government attitudes ranging from indifference to outright hostility. At the grassroots level, people learned to cope, often with considerable ingenuity. An informal market sprang up in cities and villages, supplying a wide range of goods and services that the government was not able to provide (see Equator, Frimpong-Ansah and IFC papers).

Some multinationals have, of course, continued to be active in Africa, particularly in extractive industries. Some continue to have strong sales staffs, distribution networks, services, training and consultants, but most are not making new investments in plants. A few have started up new operations -- including H. J. Heinz Co., a large U.S.-based multinational corporation which has, in fact, newly come to Zimbabwe and Zambia. (See, Dibb study of Heinz). But most international businesses have other options. If African governments wish foreign investment, international business must be convinced that Africa is a place where they can make a profit, on the understanding that they will make a contribution to social as well as economic growth (see below, III. Social Responsibility of Business; see, also, Onitiri, Equator, IFC papers).

B. Constraints on Business Initiatives

The Organization of African Unity ("OAU"), the Economic Commission for Africa ("ECA"), the World Bank and many African governments in the 1980s have acknowledged and begun to come to terms with factors that have constrained business initiatives in Africa. These factors, as the OAU and ECA's Submission to the May 1986 Special Session of the United Nations and many of the Conference papers indicate, include long and medium-to-shorter term, external and internal constraints. There is consensus that the principal constraining factors include:

Long-term internal constraints, such as:

- high population growth rates (doubling of the population every 20 years);
- debasement of the resource base through deforestation, desertification and overgrazing;
- decline of physical infrastructure;
- weak institutional infrastructures;
- decline of self-sustaining agriculture, weakened by stress on "cash crops" for export and on rapid expansion of the industrial sector at the expense of agriculture; and
- lack of access to resources (technical assistance, training and credit) by women, especially small-scale farmers.

Long-term external constraints, such as:

- increased protectionism and tariff barriers in the North;
- repayment of large debt burdens, to both official and commercial lenders;
- need for increased concessional aid;
- exchange rate fluctuations; and
- decreased commercial financial flows.

Short-term internal constraints on business initiatives, including:

- economic policy barriers:
    - o trade and exchange rate policies;
    - o price controls;
    - o dominant role of state-owned enterprises or parastatals;
- political, legal and administrative obstacles;
- policy discrimination against smallholder agriculture;
- policy neglect of informal sector;
- small domestic markets (need to create regional markets);
- shortage of skilled managers and workers; and
- lack of credit.

C. Effect of Constraints on Private Business Activities

Constraints on business activities in Africa are analyzed in depth in the IFC, Frimpong-Ansah, Equator, Mung'Omba and Wangwe, World Bank and Onitiri papers. Summary discussion here is intended to tie together some common themes.

1. Economic Policy Reforms

The IFC summarizes suggested economic policy reforms:

> The main feature of an improved economic environment for private investment is the removal of the distortions brought about by government policy. These include correcting overvalued exchange rates and allowing the market (demand and supply of foreign exchange) to determine it, removing price controls so that it reflects the true factor and product scarcities, rationalizing the public sector with a view to reducing its size, and improving the government's day-to-day interaction with the business community.

With respect to overvalued exchange rates, Frimpong-Ansah, Equator and the IFC recommend policies that would adjust exchange rates to market as a means to:

- reduce balance of payment deficits;
- eliminate parallel markets, cross-border contraband and smuggling;
- remove artificial scarcities;
- reduce or eliminate "rents" received by those favored by administrative allocation of foreign exchange; and
- shift terms of trade in favor of those who produce for export and away from those who consume imported goods.

To reach these goals, many African governments have adopted policies designed to achieve more realistic exchange rates.

Several Conference papers focus on the importance of removing price controls, particularly for the agricultural sector. African countries, such as Zaire, Zambia, Ghana, Togo, Tanzania, Madagascar, Cameroon and Guinea, that have either deregulated markets or increased official prices, have increased agricultural output.

Rationalizing the public sector and diminishing the role of parastatals is also recommended by Conference papers. The World Bank paper states,

> An active public sector is necessary for development. But most African governments could reduce waste and take fuller advantage of existing capacity in the private sector by concentrating their scarce administrative resources on functions which only the public sector can perform.

Other Conference papers urge diminishing the role of parastatals. They recognize, however, that while the economic inefficiencies of many state-owned enterprises are widely recognized in the region, there are important political reasons why they are difficult to abandon (see, Equator, World Bank and IFC papers). That is, while suggested policy reforms are designed for positive long-term impact, on adoption, they often jolt the economy, causing short-term increased domestic prices and suffering throughout society. Many African leaders, while painfully aware of these short-term problems, have boldly instituted reforms.

2. Political, Administrative and Legal Obstacles to Business Activities

Unstable political situations prevent both international and indigenous investors from making long-term commitments, reducing foreign investment and increasing flight capital.

Mung'Omba and Wangwe, Frimpong-Ansah and the IFC emphasize that cumbersome bureaucracies and highly centralized decision-making constrain day-to-day business activities. The IFC states, "The absence of stable, predictable political and legal environments and the uneven and unpredictable application of the law constitute major obstacles to private sector development". Two of the IFC's recommendations to African governments include:

> [First]...simplify economic decision-making by increasing the role of prices and reducing administrative controls in allocating resources. This would reduce the level of corruption, red tape and bureaucratic lethargy.
>
> [Second]...reducing the scope for arbitrary political decision-making to increase predictability of the business environment and thus allay the fears and insecurities of potential investors.

3. Policy Discrimination Against Smallholder Agriculture

Many African governments today recognize the need to adjust agricultural policies to create supportive environments offering liberal pricing policies, credit, input availability, etc. A key unresolved question is how to mobilize the millions of peasant farmers, the backbone of virtually every African economy. As Equator states in "African Economic Policies and Private Investment", April 15, 1985:

> A healthy agricultural sector is the foundation on which to rebuild: it relieves the foreign exchange shortage to the extent that domestic foodstuffs replace imports and agricultural exports increase, and it gives purchasing power to the largest segment of the population. When farmers buy locally produced tools and transport services to increase their productivity, when they buy locally manufactured housewares, furniture, and clothing for themselves and their families, they create opportunities for farsighted, energetic local businessmen. Private producers will respond to opportunities.

The Equator paper for this Conference recommends, as do others, relaxation of governmental controls over the lives of small farmers, "freeing them to use their own best judgment about what to grow and where to market it".

4. Policy Neglect of Informal Sector

The IFC, Equator, Frimpong-Ansah and Onitiri papers recommend that governments provide assistance to the informal sector, a group which shares many of the problems -- including lack of access to bank credit -- of the small farmer. As Equator summarizes:

> ... the informal sector comprises small craft, trade and service activities at the edge of the money economy, often family businesses in the villages and towns -- furniture makers, bicycle repairmen, street hawkers, jitney drivers and the like.

Forty to fifty percent of the working age population in developing countries derive their livelihood from the informal sector. Many of Africa's most successful businessmen and women have started in the informal sector. It is "the incubator of private initiative" (Equator). In most African countries, entrepreneurs are at the level of family enterprise. A principal problem is how to encourage them to grow beyond the family level to where they are capable of "taking off".

In this regard, the IFC, in cooperation with the African Development Bank and the United Nations Development Programme, has recently established the African Project Development Facility which will assist entrepreneurs, possibly including those in the informal sector, to obtain loan financing for viable projects.

5. Small Domestic Markets (Creation of Viable Regional Markets)

More than half of the forty-five Sub-Saharan African countries have a total population of 5 million or less; at least ten have a population of fewer than one million. Small populations combined with low per capita income mean that the size of domestic markets in most countries is too small to sustain viable industries.

Mung'Omba and Wangwe state:

> Given the small and easily saturated nature of most domestic markets in Africa, governments should create the incentives and environment for investors not to restrict their market horizons to the national boundaries only. A combination of good exchange rate policies, less arduous machinery procurement and input sourcing regulations, and good relations with neighbouring countries (better still membership of regional trade groupings) could provide a good foundation for export orientation among businessmen.

Equator agrees and recommends fostering "geographic relationships that promote trade and production, including regional markets and trade zones, as well as strong city to hinterland and city to city trade links". The IFC, focusing on the relationship between product specialization and regional markets, recommends:

> ...considering the discouraging record of common markets in Africa and the primacy of political considerations in interstate commerce, an alternative way of creating larger markets is for states to negotiate some product specialization along bilateral or multilateral lines. One country could produce a product...and enter into long-term contracts to sell it to a member country while agreeing to enter a similar agreement on the purchase of another specific product from the other country....[reducing] the differential pace of industrialization that wrecked many regional markets in the past....

6. Shortage of Skilled Managers and Workers

Conference papers recognize that while Africa does not lack entrepreneurs, it does lack managers, particularly business people skilled at managing medium-sized and larger enterprises. Many people with entrepreneurial abilities (boldness, dynamism, leadership, willingness to take chances) have in the past channelled their energies to fields other than large-scale business management, often to the civil service or the informal sector. Many qualified Africans have also sought professional advancement outside the continent. African business activity, whether in the informal or formal sectors, would benefit from improved managerial and worker skills.

7. Lack of Credit

Several of the papers (Frimpong-Ansah, Fox and Equator) point to another factor -- the lack of credit -- as seriously inhibiting small-holders as well as other entrepreneurs of modest means. At present, commercial banks find rural lending (and other smaller loans) unprofitable because small loan administration is prohibitively expensive and risky. PDA-funded lending schemes are a recent and innovative supplement to commercial lending (e.g., Ghana Business and Professional Women's Association agricultural lending scheme discussed below). World Bank work with local development banks which lend to wider groups of entrepreneurs is also useful.

D. The Way Forward

Within the context of these recommended approaches, what do Conference papers suggest governments can do, along with PDAs and businesses, to help create enabling environments for businesses?

1. Possible Agenda for African Governments

a. Policy Reforms

Many African governments have instituted measures designed to enlarge the role of private business. Many of these reforms are still untested and some are controversial. Still, there is some evidence that reforms have helped (see IFC and World Bank papers). Conference papers suggest that African governments consider:

- Identifying clearly activities private business would be welcome to perform, backed by guarantees against nationalization, and reserving specified strategic areas for the state;

- Correcting overvalued exchange rates to protect and stimulate domestic production;

- Reducing the dominance of parastatals or state-owned enterprises (see 'b.' below);

- Relaxing government intervention in smallholder farming, the informal economy and modern manufacturing by removing price controls and marketing boards;

- Promoting further development of African entrepreneurship (see 'c.' below);

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- Instituting legal and administrative procedures designed to produce fair, consistent and predictable guidelines for what is expected of business;

- Streamlining administrative procedures to ease day-to-day business activities and discourage corruption;

- Developing policies designed to integrate the informal sector into the formal business community;

- Working with other African governments to create viable regional markets and trade zones, possibly through such regional economic communities as ECOWAS, PTA and SADCC (see, specifics recommended by Mung'Omba and Wangwe and by Onitiri), or negotiating accords on product specialization among African countries (see, IFC);

- Encouraging businesses to develop regional markets by, e.g., providing adequate export incentives and establishing inter-central bank payment arrangements;

- Recognizing the dominant role of women in African development (e.g., women currently produce most of Sub-Saharan Africa's food) and considering ways to enhance their role.

FOR CONFERENCE CONSIDERATION:

Are the policy reforms listed above the right ones? What of importance is missing?

Some specific questions for the Conference include:

- What policies should be adopted to correct overvalued exchange rates, liberalize imports and promote exports? Devaluation? Second-tier foreign exchange markets? Foreign exchange auction? Other?

- How can the objectives for which price controls are instituted (to protect consumers while assuring adequate returns to producers) be achieved without resort to price controls? What are some problems in implementing price decontrols? How can they be avoided?

- What measures can be taken to overcome the small size of domestic markets in most African countries? (i) Open boundaries between neighboring states for free movement of people and goods? (ii) Synchronize the incentive structure and overall economic policies among neighboring states? (iii) Promote joint regional efforts on product specialization?

Can businesses or PDAs help governments implement needed reforms?

b. The Special Case of Privatization of Parastatals

Many governments are focusing on economic costs of an expanding public sector and are reconsidering the appropriate balance between state-owned enterprises and private businesses (see, e.g., Equator and IFC). Policy recommendations in this regard include:

Improving the operations of parastatals by:

- ending their monopoly in particular spheres and allowing private firms to compete; or

- contracting with private firms to manage parastatals, for increased efficiency.

Alternatively, transferring parastatals to the private sector by:

- selling them outright to private buyers;
- returning enterprises to former owners under stipulated conditions (e.g., Bata Shoe Co. in the Sudan -- see, Mung'Omba and Wangwe);
- entering into a partnership arrangement with a private firm and retaining some portion of the ownership of the parastatal; or
- transfering assets to the general public, i.e., through selling shares.

FOR CONFERENCE CONSIDERATION:

How much of Africa's current economic problems can be traced to over-expanding the public sector and government support of parastatals? What are the appropriate roles of the public and private sector? Which policy recommendations relating to privatization of parastatals seem most sensible?

c. Promoting African Entrepreneurship

The vitality of existing parallel markets demonstrates that there is no shortage of African entrepreneurs. However, manifestation of that talent in the modern, business context is limited by factors including: near-absence of capital markets, limited access to credit, political favoritism in the allocation of government-controlled resources, cumbersome bureaucracies, unpredictable application of law, lack of information about markets and supply sources, and limited technical expertise.

FOR CONFERENCE CONSIDERATION:

What are the best ways to promote African entrepreneurship? What assistance should governments and international aid agencies provide to fledgling entrepreneurs? Measures that might be considered include:

- **Profiling existing and potential entrepreneurs in the modern, informal-urban and smallholder sectors;**
- **Channelling more investment resources to domestic business;**
- **Creating regional capital markets for better mobilization of local investment resources;**
- **Instituting appropriate inducements to reverse capital and human flight;**
- **With the assistance of donor agencies, establishing information banks accessible to African entrepreneurs about sources of equipment and materials, potential financing, potential partners, market conditions and market potentials elsewhere;**
- **Providing special technical and financial assistance to smallholder and entrepreneurs in the informal sector;**
- **Assisting the creation of indigenous regional consulting firms in engineering, finance and other business fields that could gradually replace the need for outside expertise;**

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- Assisting the creation of business-sponsored regional (or continent-wide) entrepreneurial cooperative councils for exchange of information on markets and investment opportunities and creation of a sense of an Africa-wide business community;

- Considering, as Mung'Omba and Wangwe recommend, that governments enter joint ventures with local businesses, with government supplying indigenous businesses access to capital, business managing the venture, and government retaining control;

- With the assistance of donor agencies, identifying and implementing simple technologies that have been developed elsewhere and that are appropriate and replicable in Africa.

d. Administrative Reforms and Improved Legal Systems

Inconsistent legal and cumbersome administrative procedures coupled with excessive red-tape and high centralization of decision-making constrain normal day-to-day business activities and foster corruption. Mung'Omba and Wangwe suggest, e.g., that governments publish clear criteria for decision-making and the expected completion time for every government step. In addition, perhaps through local chambers of commerce, businesses might work with governments to encourage administrative reforms.

FOR CONFERENCE CONSIDERATION:

What are the major components of, and the best ways of accomplishing, improved legal and administrative systems for business?

e. Promoting Foreign Investment

Foreign investment augments domestic savings, brings foreign exchange and is a vehicle for the transfer of technology and know-how. To attract international business, Mung'Omba and Wangwe suggest:

- Addressing persistent problems of payment arrears and repatriation of profits by (1) requesting foreign investors to reinvest dividends in exchange for additional investment incentives; (2) allowing exporters to retain export earnings; or (3) considering donation of blocked assets (discussed below).

- Addressing fears of nationalization by instituting dispute settlement mechanisms, preferably arbitration.

On the other hand, governments may be concerned that as foreign or international firms may have few links with the rest of the economy and, because of protection and price distortions in the domestic economy, may make more from the country than they bring in.

FOR CONFERENCE CONSIDERATION:

How can the type of foreign investment that most contributes to economic growth be attracted? How can the benefits of attracting international investment be maximized and the costs be minimized? What incentives are needed? liberal trade and foreign exchange policies? liberal policies for profit remittance and debt service repatriation? tax holidays? ease of exit and re-entry of expatriate personnel? other?

f. Fostering Concept of Social Responsibility of Business

Some African governments might consider stating that while they welcome international business, they also expect businesses to commit resources for development objectives. In addition, those governments that have strongly enforced income tax regulations might consider allowing tax deductions for contributions to PDAs, thereby providing new sources of support for social and economic development projects.

FOR CONFERENCE CONSIDERATION:

How can governments foster the concept of the social responsibility of business? Policy statements encouraging social responsibility? Tax policies that foster contributions of resources? Other?

2. Possible Agenda for Business

a. Business Conformance with National Priorities

Business can profit by being sensitive to government priorities. In addition, it is important that businesses articulate to government and the informed public how they conform with national priorities. (See, e.g., Dibb's Heinz case study.)

FOR CONFERENCE CONSIDERATION:

Are there adequate mechanisms for businesses to interact with government to assure that their activities conform with national priorities? If not, what would promote such interaction?

b. Help to Create Regional Markets

There is a consensus that too-small country markets inhibit growth of African economies and that development of regional markets is essential. The IFC suggests that multinationals are in a good position to contribute to regional integration by building multinational markets. Indigenous businesses can, for their part, create interstate co-operative councils for exchange of information on markets.

FOR CONFERENCE CONSIDERATION:

How can businesses work toward creation of regional markets?

c. Strengthen the "Social Responsibility" of Business

Within African traditions of communality and voluntarism, many businesses recognize their responsibility for social as well as economic development. The IFC recommends that consistent with their profit orientation, the business community should contribute to national development and become effective participants in that process. See, Section III of this paper.

FOR CONFERENCE CONSIDERATION:

Should dissemination of increased knowledge of African traditions of voluntarism be encouraged in order to foster the growth of business' social responsibility?

3. Collective Agenda for Governments, Businesses and PDAs

a. Training

Conference papers stress the need for worker and management training. As traditional approaches to training are not always appropriate for smallholders or self-employed persons in the informal sector, some new approaches for consideration are:

i. PDAs have been successful in reaching some smallholders and some in the urban, informal sector. Business and governments might wish to collaborate in replicating successful PDA projects or funding additional projects.

ii. Equator suggests using telecommunications -- including radio -- to increase education reaching rural areas.

iii. The IFC is working with African governments to develop African entrepreneurship and managerial capabilities.

iv. The IFC's proposed African Management Services Company plans to tap the worldwide reservoir of qualified senior executives, assist in training indigenous managers, and provide back-up support. In addition, the IFC proposes that international donors finance a project to recruit qualified Africans working in industrialized countries to fill senior technical and managerial positions in Africa.

v. Businesses should continue existing training programs and develop additional programs to fill management positions with local talent.

FOR CONFERENCE CONSIDERATION:

What are good examples of training programs of governments, businesses and PDAs that can serve as models for replication? Would Africa benefit from a new, ongoing approach to training, such as a new institute devoted to training managers for business and government?

b. Re-Training

Many workers in public enterprises face unemployment because of drastic cut-backs in parastatals and government bureaucracies. These workers face severe economic hardships, that, in turn, create political pressures on governments. Businesses and PDAs might use their expertise to help governments design and implement re-training programs for these workers, with emphasis on practical skills needed by businesses and PDAs.

FOR CONFERENCE CONSIDERATION:

Are there good examples of successful re-training programs for released employees of public enterprises? How can such training programs be developed?

c. Technical Assistance to Smallholder and Informal Sector

Both governments and large-scale businesses can do more than training to assist both small-scale agriculture and the informal sector. They can offer such services as marketing, design, quality control and general management advice.

FOR CONFERENCE CONSIDERATION:

Through what mechanisms and following what model can governments and large-scale businesses work with small-scale entrepreneurs and farmers to provide a range of needed services -- marketing, design, quality control, management advice -- in addition to training?

d. Policy Dialogue

Papers suggest that it is helpful to government and business to interact in a structured and sustained way. The government of Kenya, through an innovative consultative committee between industry and government, has recently instituted a dialogue resulting in significant policy changes. Mung'Omba and Wangwe suggest yet another approach: establishing sectoral associations (e.g., food manufacturers) composed of representatives of business (both indigenous and international), public enterprises engaged in that sector and governments.

FOR CONFERENCE CONSIDERATION:

How can policy dialogue among governments and business be encouraged? Has the Kenyan-type consultative process been followed elsewhere? If so, what special features might be replicated? What other consultative mechanisms might be established, e.g., sectoral associations?

II. THE RELATIONSHIP OF AFRICAN GOVERNMENTS AND PRIVATE DEVELOPMENT AGENCIES

The term "private sector" means "business" to many people concerned with African development. In fact, Private Development Agencies provide important but too often undervalued additional private initiatives for development.

A. An Historical Perspective

In many post-colonial African countries, political and historical realities dictated a large role for state-led initiatives in health, education and other social services. New leaders were sensitive to the demands of their people for these services. Political realities also dictated quick response to employment demands from those who had fought the battles for independence. New governments responded by rapidly expanding public social services, by making large-scale investment in facilities, and by enlarging the civil service. Incentives for private health care or education were rare. In spite of the lack of an encouraging environment, there has been a remarkable growth in the number and types of PDAs active in Sub-Saharan Africa.

B. Definition: Private Development Agencies in Africa

1. What are Private Development Agencies?

PDAs are not homogeneous. They comprehend a rich variety of formal organizations and informal associations, which have as their common characteristics, that they are usually non-profit*, non-governmental, often voluntary in nature, and work for the public well-being.

Major strengths of PDAs include the ability to:

- reach the grassroots, especially the rural poor in unserved, inacessible areas;

- institute a sense of self-worth by involving recipients in designing, implementing and evaluating assistance programs;

- mobilize both indigenous and international resources for project development; including volunteers who would not typically be involved in development projects;

- adapt simple, often innovative, technology to local conditions;

- assist small business through integrated programs of credit, training and other technical assistance;

- implement flexible, low-cost and effective approaches to development.

PDAs in Africa are both "indigenous" and "international". International PDAs are headquartered outside Africa, and operate transnationally, though they may have branches in African countries. As Fox states, international PDAs are by definition "bridges", poised between their home countries and Africa.

The quarter-century after independence has seen many international PDAs consolidating their roles as major providers of health, social welfare, educational, environmental and other services. More recently, they have provided technical assistance to small enterprises, including financing, credit or in-kind help (e.g., Technoserve, a U.S.-headquartered international PDA, provides accounting and marketing assistance).

Recent years have witnessed a marked increase in indigenous African PDAs, defined here as "initiated by local citizens, in response to local development problems, and managed by local citizens" (VADA paper). In some cases, governments have encouraged the formation of local organizations to work for rural development. In Kenya, for example, the celebrated "Harambee" movement mobilized thousands of groups "actively involved in rural development work such as schools, health centers, water projects, livestock, cattle dips and bee-keeping" (VADA paper).

2. What are PDA activities?

PDAs -- African and international -- conduct activities that run the gamut from traditional direct provision of social services to initiation of innovative enterprise development projects. Some PDAs undertake experimental projects, often

*"Non-profit" does not necessarily mean free of charge. Many of the best health and education PDAs charge fees to generate a surplus that is used to subsidize services or offset losses in other parts of the system, e.g., christian mission schools; the Shaban Roberts School Trust in Tanzania; the Aga Khan Hospital in Nairobi.

against conventional wisdom and sometimes shunning close collaboration with government or business. Some large-scale PDAs may be alternatives to public enterprises by running private hospitals, schools, health clinics and specialized training programs (e.g., training health care workers), sometimes in cooperation with government programs. Save The Children Fund U.K., in fact, emphasizes cooperative relations with governments to assure that it leaves behind lasting contributions. The Aga Khan High School in Mombasa, Kenya, provides an interesting example of an indigenous PDA that is privately run but partially funded by the government. The Kenyan government pays a portion of teachers' salaries and helps assure quality through representation on the school board.

A few international PDAs that are "private foundations" provide innovative funding to African PDAs from their endowments for a range of development activities. These foundations do not themselves conduct projects. There are some African foundations that explicitly emulate these international foundations (e.g., the Omole Foundation established in 1985 in Nigeria promotes education and relief of hunger and disease).

By contrast, some local operating PDAs are poorly financed and depend on local benefactors and volunteers. These PDAs have neither the capacity nor the interest to expand. Still others are ad hoc responses to emergency situations (e.g., African musicians organized their own benefit concerts for famine victims long before Live Aid and Band Aid).

Other PDAs seek to build their capacity to become self-sufficient over time; their greatest need is seed money for capital expenditures and start-up activities; and they may provide interesting models for others (e.g., the Ghana Business and Professional Women's Association provides bank loan guarantees for women in agriculture and small-scale industries as well as marketing and other technical assistance).

The range of organizations and activities encompassed by the term "PDA" highlights its character as a "movement", rather than an easily-defined sector. In summary, as the VADA paper states:

> It would be accurate to say that we know a lot about PDA activities in Africa but we have little systematically documented evidence of the activities.

3. What resources do PDAs mobilize for Africa?

Even without such data, partial figures and anecdotal evidence indicate that PDAs are contributing to Africa's development. International PDAs provide about $1 billion annually in development and relief assistance to Africa. CARE, a U.S.-headquartered PDA that works in Africa as well as other third-world regions, has an annual operating budget of about $350 million, about the same as the official development assistance budget of the government of Switzerland. Two German PDAs, Misericor and Bread for the World, each have annual budgets of about $140 million, most of which is spent in Africa. In some African countries, PDA-generated assistance represents a major percentage of all aid received (e.g., 13% of all aid to Burkina Faso comes from international PDAs). In Kenya, 40% of all health care is provided through PDAs. In Malawi, one large PDA entity, the Christian Services Committee of the Churches of Malawi, provides 40% of all health services. It is conservatively estimated that 14% of the total overseas development assistance inflow to Africa comes through PDAs at the present time, and many donor agencies are making strong efforts to channel an increasing

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proportion of their assistance through PDAs. In its 1986 fiscal year, for example, the U.S. Agency for International Development channelled $650 million through PDAs, with the bulk going to Africa. In the same year, the Overseas Development Administration of the United Kingdom provided £32.5 million to PDAs. The World Bank states that while PDAs currently play a small role in Bank-assisted projects in Africa, "the Bank experience with PDAs is growing and, in the main, positive." By contrast, a year earlier, the net inflow into Africa from private business sources (including banks) was minus $700 million.

Many African governments and people welcome the new vitality of the African PDAs, and recognize their potential importance as a pluralizing force in settings often characterized by single party control of government and public sector patronage. The PDA movement warrants greater attention, so that PDA development activities can be complementary to those of government and business.

C. PDAs in Africa: Opportunities and Concerns

As pressures on health, education and other social welfare budgets of African governments have intensified, choices and tradeoffs in these programs have become more difficult. PDAs can help governments in this regard. They can contribute to good resource allocation through cost-effective, replicable projects, persistence in carrying out difficult programs, effective decentralization of services, wider transfer of new technologies and delivery of appropriate training and technical assistance at the grassroots. PDAs can also be links to business. International PDAs presently have ties with multinational businesses that provide help through tax-deductible gifts, in-kind assistance and training. Increasingly bilateral and multilateral aid agencies and African governments are channelling funds through PDAs, often finding them effective and flexible mechanisms to reach African people. In this regard, recent reports of the OECD's Development Assistance Committee reinforce this perception of PDAs as efficient and effective links between official development assistance and grassroots organizations. PDA strengths can be enhanced in ways suggested by Conference papers.

1. Concerns Common to Indigenous and International PDAs

   a. While PDAs make valuable contributions, they share the need for:

      - better documentation and articulation of their accomplishments;

      - improved management;

      - strengthened evaluative capabilities;

      - improved coordination with other PDAs;

      - constructive solutions to excessive government red tape and bureaucratic delays;

   b. Politics -- either of African states or donor governments -- often determine whether a PDA can work in a country.

2. Special Concerns of Indigenous PDAs

   a. Indigenous PDAs are often underfinanced and have not developed sophisticated fund-raising techniques. In addition, more than 90% of indigenous PDA funding presently comes from foreign sources. Indigenous

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PDAs need to diversify and increase their support, particularly from local sources.

b. Indigenous PDAs face special problems in undertaking enterprise development projects, which often require technical skills that are in short supply.

3. Special Concerns of International PDAs

International PDAs have the special concern of host governments' accepting the service role of foreign organizations working on problems in their jurisdictions.

D. The Way Forward

The VADA, Fox, World Bank, Onitiri and Racelis papers suggest the following ways to enhance PDA contributions to development.

1. A Possible Agenda for African Governments

a. Administrative and Operational Reforms

i. Guidelines for International PDAs

Governments might publish general guidelines to facilitate international PDAs working locally. Such guidelines should not stifle creative activities of PDAs, but might attempt to assure that PDAs (1) work on important problems such as health, education, agriculture and enterprise development, (2) demonstrate acceptable standards of financial accountability, (3) are non-political and (4) have programs open to broadly-based communities.

ii. Framework Agreements

Governments may wish to institute announced, standardized framework agreements for international PDAs, covering tax treatments and customs duties as well as mutually agreed targets, e.g., immunization within five years. Such "framework agreements" would encourage PDAs to see their work in a general context, rather than on a project-by-project basis.

iii. Government Recognition of PDAs

Governments should adopt policies that explicitly recognize PDAs as partners in development (especially PDAs that support women's contributions to development). (See, Racelis.)

iv. Administrative Reforms

Governments might simplify operational procedures for PDAs (e.g., registration, work permits, requirements for solicitation of funds) and award certain tax and customs privileges for essential goods. Single government liaison departments for working with PDAs, e.g., Tanzania, are helpful (see Fox and Racelis). Governments might support coordinating councils for communications among PDAs and representatives of government, both at the national and local levels. Examples already exist in Togo, Zambia and elsewhere.

FOR CONFERENCE CONSIDERATION:

(i) Should governments publish general guidelines for permitting international PDAs to work locally? (ii) Should governments provide announced standardized framework agreements covering such matters as tax treatment and customs duties? If so, would it be helpful to design one, in cooperation with a government, to serve as a model? (iii) What mechanisms would enable PDAs to achieve explicit recognition of governments as partners in development? Is there a need for special mechanisms that recognize women's contributions to development? (iv) What administrative reforms by governments would encourage PDA activities? Should governments establish a single unit responsible for relations with PDAs? Should governments publish guidelines for PDA activities?

b. Tax Incentives for Giving

In the United States, Canada, India, Pakistan and the United Kingdom, tax deductibility of charitable contributions is believed to encourage business and individual contributions to PDAs. African governments might consider mechanisms to strengthen PDAs financially through tax deductions for contributions to PDAs. (See VADA, Fox, Racelis).

FOR CONFERENCE CONSIDERATION:

Should more African governments allow tax deductions to businesses and individuals for contributions to qualified PDAs?

c. Blocked Assets Contributions

To preserve foreign exchange, some governments do not allow businesses to take profits or other assets out of the country. Host countries, which benefit from this practice, could make it easier for businesses to donate blocked currency to PDAs. In addition, host governments might emulate the U.S. practice of tax deductions for donations of blocked assets. (See, Fox, Mung'Omba and Wangwe.)

FOR CONFERENCE CONSIDERATION:

International businesses consider the problem of blocked assets a serious one, and many deplore the practice. Would instituting tax deductions for donations of blocked assets be interpreted by some governments as an excuse to maintain the practice? Alternatively, would governments accept this mechanism as useful to PDAs? Should contributions of blocked currency to indigenous PDAs be encouraged?

d. In-Kind Government Support to PDAs

PDAs, wishing to preserve their independence, sometimes to not accept government funding, (see, e.g., International Council of Voluntary Agencies 1985 Guidelines on Accepting Government Funding). Many PDAs do, however, need logistical and policy support, particularly from provincial and local governments, e.g., support for cooperatives started by PDAs.

FOR CONFERENCE CONSIDERATION:

What kinds of government support do PDAs consider the most valuable? Funding? lending of personnal or equipment? other? Would such support interfere with the independence of PDAs?

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2. A Possible Common Agenda for Indigenous and International PDAs

a. Cooperation Among PDAs

International PDAs, as guests of a country, work best by helping indigenous PDAs through (a) providing resources to and strengthening capabilities of indigenous PDAs, and (b) developing support with home governments and publics for overseas development work. There is a strong trend among such major funding PDAs as the Ford Foundation, Euro-Action Accord, Oxfam and the Aga Khan Foundation and major international technical assistance PDAs to collaborate with indigenous PDAs.

FOR CONFERENCE CONSIDERATION:

What cooperative efforts between indigenous and international PDAs, and between PDA and governments, have been successful?

b. PDAs as Intermediaries

PDAs are sometimes "intermediaries", contracting with international business in Africa to provide culturally sensitive links with employees (e.g., Partners for Productivity contract with LAMCO in Liberia).

Larger and well-established PDAs can be intermediaries in a catalytic sense. Such PDAs can help identify and support leaders of indigenous self-help groups (e.g., OEF International has brought together African women concerned with policy constraints on women's full participation in development).

FOR CONFERENCE CONSIDERATION:

How can PDAs be most useful as intermediaries?

c. A Public Education Role

The World Bank paper points out that the process of policy reform must proceed over a five to ten year period and effect major changes in society. To assist this politically fragile process, it suggests PDAs and businesses help and states:

> Adjustment policies will be unlikely to work unless modified in response to local criticism and then win fairly broad political support. ...
>
> African business leaders [through, e.g., chambers of commerce] can help governments know how the private sector is likely to respond to particular policies. PDAs, mainly churches and other indigenous PDAs, can suggest -- and perhaps help with -- measures to protect particular groups of poor people who might otherwise suffer serious deprivation because of policy changes (e.g., the urban poor who must pay higher food prices).

International PDAs might, in turn, educate publics in their home countries as to why concessional aid is important.

FOR CONFERENCE CONSIDERATION:

How can PDAs and business leaders contribute to the formulation of policy reforms and provide political support or public education for the reform

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movement in Africa? Do indigenous PDAs have the resources -- professionally and financially to conduct such work? Would such efforts divert them from their primary tasks, and if so, how can this be avoided? Specific examples, particularly of successful indigenous efforts, would be helpful.

d. Credit Facility

It is often difficult for small, especially rural, business enterprises to obtain credit. PDAs provide interesting models for helping smaller enterprises through loan guarantee arrangements and revolving loan funds, often combined with technical assistance, including accounting, management and marketing services.

FOR CONFERENCE CONSIDERATION:

What are current models of PDAs, professional groups and businesses assisting small, PDA-business oriented enterprises obtain credit? Can these models be replicated commercially?

e. Policy Dialogue

Policy dialogue can be promoted through structured and systematic interaction. Possible mechanisms for such dialogue include: national PDA councils, specifying a single governmental unit responsible for PDA liaison, and UNDP-sponsored and similar roundtable discussions.

FOR CONFERENCE CONSIDERATION:

What mechanisms are needed to foster structured, systematic policy interaction among governments and PDAs? PDA councils? Single governmental units responsible for liaison with PDAs? UNDP roundtables? Other?

f. Making "The Case" for PDAs

Many people are unaware of the strong contributions PDAs make to development. African PDAs are not typically thought of as a separate economic sector (in the United States, called "The Independent Sector") e.g., building private schools or providing efficient, effective health care, or as an important force for pluralism. Several mechanisms for making this case more forcefully are suggested:

- National Councils of PDAs (which already exist in Zimbabwe, Kenya, Togo, Nigeria, etc.) can serve this role on behalf of their members. International PDAs might contribute to the operating cost of such Councils.

- International donors such as UNICEF and the Ford Foundation might help reinforce the message by supporting public education campaigns of indigenous PDAs within African countries.

- International PDAs can help by supporting public education campaigns of indigenous PDAs within African countries, and educating the publics of their home countries about the abilities of indigenous PDAs.

FOR CONFERENCE CONSIDERATION:

What specific steps should be taken by national councils, international donors, and PDAs to make PDA accomplishments better known?

3. A Possible Separate Agenda for Indigenous PDAs

a. National PDA Councils

National PDA Councils are useful mechanisms to help indigenous PDAs with:

- strengthened management and accounting practices;
- standardized accountability;
- evaluations;
- fundraising;
- program strategies;
- coordination and cooperation among PDAs and governments;
- access to appropriate technologies.

FOR CONFERENCE CONSIDERATION:

Do existing national councils provide effective services to PDAs? How can they be strengthened? Should PDAs in countries that do not have national councils establish such councils?

b. Quality Control

Sometimes PDAs operate schools or nursing homes to meet specific market needs (e.g., English as the language of instruction) and thereby earn their owners a comfortable living. Some of the institutions are of high quality. For others, profit is the primary motive with quality and integrity of service running a poor second.

FOR CONFERENCE CONSIDERATION:

How can PDAs help governments distinguish between high quality, fee charging schools and hospitals using their surpluses to subsidize poorer users, and institutions which deliver poor services and exist primarily to make profits? What more can governments do to encourage the former?

4. A Possible Separate Agenda for International PDAs. Training

Conference papers stress the severe lack in Africa of trained personnel, particularly at the managerial level. Some PDAs, which include large, experienced organizations with established training programs (e.g., Euro-Action Accord) and smaller, innovative providers of technical assistance can help.

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FOR CONFERENCE CONSIDERATION:

Have successful training programs of international PDAs been documented? If so, which are replicable? Should special institutes or programs be established for training professionals to staff and manage social institutions and PDAs?

III. SOCIAL RESPONSIBILITY: BUILDING BRIDGES AMONG GOVERNMENTS, BUSINESS AND PDAs

A. Definition: The Social Responsibility of Businesses

Businesses contribute to social and economic development in almost every country and culture. The forms taken by their contributions vary and are shaped by historical and cultural traditions. Some generalizations are possible.

The giving of money per se is only one, albeit very important way businesses work with communities in need. For businesses everywhere, there is a larger concept that comprises not only the simple giving of money, but also a progression from such specific mechanisms as volunteer efforts by business employees, the lending of company facilities and gifts of equipment and products, the provision of technical assistance and training, to acknowledgement, through modification of business practices that, "some things we do are part of the problem". In North America and in some Western European countries, this larger concept has been called "corporate citizenship" or "social responsibility".

The concept of "social responsibility" is not, however, confined to Western business. The Palkhivala paper describes the wide range of social and economic development projects operated by the Tata group of companies to benefit the people of India. Today, Tata companies run programs in training of scientists and engineers, reforestation and family planning. The Tata projects are, in fact, similar to many corporate responsibility projects described in the Joseph paper.

Though there is little documentation from other developing countries, particularly African countries, about similar programs, there is, nevertheless, enough anecdotal evidence to suggest that in many third-world settings, including Africa, "social responsibility" of business exists though it may not be called by that name or institutionalized in the business framework. In Africa, there is a strong tradition of voluntarism and communality at the village level. These practices are translated almost automatically by local businesses into involvement in community affairs. In addition, some international businesses have brought their formal social responsibility programs with them. In general, however, social responsibility practices of business in Africa have not been systematized. **The Enabling Environment Conference** provides the opportunity to consider first steps toward institutionalizing "social responsibility" in African terms.

For businesses, giving is sometimes related to a narrow, short-term "business" goal, such as offering gifts or grants designed to improve business operations or the company's image (e.g., support to provide better working environments; educational opportunities for employees or their families; or contributions to publicity generating projects, such as, sports aid). Business giving may also be less directly self-interested and more long-term in nature (e.g., contributions to improve the educational level, or the health, social or cultural life of a community).

"Social responsibility" also encompasses innovative funding mechanisms, like U.S. multinationals' contributing to a PDA assets blocked from repatriation, e.g., Burroughs Corporation in Zimbabwe, Mobil Oil in Nigeria, etc. Or, foreign companies contracting with PDAs to serve as intermediaries that are culturally sensitive to the needs of communities in which they work (e.g., LAMCO's precedent-setting arrangement with Partners for Productivity in Liberia -- see, Joseph paper for details). It can also involve business contracting with PDAs for other business services, e.g., a food processing business contracting with a women's producers cooperative to supply the labor for a food processing plant. In addition, business can provide much needed management, accounting and administrative expertise and training to PDAs (e.g., the Ghana Business and Professional Women's Association).

B. Social Responsibility of Business in Africa

Africa businesses, both indigenous and international, have demonstrated "social responsibility". These experiences have not been well-documented, but examples gathered for this Conference include:

- In Ghana and Nigeria, businessmen and women regularly contribute through their local Rotary Clubs to enable local PDAs to undertake self-help projects, build youth sports facilities, day-care centers, etc.

- In Senegal, commercial fishermen donated tons of their catch to help the hungry.

- In Ghana, a professional association of women entrepreneurs has established the Zonta Club, which designs projects to assure better living standards in rural areas. The Club provides financial assistance and material to village committees working on self-help projects, and also provides a mobile health clinic for villages not within easy reach of medical facilities.

- In Kenya, Del Monte Corporation, a U.S.-headquartered multinational business, has provided housing in eight separate villages for 12,000 people, a nursery, primary schools, and a top-quality secondary school.

- In Zimbabwe, according to Racelis' survey, town councils now permit PDAs unrestricted permission to fundraise from local businesses, formerly illegal without express permission on each occasion.

- In Nigeria, the Pan-Africa Relief Foundation, set up by a handful of business and professional men and women, joined a Nigerian commercial bank in sponsoring a team to assess the relief needs in Ethiopia.

- The Nigerian Integrated Rural Accelerated Development Organization, a non-profit organization of volunteers, both individuals and corporate, provides funding and their own skills to assist rural communities.

- In Zimbabwe, Ciba-Geigy, a Swiss manufacturer, participates in an integrated scheme to improve the productivity of the country's small-scale farmers, a project designed in conjunction with Zimbabwe's Department of Agriculture.

- In Mali, the General Electric Foundation, the non-profit arm of a U.S.-based corporation, provided funds for a pilot project to test the ability of several PDAs to work together in that country. The project will be administered by PACT (Private Agencies Collaborating Together), a U.S.-headquartered PDA.

- In Zimbabwe, the Heinz Foundation (the non-profit arm of H. J. Heinz Co., a U.S.-based multinational that recently started operations in Zimbabwe) joined five other U.S.-based companies to fund the building and running of a clinic near the Mozambique border. Heinz also made a substantial donation toward building a hospital in Zimbabwe.

C. The Way Forward

These illustrations of social responsibility demonstrate some ways businesses in Africa -- both international and indigenous -- have expressed their wider commitment to national development goals. But the concept is broader than isolated gifts. It is that businesses, as citizens, have an on-going responsibility to contribute systematically to the societies in which they work and prosper.

In examining African political history from independence, Equator states that the region needs unique solutions to Africa's political/economic requirements. Equator continues by stating:

> ...a social contract (or contracts), on African terms, have yet to emerge. This is clearly a major task of the continent's development, one that transcends the economy because it must encompass all aspects of society.

In this connection, Equator's proposal for an international association of businessmen and businesswomen, whose members would champion strict morality and ethics in all business activities, might well be broadened to include social responsibility as a program to be implemented by the members.

Mung'Omba and Wangwe state that both government and businesses "should do all they can to take socio-economic factors (culture, social services, etc.) into consideration when making decisions where to invest, what products to produce, and how to market them". Onitiri agrees.

Frimpong-Ansah focuses on a fundamental conflict between international or expatriate business and host government goals. He states,

> Some major expatriate companies have difficulty finding an appropriate identification with the development objectives of their host countries ...Some foreign companies in Africa have been unable to reconcile their short term profit objectives with long term development goals of their host country....In the two decades...since independence the expatriate private sector has undergone a period of significant adjustment, often traumatic. In this period African governments have also tried to find ways in which they could live with these former partners of colonialism and with the host of new ones from other parts of the world who, in character, were not different. Africans need the technology and efficiency of these entrepreneurs, but they object to their often buccaneering characteistics regarding profits and foreign exchange repartriation without regard to the difficult economic conditions in the countries in which they operate.

Frimpong-Ansah invokes what he calls "the Concept of Corporate Citizenship" -- a two-way concept that recognizes a balance between the "duties and responsibilities of expatriate businesses" and "their entitlement for facilities that are available for business development". Although Frimpong-Ansah applies this concept only to international businesses active in Africa, it is possible that, if expanded to apply to indigenous business as well, the concept may be close to the "specific solutions to Africa's requirement for a social contract...on African terms" that the Equator paper invokes.

Possible models that might be considered in designing Africa's concept of "social responsibility" include:

1. Business, Government and PDA Collaboration

In what may be a promising model for replication, the Industry Council for Development, a New York-headquartered PDA, with membership composed of international corporations from 15 countries, has developed a collaborative project among corporations, PDAs, international aid agencies, governments and regional associations. The project supports agroforestry development in the Sahel region. Corporations are sources of technological, managerial, marketing and research expertise. (See, Joseph paper for further details.)

Another interesting model is a joint venture in the Gambia and Sierra Leone. Africare, a U.S.-based PDA, worked collaboratively with 13 member corporations of the Pharamaceutical Manufacturers of America and the governments of Sierra Leone and the Gambia to improve the management and distribution of basic pharmaceuticals throughout the two countries, particularly in rural area. (See, Joseph paper for further details.)

FOR CONFERENCE CONSIDERATION

What are other successful models of business/government/PDA collaborative projects?

2. Indigenous and Internation Business and PDA Collaboration

Several years ago, ITT, a U.S.-based multinational corporation, provided a grant to a U.S.-based PDA, the Institute of Cultural Affairs, to be used to fund human development projects in rural Nigeria. Since then, the Nigerian Institute of Cultural Affairs brought in local business people to assist with the pilot project (the Ijede Village development project). Local business people provided skilled professional assistance in management, accounting etc. to assist villagers to organize successful small-scale business ventures. The use of international business funding, made in the form of a grant to a PDA, combined with local business assistance, is a viable model.

FOR CONFERENCE CONSIDERATION:

Are there other examples of collaboration among indigenous and international business and PDAs that offer viable models?

3. The Non-Cash Contribution Model

Projects described above are examples of ways in which businesses have contributed to African development by providing non-cash assistance, in the form of equipment, services, skilled personnel, etc. These traditional non-cash models use the talents of individuals already on staff.

Another model, along the lines of the International Executive Service Corps, taps talented and successful retired business people, entrepreneurs or, possibly, former civil servants or political leaders. Such individuals, of proven ability and possessed of leadership qualities, would be valuable additions to any development projects.

FOR CONFERENCE CONSIDERATION:

What are illustrations of African PDAs using the talents of retired political leaders, business people, civil servants and entrepreneurs? How can such individuals be convinced to join such an enterprise? How can their talents be used most effectively?

4. Grantmaking in Host Countries

Many projects cited above received initial funding from foundations. Foundations may be either private, or corporate. In addition to making grants from remote headquarters, many corporations establish corporate, grantmaking foundations in a host country. Japanese firms such as Hitachi and Panasonic have established corporate foundations in the United States.

FOR CONFERENCE CONSIDERATION:

What are examples of indigenous African foundations? Why were these foundations established? How successful have they been? What factors are considered to be incentives (or disincentives) to their establishment and operation?

5. Business Doing Business

Occasionally, an international company makes a business-related decision to participate in a profit-making way in solving local problems. An example, cited in the Joseph paper, is the involvement of Monsanto, a U.S.-headquartered multinational, working in Kenya to develop an energy-saving tillage system, using an environmentally safe weed killer appropriate for a smallholder farming system.

In Zambia and Zimbabwe, Booker Agriculture International, a British company, has not opted for the Western model for its chicken operations. Instead, the company distributes the birds to thousands of small farmers. Further employment is generated by growing the feed for the chickens locally.

In Ghana, because of the lack of foreign exchange, a large multinational's supermarket chain (Unilever) instituted the use of food grown locally, in lieu of importing "traditional" tinned foods.

FOR CONFERENCE CONSIDERATION:

What are other examples of international business enterprises accommodating to local problems in making business decisions?

6. Aid Agency, Indigenous and International PDA Collaboration

The Canadian government has announced that a new multinational facility to be located in the Sahel will fund and provide technical expertise to grassroots organizations, enabling them to carry out projects of their own choosing that respond to their needs in the fields of agriculture, forestry and food production.

FOR CONFERENCE CONSIDERATION:

Does this Canadian initiative to create an African facility that will relate bilatera' aid to grassroots needs offer a replicable model?

7. Possible Government Incentives to Foster Social Responsibility

-- Tax Incentives. Recent research in the United States demonstrates that tax deductions do enhance individual and corporate giving. Governments considering the institution of such tax concessions will be concerned about foregone revenue. However, fiscal authorities should consider that donations are to provide services -- e.g., in the areas of health and education -- that would otherwise be supplied by the State.

-- Matching Grants. The Canadian International Development Agency and the U.K.'s Overseas Development Administration match private funds raised by national PDAs. African governments might budget some concessional aid funds to be used, where appropriate, as a matching mechanism for funds raised from private sources in Africa.

-- Channeling Funds Through PDAs. Increasingly, African governments channel concessional aid to PDAs. For example, CARE International, as the contractor under a World Bank loan to Liberia to strengthen community schools, constructed schools at a cost about 30 less than business contractors.

-- Blocked Assets. The fund for Private Assistance and International Development, a Washington, D.C.-headquartered PDA, has developed a mechanism for businesses to donate blocked assets to PDAs in exchange for a tax deduction. Because deductions from taxation are permitted by U.S. tax laws for gifts to certain charitable or educational organizations, this mechanism is especially attractive to U.S. companies. To take advantage of the deduction, the gift must be to a PDA organized in the United States (although it may operate overseas). Under these tax rules, some U.S. corporations have recently donated their blocked assets in certain host countries to U.S.-headquartered international PDAs for use in the host countries.

FOR CONFERENCE CONSIDERATION:

Is it reasonable to assume that incentives -- tax concessions, matching funds, etc. -- initiated by African governments will have the desired effect of fostering greater social responsibility by business? In the case of poor countries, will the benefits gained from new special responsibility programs offset the loss in needed tax revenues?

8. Model Social Responsibility Programs

Businesses might be encouraged to include in their published Annual Reports an account of the activities they have undertaken to demonstrate their concern for social responsibility. This approach has been used with success in the United Kingdom. In addition, both international and indigenous African business might be

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assisted by considering the attached draft of a statement of "Suggested Social Responsibility Policy and Guidlines" (see, Appendix C). The Joseph paper also provides examples of social responsibility statements from two U.S.-based corporations.

FOR CONFERENCE CONSIDERATION:

Are the attached statement (Appendix C) and the examples cited in the Joseph paper helpful starts at expressing business' social responsibility? Do they translate well to the African business climate? If not, how can they be improved?

CONCLUSION

The Enabling Environment Conference is intended to foster a dialogue between governments and the private sector that will lead to national policies to enable the private sector to participate more actively in the development process. The Conference is intended to facilitate that process by suggesting possible ways to promote effective private sector initiatives for African economic and social development. It is hoped that Conference participants might, on their return home, organize follow-up meetings or workshops that include other concerned nationals from the three main sectors -- governments, business and PDAs -- to introduce them to the results of the Conference and to discuss opportunities concerning implementation in their own national contexts.

APPENDIX A

CONFERENCE PAPERS

I. The Relationship of Governments and Business

A. African Governments' Attitudes Toward Business

1. Wila D. Mung'Omba and Prof. S. Wangwe

2. Prof. H. M. A. Onitiri, UNDP

3. The World Bank -- International Relations Department

4. The International Finance Corporation

B. Business' Attitudes toward Enhancing their Contribution to African Development

1. Indigenous Business -- J. H. Frimpong-Ansah

2. International Business -- Equator Holdings

3. Multinational Case Study -- H. J. Heinz Co./Olivine Industries

II. The Relationship of Governments and Private Development Agencies

A. African Governments' Attitudes Towards PDAs -- Mary Racelis, UNICEF

B. Indigenous PDAs -- Voluntary Agencies Development Assistance

C. International PDAs -- Thomas H. Fox, Council on Foundations

III. Social Responsibility: Building Bridges Among Governments, Business and Private Development Agencies

A. The Social Responsibility of Business: Comparative Perspective -- Nani A. Palkhivala, Tata Sons

B. The Social Responsibility of Business in Africa: Western Perspective -- James A. Joseph, Council on Foundations

IV. Overview: The Enabling Environment for Private Sector Contributions to Development in Sub-Saharan Africa

Overview Paper -- Sheila A. McLean, Consultant

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APPENDIX C

For discussion at the Enabling Environment Conference

Discussion Draft prepared by Sheila Avrin McLean

Suggested Social Responsibility Policy and Guidelines For Business Working in African Country

Statement of Social Responsibility Policy

To stay in business, we must make a profit. To succeed in business, we must devote some of that profit, beyond the dividends and taxes we pay, to the public good. The company's long-term success is closely linked with the general prosperity of [name of African country] which, in turn, depends heavily on the quality of education, good health and general prosperity of its citizens. Business does best in communities that are healthy, vital and secure.

The Company was organized in [name of African country] in 19___ to [specify purpose] and has since prospered. [Alternative for international company: The Company has operated in [name of African country] since ______ to (specify operations) and has since prospered.] During past years, the Company has shared its profits by contributing to projects of special importance in [name of African country]. The Directors of the Company believe that this practice should be institutionalized and rationalized so that the Company will continue and expand its contributions to organizations and projects in [name of African country] for the public good without regard to race, creed or political affiliation. Contributions will be made in [specify currency of African country], by lending facilities, giving equipment and/or seconding executives with skills in such areas as management, accounting, marketing, and public relations.

The Directors of the Company believe that its annual social responsibility program should provide for contributions of a minimum of __% of the Company's pretax income and should set as a goal annual contributions of __% of its pretax income. It also believes that there should be an effort to keep the level of contributions reasonably consistent (with an upward trend if profits permit) so that long-term contributions programs can be formulated.

Social Responsibility Guidelines

Based on these beliefs the Managing Directors of the Company are establishing a program of social responsibility under the following guidelines:

The Management of the Company will:

1. Budget between ___ to ___ of its pretax [name of African country] income for donation to charitable, education, health-related, small enterprise development or scientific causes and private development agencies operating on a local, regional or national scale.

2. Designate a social responsibility officer from among its employees to:

* Meet regularly with [alternative: a committee of employees of his own choosing?] [or alternative: a committee of employees and officers appointed by Company's management]

* Review solicitations for support

* Investigate new opportunities for contributions to private development agencies working in [name of country]

* Evaluate proposals for projects submitted to it by the committee, as staffed by the social responsibility officer, according to the following criteria:

  a. The recipient should be a bona fide, usually not-for-profit, private development agency [that is not a political institution or political party?] that is working consistent with national development goals in areas such as health, education, and enterprise development [specify additional or different areas as desired].

  b. The cause for which a contribution is being contemplated should warrant a minimum contribution equivalent to ___ [name of African country currency]. [Although the Company will consider larger requests on a case-by-case basis, a maximum donation equivalent to _______ [name of African country currency] is suggested].

  c. The project or cause must be sufficiently backed by local institutions to survive and grow on its own after receiving a contribution from the Company or from a combination of the Company and other donors.

  d. The project or cause should fall under any one of the following general headings: Health and Welfare, Education, Enterprise Development, whether urban or rural [specify other priority areas]. The project or cause must fulfill a national or regional priority for economic or social development. Examples of types of projects or causes include:

     * primary education

     * secondary education

     * higher education

     * primary health care outreach and treatment

     * urban hospital health care

     * rural enterprise development

     * technical assistance to local "self-help" groups

3. Approve, in its discretion, contributions of money, facilities or equipment to support proposals for projects submitted to it by the committee, staffed by the social responsibility officer.

4. Approve, in its discretion, the lending of Company executives to private development agencies where the special talent of the executive is needed for a limited period of time to assist the organization or the granting of time to employees for volunteer work.

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UNITED STATES GOVERNMENT

2-Way Memo

Subject Project 698-0438.15, Grant 698-0438-01

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MO Leifert

TITLE OF ORIGINATOR

Chief Private Sector Division

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MESSAGE

Attached are papers produced by Aga Khan Foundation for Nairobi Enabling Environment Conference. AID $80,000 was used to finance these papers per subject documents. Grant closed out.

REPLY

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February 25, 1987

Mr. Steven Sinding
Director
USAID Mission to Kenya
P.O. Box 202
APO New York, NY 09675

Re: Grant Number 698-0438-01

Dear Mr. Sinding:

On behalf of Aga Khan Foundation U.S.A., I am pleased to enclose the final narrative and financial reports of the Enabling Environment Conference in accordance with your grant letter of April 7, 1986.

May I take this opportunity to thank USAID Mission to Kenya, once again for its support of this Conference and wish you every success in 1987.

Yours sincerely,

Iqbal Noor Ali
Chief Executive Officer

INA/bjr

Enclosures

cc: Mr. Taj Mitha

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Attachments removed: 1) End of Conference summary paper
2) Conference Papers

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"Africa's genius is her peoples. In their diversity, vitality, creativity and resilience, they represent the greatest of the many resources of this continent. The basic topic of our discussions, therefore, is how to create the conditions of confidence, predictability and mutual trust that will enable people and institutions to realize their full potential."

With these words, His Highness the Aga Khan opened "The Enabling Environment Conference" held in Nairobi, Kenya on October 21st-24th, 1986. This brought to fruition the proposal His Highness made four years ago on the occasion of the 25th Anniversary of His Imamat. His plan was to bring together leaders of government, private business and private development agencies (PDAs) to examine how to achieve an effective private sector contribution to social and economic development in Sub-Saharan Africa.

Following much careful planning by the Aga Khan Foundation and its co-sponsors (the Government of the Republic of Kenya, The World Bank, the Kenya Association of Manufacturers, the African Development Bank, Voluntary Agencies Development Assistance (a Kenyan PDA), and InterAction (the US-based PDA network), some two hundred official participants gathered in Nairobi for a four-day meeting. This was the first time such a group of representatives of governments, private business and PDAs from over 25 Sub-Saharan African nations, Europe and North America had met to discuss these issues. Approximately two-thirds of the group were Africans, thus ensuring that the discussions and positions taken were fully cognizant of the needs and priorities of the African community.

The agenda of the Conference was clearly laid out by the organizers in order to focus the participants' efforts in the limited time available. The goal was to formulate specific guidelines and practical policy options that would lead to an enhanced relationship between governments and the private sector. In this spirit, the principal issue to be considered by the Conference was: "How can environments be created, within constraints imposed by the international economy, that will supplement important government initiatives and those of public enterprises by permitting the extensive resources, imagination, and creativity of the private sector - both people and institutions - to participate fully in the development process ?"

To provide background material for the agenda of issues put before the participants, an international Conference Steering Committee had commissioned a series of papers from international institutions (for example, The World bank, UNICEF, the International Finance Corporation and the Council on Foundations) and from independent African specialists (the former Governor of the Central Bank of Ghana, the former President of the African Development Bank, the Dean of the School of Social Sciences at the University of Dar-es-Salaam, Tanzania and others). As a framework for constructive thinking and debate, the thirteen commissioned papers were divided into three broad topic areas which were also the broad themes for the panel sessions and smaller workgroups: (1) the relationship between African governments and the private business; (2) the relationship between African governments and the private development agencies; and (3) the building of a meaningful dialogue among all three sectors based on a common approach of "social responsibility".

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Throughout its deliberations, the Conference kept very much in mind the fact that Africa faces a difficult international environment in its efforts to achieve economic growth and social development. A huge external debt burden weighs heavily on many hard pressed African governments (a total of over US $ 100 billion by the end of 1986) and the terms of trade are strongly skewed against African countries. Also, drought conditions, military conflicts, famine and refugee upheavals add to the hardships in many parts of Africa. In opening remarks to the Conference, Kenyan President Daniel T. arap Moi stressed these points and asserted that, realistically, African governments "must plan our economies, bearing in mind that there will be little possibility for the countries of the developed world to assist us with a large infusion of aid or providing us with the other necessary elements required for growth." With declining official aid flows, it is all the more imperative for African governments to mobilize domestic resources for development adopting the necessary reform programs internally and cooperating increasingly with their African counterparts.

Despite these constraints, it is crucial to recognize the considerable accomplishments of African governments since independence in terms of increasing the human resource potential of their populations. The Aga Khan mentioned a few relevant facts in his opening remarks: total school enrolments have risen from 21 million, in 1960 to 87 million in 1982; secondary school enrolments increased from 5% of children of the appropriate age groups to 25%; average life expectancy has risen from 42 years in the mid-1960s to 49 today. "in Sub-Saharan Africa, the proportion of government expenditure devoted to education, health and social services is statlingly large. Yet, governments would be the first to recognize that their resources are stretched to the limit - and beyond... Since government resources for the social sector are unlikely to increase in the foreseeable future, we must search for other approaches. One possibility is to increase the resources from and through the private sector. A second imperative is to improve the management of resources employed". Both in the social sectors and the productive sectors of the economy, African governments can benefit enormously from closer cooperation with the private sector - both for-profit business and not-for-profit voluntary agencies.

So, what conclusions emerged from the Conference deliberations ? How can "enabling environments" be created to facilitate a private sector contribution to development ?

GOVERNMENTS AND BUSINESS

Various recommendations were made on the subject of government-business relations. It was strongly suggested that government officials and business people should talk to each other more in order to better understand their respective priorities. Policy dialogue should be encouraged, with business collaborating in the preparation of long-term development plans and governments (or international bodies such as the Economic Commission for Africa) undertaking to establish some groundrules for business ethics.

Whereas in the first decades after independence, African governments felt that, in order to establish their own development agendas and political bases, the private sector had to take second place, there is now a recognition that the private sector - if given room to grow in a conducive policy environment - can be a constructive force for development.

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There was general agreement at the Conference that national policies should move towards macroeconomic changes including freer markets and more realistic prices for products, capital, labor and foreign exchange. The removal of price controls should lead to more competition and therefore more efficiency. However, it is also understood that the more vulnerable groups in society may suffer from these policies and special measures must be taken to protect these groups and to integrate them into active economic participation.

Stability and consistency of policy are vital to the encouragement of the private sector. Investment codes, which apply equally to domestic and foreign business, should be established. They should be clear and easy to implement. governments could also issue indicative lists of sectors where they would welcome private investment. In the same vein, government administrative and regulatory procedures should be as simple as possible and consistent.

A related concern which generated much discussion is the issue of the future of parastatals - state controlled enterprises - and how they fit into the theme of private sector initiatives. There was general agreement that governments should take stock of their parastatals and in cases where they have become inefficient, waste scarce resources and do not play a useful or strategic role in the economy, privatization may be the answer. However, the consensus was, somewhat contrary to the prevailing "conventional wisdom" among aid donor agencies, that privatization is not an end in itself but is a policy tool to be used selectively. Where parastatals perform well in providing essential goods and services, they should be left in government hands.

More controversial were the policy options with regard to private foreign investment. Even if governments adopt less constraining policies, it may be difficult to attract significant flows of foreign investment because national markets are so small. The Conference recommended that governments and business might work together to create viable regional markets and trade zones.

The greatest policy stumbling block is the question of repatriation of dividends. Companies often consider this to be an essential precondition for investment in a particular country but governments are reluctant to offer this incentive due to foreign exchange shortages. The Conference suggested some possible compromise measures including: allowing exporters to retain export earnings; providing additional investment incentives if dividends are reinvested; allowing tax relief for the donation of blocked dividends to the social sector, often through PDAs. Various investment guarantee schemes were discussed.

In addition to foreign investment, a crucial ingredient in Africa's long term development is the need to promote indigenous entrepreneurs. In particular, the Conference recognized the important potential of small-scale entrepreneurs - small farmers, entrepreneurs in the informal sector, and women. All of these groups have tended to operate at a subsistence level on the margins of African economies and if integrated into the mainstream their contribution could be immense.

This is an area in which there are clear opportunities for collaboration among governments, private international and indigenous business and PDAs. Incentives and infrastructure for small farmers to produce and sell more, provision of credit direct from lending institutions or through intermediary groups or PDAs to set up small entreprises, development of contractual relationships with larger businesses which will help in the modernization of technology as well as guaranteeing markets, and practical management assistance and training are all part of a potential package to support these entrepreneurs. Often, specific measures aimed at women producers and traders are essential to release their potential, especially if, as in many countries, legislation and custom have discriminated against their advancement.

GOVERNMENT AND PRIVATE DEVELOPMENT AGENCIES

In recent years, PDAs have accounted for a substantial portion of the indigenous and international human and financial resources being mobilized towards development goals in Africa. This contribution has not been fully acknowledged, partly because PDAs themselves have failed to document their activities and to articulate publicly their accomplishments. Thus, both governments and private business have tended to undervalue PDA contributions to the development process. The Conference was a definite step towards a recognition of their potential role and an understanding of their composition and priorities.

The Conference described PDAs as follows: "PDAs comprise a rich variety of formal organizations and informal associations, covering a broad spectrum of activities. Their most noteworthy characteristics are their roots in the powerful voluntary ethos, their concern for the disavantaged, their ability to harness the energies of many people, and their non-governmental and non-profit nature. Their activities run the gamut from the traditional direct provision of social services to the initiation of innovative enterprise development. As such, they can both supplement the efforts of government and contribute to the evolution of societies in which private business can thrive. They can also test and implement new cost-effective and participatory approaches to the challenge of economic and social development."

As with the business sector, it is essential for the PDAs to establish a constructive ongoing dialogue with government officials. The Conference attempted to look at the needs and priorities of both parties in this relationship and generally supported the idea of some kind of clearly recognized administrative and legal framework which would allow the PDAs to maintain their traditional independence as a "third sector" in the economy. Governments should recognize the right of PDAs to pursue their own objectives without detailed government control while, at the same time, both indigenous and international PDAs should recognize the right of governments to request information on PDAs' procedure, activities and plans and to exercise some oversight of appropriateness, integrity and efficiency. The proposed principles will hopefully form at least a basis for dialogue between PDAs and governments.

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Consultations on program and policy matters should assist PDAs and governments in avoiding duplication of development efforts. Governments can learn much from PDAs - especially indigenous ones - because of PDAs knowledge of and links with the needs and aspirations of people at the grassroots. For their part, governments might indicate the priority areas where PDA efforts would be especially helpful - as complements or extensions of government programs. Some tension will remain in those countries where PDAs are correctly or incorrectly perceived as having priorities different from those of the government.

The Conference expressed a hope that governments would be able to provide incentives to strengthen the financial position of PDAs - for example, through tax deductions for charitable contributions both by individuals and businesses. Though this is a commonplace tradition in North America and Europe, it has not existed in Africa and it would take some time to derive benefits from such a scheme. It could eventually be extremely useful as a means of generating resources for indigenous PDAs which might otherwise have to seek funds from sources abroad.

Much as there are formal and informal linkages between international and indigenous business, international and indigenous PDAs have a constantly changing and evolving relationship with each other. At the United Nations General Assembly in May 1986, a strong statement called for the international PDAs to concentrate their efforts on strengthening the indigenous African PDAs on the assumption that African PDAs are better placed to take primary responsibility for the development of their own societies. This statement emphasized the need for international PDAs to guard against "paternalism", to support the activities initiated and implemented as much as possible by the African PDAs, and in making maximum use of local resources and personnel to strengthen the management and technical capacities of African PDAs. The Enabling Environment Conference endorsed these positions and urged the African PDAs to seek out practical training programs and to work towards the setting up of institutions which could provide a long-term resource base for such programs. The Conference also suggested the utilization of existing councils of PDAs as a means for coordinating PDA efforts and for sharing information and lessons from experience.

Indigenous PDAs were seen to have a major educational role to play in African societies where they are positioned to serve as an educational link between African peoples' aspirations and policymakers and donors. International PDAs were called upon to improve their educational role in their home communities and vis-a-vis various donor agencies in industrialized countries. They must emphasize the long-term needs of Africa and the determination of Africans themselves to confront their own development challenges.

The Aga Khan and others put much emphasis on the need for the voluntary sector to increase its management capabilities - especially as it is given more responsibility for implementation of development projects. Though some parts of the voluntary sector are already well managed, others need help to become more effective and efficient. This was seen as a particular area where business could assist PDAs since it is assumed that a major business strength is its managers.

As a practical solution to this need to upgrade skills and as a way of furthering communication and mutual understanding among managers in government, business and PDAs, the Aga Khan proposed the establishment of a new faculty of the Aga Khan University which, he said, would "respond to the challenge of management 'for quality'." The faculty of Development Policy and Management would "train managers of social welfare institutions and services as well as managers for business and civil services and would be fully cognizant of the needs of the social sector... [it] would be linked directly to particular institutions that could serve as learning laboratories and field training centers" - thus making an effective combination of technical training and learning about the development process. The Conference participants noted this proposal with approval.

SOCIAL RESPONSIBILITY

One of the major points which was repeated again and again during the Conference dialogues was the fact that though governments have an obligation to be the primary force in developing their societies, they cannot accomplish this alone. Any group which expects to be able to benefit from a successful development process must also be willing to make a contribution to that process.

The concept of social responsibility is one which, to some degree at least, has become a regular part of doing business in industrialized countries - where major corporations have set up philanthropic foundations or grant-making offices to demonstrate their commitment to the communities in which they do business. The Conference recommends the creation of similar endeavors in African countries - both by international and indigenous business. The African governments can play a leading role in encouraging this type of behavior - through dialogue with business about potential areas where their resources could most appropriately be used. The Conference was, however, quite firm in its conviction that strict legal codes imposing socially responsible behavior on the business community would be counterproductive and alienating. A proposal was put forward, however, to ask the UN Economic Commission for Africa to study and help promote a code of ethics on business practices in Africa. The challenge is really to demonstrate to private business that it is a matter of their own self-interest to find imaginative and constructive ways of contributing to Africa's social and economic development.

Policy proposals for implementing this concept of social responsibility provided ideal opportunities for collaboration between government, business and PDAs. Various examples of such projects currently under way were presented by conference participants. This exchange of information - in and out of formal Conference sessions - was certainly one of the main contributions of the Conference and demonstrated that cooperation is possible where the three sectors are able to agree on a socially acceptable approach to development.

The examples cited included the case study of the American PDA Africare which has collaborated with the Pharmaceutical Manufacturers Association and the Governments of the Gambia and Sierra Leone in order to provide improved distribution of medicines in those countries. Also mentioned was Massey-Ferguson's decision to rehabilitate the tractor fleet in Mozambique rather than seeking to sell new equipment to a government desperately short of funds. In Kenya, business has supported self-help efforts through the community-based Harambee movement.

An excellent symbol of such cooperation was the opening, during the Conference, of the new Leather Industries of Kenya Limited (LIK) plant in Thika. This project has been hailed as a model of ecological planning, technology transfer and cooperation among local and national governments, the private sector and international non-profit institutions. The equity and loan capital was supplied by thirteen sponsors including the Aga Khan Fund for Economic Development, the IFC, USAID, German, Belgian and Dutch investment companies and a Belgian company involved in the tanning industry. The local sponsors included the Development Finance Company of Kenya Ltd., the East African Development Bank, the Standard Bank Group and three local affiliates of the Aga Khan Fund. Several Kenyan national government departments and local councils cooperated in the project.

The new plant is expected to provide employment for local workers, considerable foreign exchange earnings, a market for the Kenyan livestock industry and technical training for Kenyan workers -- all clearly a substantial contribution to the social and economic development of Kenya. Potential models of cooperation such as this should be publicized and discussed by groups wishing to promote replication in their own countries or regions.

FOLLOW UP TO PROMOTE AN ENABLING ENVIRONMENT

The concept of an enabling environment for the private sector in Africa struck a constructive and positive chord among the participants at the Nairobi Conference. The discussion brought out the importance of providing the conditions necessary to allow each individual to achieve his or her potential and the complimentary dimension of the interdependence of the government, business and PDA sectors in achieving successful social and economic development in Sub-Saharan Africa. Strong beginnings were made in the building of bridges among these three sectors through open, broad-ranging discussion as well as consideration of some specific proposals.

It now remains for the sponsors and participants to take the process forward by stimulating further dialogue and action, in their national environments. At the conclusion of the Conference, there were strong indications that at least some of the participants had already made arrangements to follow-up with their colleagues once they return home. The Nigerians, the British and others had definite plans to pursue specific policy action - including the possible formation of national councils for consultation among the three sectors.

The organization of African Unity and the UN Economic Commission for Africa are well placed to give both political impetus and specific policy input. The international and national media offered good coverage of the Conference and have been asked to sustain their interest in African development.

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Professor Adebayo Adedeji, UN Under-Secretary General and Executive Secretary of the Economic Commission for Africa, summed up the task ahead for Africa in his closing remarks to the Conference by quoting a speech he had made in 1982:

> To us in Africa, the private sector versus public sector argument has really not been much of an argument and has no operational meaning because all our governments accept that both have a role to play and that both can and should complement each other... Our objective should (therefore) be to follow the principle of comparative advantage in the allocation of tasks and responsibilities between the private and public sectors by ensuring that while our governments are at the commanding heights of our econ. 'es, they leave more than ample scope for private initiative and enterprise. It is only by so doing that we shall succeed in maximizing for the individual citizens opportunities for self-fulfillment and for the release of the latent energies of the people, and in galvanizing those energies and combining them with material resources to sustain the needs of the society on an equitable and just manner."

This is what the "Enabling Environment" is all about.