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The Private Operators' Perspective on an Agenda for Action

Dakar, Senegal
November 22-25, 1991

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GEMINI

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The Private Operators' Perspective on an Agenda for Action

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Seminar on the Private Sector
in West Africa

Organized by the Senegalese National Employers' Union (CNP),
the Club du Sahel, CILSS and USAID

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PREFACE AND ACKNOWLEDGEMENTS

In 1989, the Agency for International Development's Sahel West Africa Office (AFR/SWA) bought into the GEMINI project to provide an innovative source of assistance to the Club du Sahel of the OECD to study the nature of micro and small-scale enterprises (MSE) in the Sahelian countries and to help the Club du Sahel to organize a major Seminar of West African businessmen which was held in Dakar, from the 22-25 of November 1991. Through the AFR/SWA buy-in, completed with funds from the Africa Bureau's office of Market Development and Investment (now AFR/ONI), the GEMINI project provided the majority of the assistance to the Club du Sahel required to organize the Seminar.

In addition to general organizational and coordinating assistance, GEMINI consultants produced the following background documents: <u>Relations between the Private Sector and the State</u>, <u>The Nature of Markets in West Africa</u>, <u>The Role of Advocacy Groups in Supporting MSE in the Sahel</u>, and <u>The Organization of The Private Sector in West Africa</u>. The principal rapporteur for the Seminar was also a GEMINI consultant.

The following report <u>The Private Operators' Perspective on an Agenda for Action</u> is the synthesis of the Seminar. It includes the agenda papers for each of the four major working groups, the reports from the debates in those working groups, and the overall findings, conclusions and recommendations from the Seminar. Originally published by the Club du Sahel, this final report represents an important investment on the part of USAID. The contents of this report and that published by the Club du Sahel are identical and represent a major step forward in establishing a common agenda for action between donors and private operators to improve the environment for private sector development in West Africa which will have an enormous impact on the development of micro and small-scale enterprises in the region.

Beth Rhyne
Project Officer, GEMINI

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FOREWORD

The Seminar on the Private Sector in West Africa, which was held in Dakar from November 22 to 25, 1991, was first mooted at a preliminary informal meeting organized in Abidjan on July 15 and 16, 1990. At this informal gathering, twelve businessmen from the private sector and a number of operators from the public sectors of seven French-speaking West African countries met with the Director of the CILSS and representatives of USAID and the Club du Sahel. During the meeting, which reviewed the findings of studies performed by the Club and USAID on the private sector in West Africa, participants analyzed the key issues of these studies and compared the differences and similarities between their respective countries. At the end of their discussions, a clear consensus had emerged on the need to pool and to compare information.

At the end of the two-day event, the participants decided unanimously to organize a similar meeting on a much larger scale in 1991 to pursue the consensus that had emerged from the preliminary meeting. It was felt that a meeting between a similar mix of participants from all over West Africa, and English-speaking countries in particular, would prompt an invaluable exchange of information at the regional level while also paving the way for improved coordination of private sector initiatives and increasingly targeted support on the part of donor agencies. In Senegal, the dialogue between the private sector and the public sector has progressed to a greater extent than elsewhere and the Senegalese participants therefore offered to host the meeting through Senegal's Conseil National du Patronat (National Employers' Union).

Over the next eighteen months, the meeting was planned and prepared by a Steering Committee comprising members of the original group and a small number of additional selected participants. Planning meetings were held in Dakar (May 1991) and Abidjan (September 1991). Documents for the agenda were prepared and reviewed by the Committee and other selected documents were commissioned.

The profile of participants was the focus of particular attention, the objective being to achieve a high level of quality and a good mix of skills from the different countries. Noting that true businessmen tend to be completely outnumbered by donors and public sector representatives in major meetings on the private sector, the Committee stressed that the Dakar meeting would break with tradition by inviting a majority of participants from the private sector. In pursuit of this objective, Committee members visited Ghana, Nigeria (three times), Mali, Burkina Faso, Chad, Niger, Gambia, Guinea, Guinea Bissau, Togo, Benin and Côte d'Ivoire in order to inform people about the meeting. The USAID missions in these countries offered valuable support and also funded more than fifty of the participants.

The follow-up to the Seminar is already in progress. Immediately after the event, the CNP called together the private sector representatives who were present at Dakar in order to plan the dissemination of results to the press, to governments and to other members of the private sector. At the opening of the Seminar, the Senegalese Prime Minister pledged that President Abdou Diouf, who is also President of ECOWAS this year, would disseminate the results to the other ECOWAS Heads of State.

At the same time, the Steering Committee will continue its activities, expanding slightly to take in members from all participant countries. It will monitor the implementation of recommendations generated by the Seminar and will also endeavor to provide continuous feedback for donor agencies, indicating the areas where more information is required and the issues that need further study. Committee members will also pool information among themselves for dissemination in their own countries.

SEMINAR ON THE PRIVATE SECTOR IN WEST AFRICA
Dakar, November 22-25, 1991

FINAL REPORT

The Seminar on the Private Sector in West Africa was held from November 22 to 25, 1991 at the Meridien Hotel, Ngor, in Dakar, capital of the Republic of Senegal. The event was organized under the auspices of the Senegalese Conseil National du Patronat (National Employers' Union) with the assistance and collaboration of the OECD's Club du Sahel, the CILSS, and USAID.

Nearly one-hundred and fifty people took part in this important meeting. Businessmen were naturally in the majority, given the topic addressed by the seminar, but representatives from a number of public sector bodies and international donor organizations were also present. Participants came from the following countries:

- Benin
- Burkina Faso
- Cape Verde
- Cameroon
- Chad
- Côte d'Ivoire
- Gambia
- Ghana
- Guinea
- Guinea Bissau
- Mali
- Niger
- Nigeria
- Senegal
- Togo

The following international organizations were represented:

- CIDA
- ADB
- World Bank
- ILO
- CCCE - PROPARCO
- ECOWAS
- CEC
- CILSS
- OECD/Club du Sahel
- French Ministry of Cooperation
- USAID
- UNDP

A number of key figures from the private sector, international finance and the public sector also participated in the working groups as did a number of professional people. The opening ceremony was presided by His Excellency Mr. Habib Thiam, Prime Minister of Senegal, who was accompanied by several members of the Government. Numerous representatives of the Diplomatic Corps in Dakar were also present.

In his opening speech, Mr. Amadou Moctar Sow, President of the Senegalese National Employers' Union, stressed the firm intention of African countries to give the private sector a determining role as part of a new approach to development and to incorporate private enterprise into cooperation programs. Mr. Moctar noted that the economic policy reforms of the past few years had taken a step in the right direction.

In 1989, a Steering Committee comprising representatives of the region's private sector, several international donor agencies and a number of officials from the public sector patiently commenced the long task of defining the topics to be discussed at the seminar. Discussions focused primarily on how to improve the environment of African enterprise and how to prepare the ground for its future development, the ultimate objective being to maximize the contribution of private enterprise to West African development efforts.

Four central topics were selected as the basis for the Commissions' studies:

- The relations between the State and the private sector (Commission 1);
- The future of financial systems and corporate finance in West Africa (Commission 2);
- Markets (Commission 3);
- the organization of the private sector (Commission 4).

Chief J. Akin George, President of the Federation of West African Chambers of Commerce, made a major speech in which he appraised the economic strategies of the States, emphasizing their limits and the failures observed in certain cases. Chief George stressed that the lessons taught by State policies point irrefutably to the need for the private sector to play a greater role in the economic development of Africa and also to the need for more projects targeted at African integration -- the only viable solution for the future.

Participants listened attentively to the opening speech made by His Excellency Mr. Habib Thiam, Prime Minister of Senegal. Mr. Thiam welcomed the numerous participants and thanked the organizers for instigating this timely meeting whose central issue is close to the main concerns of most of the sub-region's governments and particularly those of ECOWAS, which is currently presided by His Excellency Mr. Abdou Diouf, President of the Republic of Senegal.

The Prime Minister then reviewed the institutional and regulatory measures implemented by local authorities to promote the private sector and to involve it more closely in the definition of economic policy now and in the future. Mr. Thiam stressed the major role to be played by the private sector in the definition and implementation of sectoral policies. He applauded the new awareness observed and the proven intention of the private sector to assume its new responsibilities to the best of its ability, particularly with respect to privatization and economic integration.

The seminar then adopted a working methodology in three stages to guide the work of the different Commissions:

- Prepare an audit listing the reasons why the private sector has failed to develop: relations with the State, problems related to financing, to market size and to its own organization at the national and regional levels;
- Assess the consequences of the deficiencies noted in each area in order to pinpoint the difficulties to be overcome and to define possible modes of recovery and improvement;
- Make concrete recommendations to promote the organization of the private sector, provide appropriate resources to enable the private sector to make an effective contribution to economic development in West Africa.

The seminar elected the officers below:

Chairman:	Amadou Moctar Sow
General Rapporteur:	Papa Alioune N'Diaye
Chairman of Commission N° 1:	Abdul Kader Cisse
Chairman of Commission N° 2:	Fogan Sossah
Chairman of Commission N° 3:	John Igué
Chairman of Commission N° 4:	Mansour Cama

The four Commissions employed considerable diligence in their work. A summary of their deliberations is given below:

Following independence, most West African States endeavored to develop their economies themselves. Their failure to do so has been noted on numerous occasions. Over the past ten years, it has been increasingly acknowledged that the private sector had a major role to play in the development process. However, the same period saw the emergence of a serious crisis in the sub-region and the private sector -- restricted by its small role -- has not been able to find a way out.

An Inappropriate Environment for Enterprise

First, participants studied the root causes of the crisis.

They noted that West African States had failed to create an environment propitious to the development of private enterprise.

The legal framework governing business is not geared to the needs of modern enterprise or to African cultural values.

Companies operate in an imperfect economic framework. A weighty tax burden combined with the high cost of the factors of production and the heavy price charged by the State and public enterprise for their services have prevented private companies from competing effectively on national or world markets. For a long time, the laxity of donor agencies enabled the States to delay changes to their economic policies despite the fact that they were clearly ineffective. The new economic policies implemented in some countries as part of the structural adjustment programs sought to remove all forms of protection and did little to remedy the situation. They failed to initiate a process of recovery and in some cases actually worsened the situation by opening the gates to imports, which flooded national markets.

The financial framework, i.e., the banking system, suffered a particularly serious crisis. The measures taken over the past few years have initiated a process of restructuring and made a number of banks solvent once more but customers yet to regain confidence in the system. Savers are reluctant to deposit their money with banks and many prefer to use the informal financial system. Capital flight remains considerable. The financial framework does not serve the growth of enterprise at present.

Information systems and transportation networks are insufficient for the needs of modern economies and therefore restrict companies in their endeavors.

Finally, the "human framework" of enterprise, i.e., the end product of the educational system fails to meet the needs of many companies.

Participants also observed that the framework defined by the States is applied in part only and that implementation is frequently arbitrary. This creates a climate of uncertainty that is unfavorable to the development of investment and enterprise.

Even when the framework is applied, it is sometimes diverted from its true objectives to serve the personal interests of the individuals responsible for its implementation. This practice clearly hinders the development of a modern private sector. Abuses of this type are not unique to West Africa but they do not seem to have hampered economic development and growth in other regions of the world such as South-East Asia.

One hypothesis maintained that the present situation is largely the result of the fact that relations between the State and the private sector in West Africa are still marked by a clear lack of mutual trust and understanding.

It is pointless for public and private sector representatives to blame the present situation on each other. How can a climate of mutual trust be developed? How can a constructive dialogue be pursued? These questions were at the heart of the issues addressed by the seminar.

Improve the Organization of the Private Sector

In order to change the environment within which the private sector operates, players from this sector must have the opportunity to express their views. The private sector must present a united front in order to make its voice heard. In this way, it will become a force that the State cannot ignore. In short, it needs to improve its organization.

Participants noted that the structures representing the private sector (Chambers of Commerce and employers' associations) are organized differently in English-speaking countries and French-speaking countries. Further, the globally positive political and economic policy reforms of the past few years were initiated primarily by donor agencies and not by entrepreneurs who played only a minor role. The private sector is consulted at certain times but even so, results tend to be disappointing. Overall, governments continue to follow the same instincts.

How can the West African private sector acquire the power it needs?

First, private organizations must have the human and financial resources required to start a dialogue. They will need to come to the table equipped with such assets as a thorough grasp of economic facts. Possible sources of funding for these organizations range from membership dues (which many entrepreneurs do not pay) to donor agency funds for specific programs.

The number of organizations must be limited and their objectives and briefs clearly defined to prevent wastage of valuable resources and energy. The respective roles of the Chambers of Commerce and the employers' associations were defined. Each employers' association must represent the interests of a specific sector but a superstructure is also required to allow the private sector to present a solid front in negotiations with political authorities and unions.

Last, national authorities must not interfere in the management of structures representing the private sector. The full privatization of the Chambers of Commerce was unanimously recognized as a key objective.

The Need for Consultation

Consultation must focus on the environment in which companies operate. One of the main tasks of the State will be to define a sound framework within which companies will be allowed maximum freedom of operation. For this to happen, the roles of the authorities (and their institutions) will need to change considerably as will the attitude of officials.

The safety of individuals and the protection of goods are critical prerequisites to the definition of the new framework. It is vital for the State to maintain peace inside and outside its borders.

Companies need a clear legal and regulatory framework setting out the ground rules. They must not be restricted by conflicting laws. Business legislation must promote the creation and development of companies and facilitate the definition of solutions for companies in difficulties (through bankruptcy laws, in particular). The corporate environment must offer entrepreneurs stability and security. Governments must no longer modify the system at short notice. Hopefully, business legislation will be unified, or at least harmonized, within the sub-region in order to facilitate regional trade.

Companies need an economic framework that allows them to be competitive and to extend their markets. They want to be consulted on public investment programs, reforms and macroeconomic policy, particularly as regards taxation and the interface between national markets and the world market. They want specific forms of protection that are tailored to each situation and that do not affect their competitiveness. Participants also mooted the creation of a West African free-trade zone in which customs duties would be phased out and protection from outside markets provided.

Companies need an efficient banking system. Central banks play an essential role in this respect. The sub-region has a number of financial systems and the central banks must apply the rules to all financial institutions without exception and make sure that they are respected. Banks must also develop new financial tools that are tailored to the needs of modern enterprise, drawing upon the experience acquired in other parts of the world.

Companies also need efficient primary banks, which must apply high professional standards. They must strive to improve the quality of their portfolios continuously and to apply objective criteria in examining applications for loans. The financing of small- and medium-size companies is a particular problem. A number of initiatives are already under way and these could be improved and developed. Efforts in this area represent a considerable financial burden for banks but a number of donors are helping to meet start-up costs. We must examine ongoing initiatives closely to ascertain whether they would be viable in other countries.

Finally, in terms of human resources, the private sector must take part in discussions on educational reform, assist in the management of the training institutions that are crucial to its future and play a direct role in training the personnel that it needs. The training of personnel required by companies, banks, and other service agencies should be one of the main areas addressed by donor agencies.

When the requisite framework has been defined, it must be applied in such a manner as to exclude arbitrary interpretation and exceptions to the rule. A simple and clear framework would be easier to implement and more difficult to circumvent, thereby preventing abuses that could hamper the development of enterprise. Moreover, we must go farther and introduce mechanisms to promote consultation on the implementation of the framework at all levels, not just the higher echelons. Other mechanisms for negotiation procedures, e.g., specialized courts, will also be required.

To bring about a true process of consultation between the private sector and the State, prevailing attitudes and behavior must undergo radical change. These change cannot be achieved by decree but they can be encouraged and accelerated. Efforts must be made to inform officials of the role of the private sector and of the constraints that it faces and to improve the image of enterprise and entrepreneurs. At the same time, it is important for enterprise to cease to rely heavily on the State and to develop a capacity to innovate and to formulate its own proposals.

A further change in attitude and behavior is necessary if we are to create what could be termed a "new regional spirit", i.e., a true awareness of the solidarity that should link all the men and women of West Africa. Participants suggested making the study of French and English obligatory in all the countries concerned. Only through constant and formally structured consultation at all levels can West African entrepreneurs hope to reconquer the sub-regional market and to make significant inroads into markets in other parts of the world. Other parts of the world, such as South-East Asia, have demonstrated the spectacular results that can be achieved by joint strategies when the State and the private sector work in close cooperation, with each player taking his proper role.

Follow-up to the Seminar

Participants felt that resources should be provided for effective follow-up to the seminar. Much can be learned from the countries that have successfully developed closer relations between the public and the private sectors in the sub-region (primarily Nigeria) and in other parts of the world (primarily South-East Asia). The relationship between the public and the private sectors must change constantly, drawing upon the lessons taught by experience. Formal follow-up would be useful to collect and disseminate the information generated by this experience.

COMMISSION N°1

RELATIONS BETWEEN THE PRIVATE SECTOR AND THE STATE

It is generally observed that the environment created by the State is not conducive to the development of private enterprise. This observation must be qualified, however. Some governments have shown willingness to establish a more favorable framework but their efforts have been unsuccessful, either because they were inappropriately targeted or because the private sector could not live up to their expectations.

I. An Inadequate Framework

The legal framework proposed for enterprise was prepared without consulting entrepreneurs and in consequence generally failed to meet their needs. The framework is unable to keep pace with the changes taking place in modern economies and is increasingly unable to meet their requirements. Further, it does not fit in with the behavior patterns prevailing in African societies.

A profusion of legal and regulatory documents have been adopted to find immediate solutions but they simply generated inconsistencies that make the application of legal texts an extremely difficult task.

The current economic framework is generally unfavorable to the development of enterprise, which faces a number of problems: the taxation system is ill-suited to the needs of modern companies and is becoming an increasingly heavy burden, considerable difficulties are encountered in attempts to collect State debts and corporate assets are sometimes frozen in banks. The high cost of the factors of production and the heavy price charged by public enterprises and the State for low-quality services constitute a further burden. These problems severely hamper the competitiveness of West African enterprise on national and international markets and create a need for protective measures which, in the present context, can offer producers little security.

Finally, the end product of the educational system, which could be termed the "human framework" of enterprise, fails to meet the needs of companies in many cases.

These shortcomings explain the present stagnation of the formal private sector and the development of the informal sector whose operators are determined not to be trapped in the inappropriate framework defined for enterprise.

II. An Unused Framework

Setting aside its merits or defects, it must be said that the framework is applied in part only. This arbitrary mode of operation creates a climate of uncertainty that is unfavorable to the development of investment and enterprise.

Even when the framework is applied, it is slow and cumbersome and generally incompatible with the operation of modern enterprise. Further, the individuals responsible for applying the system often divert it from its true aim to serve their own personal interests and, in doing so, hinder the development of a modern private sector.

Such abuses are certainly not unique to West Africa but they do not seem to have prevented steady and often spectacular economic development on other continents. In this respect, it might be useful to consider why the situations in Africa and South-East Asia are so different.

One hypothesis lays the blame for the current situation on the system of relationships between public authorities and the private sector and the lack of consultation between them.

III. The Need for Consultation

Participants all stressed the need for consultation and for a new form of partnership between the public and the private sectors. A process of consultation has already been initiated but has only met with varying degrees of success.

What can be done to increase the effectiveness of consultation and partnerships?

A number of suggestions were made:

- The private sector will be in a better position to make its voice heard when it becomes a true force in the eyes of the State. For this to occur, it will need to be better organized.

- The public and the private sectors have been prone to blame each other for the current situation. This is a pointless and unproductive exercise that must stop. The objective must be to develop a constructive process of consultation between the two sectors.

Can donor agencies play a useful role in the dialogue between the private and public sectors? It would seem so in certain respects. They could provide direct support for companies and temporary support for national budgets with a view to the implementation of new fiscal policies. More specifically, they could provide technical and financial backing for the structures created to further dialogue.

Two other suggestions that could usefully be pursued by donor agencies were also made:

- Coordination between the various agencies at the local level should be improved.

- The private sector should express its needs directly to donor agencies.

IV. A Few Topics to be Addressed in Consultation

First and foremost, consultation must address the government-defined framework within which companies operate. The definition of a more appropriate framework is a major undertaking that will demand considerable effort on the part of the State. In particular, public authorities must be prepared to give up the functions over which they should have no prerogative. Government must allow companies more freedom within the new framework. This will involve reviewing the role of the ministries concerned.

Companies need clearly established ground rules and not a straitjacket. It is therefore important for the legal framework to support companies, to further their creation and development, and to facilitate the implementation of solutions for companies in difficulties. Moreover, regional integration could be furthered by harmonizing the legal framework of the different West African States.

The economic framework is as important as the legal framework. Consultation must focus on public services, public investment programs and also macroeconomic policies where particular emphasis must be placed on taxation and the interfaces between the national and international markets (with a system of protection for each specific situation).

Finally, with respect to the human environment, the private sector must participate in discussions on educational reform and play a role in training personnel to meet its needs.

The framework must be applied once it has been created. A simple and clearly defined framework would be easier to implement than a more complicated structure and less likely to be diverted from its primary objective. However, there is a real need to take the process much further, to set up consultation mechanisms for implementation of the framework at all levels (not just the higher echelons) and to define effective arbitration procedures, e.g., specialized commercial courts.

In this respect, it should be noted that officials will need to revise their attitudes and their habits. Such a change cannot be achieved by decree, but the process could be furthered through training initiatives and awareness campaigns to familiarize officials and the population in general with the role of the private sector and the constraints that it faces. Efforts should also be made to improve the image of enterprise and entrepreneurs. Nigeria has already taken steps in this direction with the creation of informal consultation and communication frameworks (fora) whose role is to improve the corporate environment. This example could serve as a reference for other countries.

Furthermore, a number of countries have already taken steps to simplify and accelerate administrative procedures. Senegal and Cape Verde, for example, have reduced the number of business permits required and set clear time limits for their issue. Other countries in the region could follow their example. Similarly, the development of bridges between the public and the private sectors would promote greater understanding.

The Commission believes that follow-up to the recommendations made by the Seminar is imperative. Much can be learned from the experience gained within the region (e.g., in Nigeria) or outside it (e.g., in the Asian countries where conditions are closest to those prevailing in Africa). The relationship between the State and the private sector must undergo a process of continuous adjustment, drawing upon the experience gained elsewhere in the world.

In conclusion, the recommendations of the Commission point to the need for a process of consultation between the public and the private sectors. This can only be achieved if the private sector is effectively organized at all levels and thereby able to make its voice heard. Donor agencies have a role to play in facilitating the emergence of a dialogue.

COMMISSION N°2

THE FUTURE OF FINANCIAL SYSTEMS AND CORPORATE FINANCE IN WEST AFRICA

Despite the restructuring efforts undertaken in the various West African countries, the Commission agreed that much remains to be done to overcome the crisis facing the financial systems and to find alternative solutions to the financing requirements of business.

I. Causes of the Crisis and Players Involved

Participants started with a brief review of the external factors that have played a determining role in the crisis. Particular attention was drawn to the slowdown in economic activity, to the oil shocks and to their impact on the financial situation of companies. Participants stressed that the quality of the banks' portfolio has deteriorated considerably, that government revenue has decreased and that the State has borrowed heavily from the banking system

Participants then discussed the internal factors underpinning the crisis, with particular reference to the players involved. The Commission stressed the responsibility of African governments whose constant intervention distorted the ground rules. In a number of instances, the State authorized loans that the banks would not have granted had their own criteria been applied. Most of these loans have yet to be repaid. The governments also blocked economic growth, and particularly the development of the private sector, by appropriating scarce assets for their own use. These factors combined to bring about a general lack of confidence in the State.

Participants also pointed to the responsibility of donor agencies whose attitude was frequently lax and based on a practice of laissez-faire. Instead of addressing the crux of the problem, donors chose to fund government deficits and public enterprise and to recapitalize the development banks. Their actions served only to delay the reforms that were needed for the restructuring of the financial systems.

II. The Impact of the Crisis

Participants agreed that the main consequence of the financial crisis has been a loss of confidence on the part of national and foreign savers and investors.

The measures taken by various countries to improve their financial systems have met with some success and certain banks are solvent once more as a result of restructuring operations but a widespread distrust of the banking system remains. Savers have not forgotten how their savings disappeared when the banks collapsed. The Commission noted a continued preference for an informal financial system and indicated that capital flight remains considerable. Investors continue to seek the security, liquidity and high returns that they do not find in their own formal financial systems. The continuing inadequacy of financial instruments and institutions prevents West Africans from managing the financing and growth of business effectively.

III. A Way Out of the Crisis for Financial Systems

Having made the above observations, participants noted that the efforts made to restructure financial systems over the past few years are now starting to bear fruit. As the next step in their deliberations, participants looked at a possible strategy for the future and discussed how to restore confidence in the financial system.

First and foremost, participants wondered how to create a climate of trust between the government and the private sector.

The meeting suggested a number of measures to improve relations between government and economic operators.

A number of general conditions appear particularly important. Government must:

- Continue efforts to further economic change and recovery;
- Meet its commitments to the private sector and, in particular, endeavor to reduce its internal debt;
- Create a stable operating environment for business that will not be changed constantly to suit prevailing conditions;
- Reduce its stake in banks and financial institutions;
- Respect the independence of these institutions and never interfere in their management or operations; and
- Finally, promote the creation and operation of independent bodies to supervise banks in the different West African countries.

Further, government must define and enforce clear regulations for all players, making no exceptions and granting no privileges to itself or to anybody else. Similarly, the Commission stressed the need for a system to guarantee the independence of the legislative institutions and of the bodies implementing their decisions. More specifically, governments need to introduce bankruptcy laws and create commercial courts to facilitate the recovery of the banks' debts.

At the regional level, governments need to increase the pace of regional integration and to standardize corporate law, tax rates, and the legislation applicable to the protection of investments in the region. The Commission also expects governments to play a major role in the progressive integration of financial and monetary policies in West Africa.

The Commission then discussed **how to improve the efficiency of central banks.**

Financial systems in the sub-region are marked by considerable diversity and participants were therefore pleased to note the reforms that are currently under way in a number of West African countries and in the region's financial institutions. The creation of the WAMU Banking Commission, in particular, was applauded. Participants nevertheless stressed that other equally urgent reforms have yet to be implemented and recommended that effective action be taken in these areas.

First, central banks must enforce the regulations applicable to financial institutions at the national and the regional levels. The State must give them the resources and authority necessary for this task.

Similarly, participants noted that central banks need to develop existing legislation and to take a number of emergency measures, e.g., raising the minimum capital requirements applicable to banks in order to underpin their capital base and to encourage the creation of groups. To develop savers' confidence in the banking system, participants proposed the creation of deposit insurance agencies along the lines of the Nigerian Deposit Insurance Corporation.

Where possible, central banks should draw upon the experience acquired in other parts of the world to develop new financial instruments and institutions that are geared specifically to the needs of the business world. Objectives would include the development of national and regional capital markets, investment banks, savings and loan associations, and venture capital companies.

The Commission then looked at **how to improve the conditions in which primary banks operate.**

As a result of ongoing efforts to recapitalize and restructure the banking system, the financial situation of many banks has undergone a remarkable improvement. Nevertheless, the progress made has not been sufficient to win the confidence of the many savers and investors who still view the system with distrust. In consequence, the Commission made the following recommendations:

First and foremost, banks need to apply high professional standards. They must train personnel to higher levels and modernize and improve their management techniques if they are to increase their profitability and thereby to safeguard their future.

Participants pointed to the funding of small- and medium-size companies and industries as a particular problem. Customers should be encouraged to use management consultancy firms, which can offer banks their technical and analytical skills for the assessment and follow up of applications.

Primary banks have a role to play in the development of West African financial markets. They must increase contacts between banks (national and cross-border) and pool their experience and know-how.

The Commission made a number of recommendations for the private sector concerning its relations with the financial sector.

Primarily, participants emphasized the need for each player to take responsibility for his own actions and to shoulder his share of civic responsibility.

The Commission pointed out that the crisis of the financial system has had a negative impact on the private sector while the problems of the private sector have aggravated those of the financial system. At the same time, the private sector has its own particular problems, stemming to a great extent from poor corporate management. Companies need to address these issues individually.

Private sector players must note the role played by banks in the economy and acknowledge the need for these entities to be well managed and profitable. Employers' associations and Chambers of Commerce must play an active role in informing their members of the needs of banks and of the role that they play in society. The private sector could create small investment banks specializing in loans to small- and medium-size companies and industries.

For too long, donors have paid scant attention to how their aid was used by financial systems. **The Commission declared that donors must exercise tight control** over the use of their funds to ensure that they are used effectively. Before providing any more aid, donors must look at how the funds already given are being used. They must support initiatives in favor of rural areas, where existing financial institutions fall far short of requirements. The initiatives concerning rural banks in Ghana or the different credit and savings cooperatives appear worthy of further support. Overall, however, donor agencies must focus their efforts on the training of players in the banking and legal sectors and entrepreneurs.

We noted earlier that the funding of small-and medium-size companies and industries is a particular problem for banks. A number of donors are already helping to meet the heavy front-end costs of programs designed to meet this need. Banks are unable to satisfy the financing requirements of micro-enterprises and the efforts made by such projects as the ACEP in Senegal, should be encouraged. These initiatives should be studied closely to ascertain whether they can be repeated in other countries. However, the banks must remain responsible for portfolio management and loan decisions.

The Commission concluded the debate with a number of general remarks.

Participants agreed on the need to introduce a more liberal and stable environment for the economic activity of the different countries in the sub-region. Particular emphasis must be laid on the development of the private sector and on the disengagement of the State from production activities. The role of the State must be to create an environment in which private initiative is promoted.

Further, participants noted that in other parts of the world, South-East Asia in particular, the State has been the driving force in the economy and has thereby played a critical role in development. Unlike their African counterparts, South-East Asian governments did not attempt to replace the private sector. The Commission concluded that it would be useful to undertake a detailed study of South-East Asian countries with a view to applying the lessons of experience to West Africa.

COMMISSION N°3

MARKETS

Following the introductory session, the Chairman invited the members of Commission N° 3 to acquire a thorough grasp of market problems in West Africa by reading the working document prepared by the Steering Committee for the meeting and also the reports drafted by Mr. Barbier and Mr Igué on the basis of the papers that they had prepared for the seminar.

Discussions then addressed the reasons for the difficulties encountered by most companies in their efforts to trade their products on the national, regional and world markets. The two reports mentioned above stressed the need for integration but participants preferred not to focus on this topic, which they see as just one aspect of the crisis facing companies today.

Discussions were frank and open and marked by a clear desire to avoid oversimplification of a complicated issue. Participants sought to identify realistic solutions to the crisis on the basis of their experience and ongoing research into traditional trade and the informal sector.

Participants started by rounding out the general picture with more details on the factors that the working documents identified as being responsible for the lost market share of West African companies at the national, regional and international levels.

The Commission stressed the two points below, which will have major consequences in the future:

1. The structural adjustment programs advocated by international financial institutions have generated new economic and industrial policies whose impact has been negative. Companies, in particular, have been stripped of their protection and have become less competitive on the world market as a result. The case of Senegal was quoted and discussed as an example of the negative impact of such policies whose end result is the flooding of local markets by cheap imports.

2. In view of the conduct of West African economic operators, including those in the private sector, participants wondered whether integration was more of a vague aspiration than a true objective in the eyes of economic operators. There appears to be no real awareness of belonging to a community. The players involved in the economic life of the region have found it extremely difficult to transform words into deeds and to encourage integration through their actions.

Discussions highlighted a number of additional factors that have been instrumental in bringing about the crisis now facing companies in their relations with the market:

- The shortage of entrepreneurs who are capable of management in the true sense of the term, i.e., people who are familiar with management and marketing techniques, who can analyze the market, grasp opportunities and effectively match supply to demand.

- The financial institutions whose inadequacy has hampered the development of interregional trade: banks and insurance companies are unsatisfactory intermediaries for companies seeking to finance and guarantee commercial or industrial transactions. Even the new generation of entrepreneurs, in whom participants place great hope, would not be able to create or develop their own businesses unless they received funds enabling them to make profitable investments. New lines of credit must be devised to favor the development of solutions to take companies out of the crisis.

- The poor circulation of information and the inadequacy of modes of communication constitute serious impediments to the development of trade at the national level and, more particularly, at the regional level. The deficiencies of ground, air and maritime communications networks combined with the inadequacy of telecommunications links between the countries in the region, make the transportation of people and goods a difficult and risky undertaking. **Transportation costs are raised by the unofficial taxes demanded** at the numerous checkpoints and road blocks. Moreover, information on product supply and demand must be made available early enough for companies to have time to take effective action. Only in this way will they be able to make successful business deals.

- The end of the import substitution policy, the falling demand for goods and by the progressive influx of imports generated by the broad liberalization programs have all had a significant impact on national and regional markets.

- Cultural factors and wide disparities in income within the region constitute further reasons why West African manufactured goods are less competitive than those from South-East Asia.

- There is no government-defined framework for business that could be widely disseminated and applied to all economic operators. Nor is there any regional business legislation. This being so, how can transactions be guaranteed between different States?

Having analyzed the causes of the market crisis facing West African business, the members of the Commission looked at the impact of the slowly shrinking markets and endeavored to ascertain what would happen in the future if this trend were to continue. Not everyone could agree on the distinction between the causes and effects of the crisis.

The Commission stressed that the crisis has affected West African businesses in many different ways. Participants nevertheless identified a number of major consequences as follows:

- The members of the Commission deplored the difficulties encountered in the application of the regional cooperation tax (TCR), following the onset of the crisis and the introduction of structural adjustment policies. The TCR was an admirable WAEC initiative that was viewed as a symbol of hope for the future of regional integration before it foundered on the obstacles above.

- The difficulties encountered by the formal sector have prompted the unprecedented development of the informal sector. Some formal structures are even becoming informal. The Commission pointed out that while the informal sector has created jobs and income, the disappearance of the formal sector could compromise economic development and also the implementation of the macroeconomic and sectoral policies defined by the States.

- Imports have grown but exports have failed to develop at the same rate. In consequence, the foreign currency earned by States has fallen.

- The crisis has also worsened the regional unemployment problem, increasing the risk of social unrest in West African cities.

- A further consequence of the present situation is the increase in fraud in all areas of the economy. Imitating the example of the informal sector, certain economic operators resort to fraud as a means of circumventing regulations and increasing their profit margin.

- Last, capital flight must be mentioned as one of the most serious consequences of the deterioration in company performance and in the business environment.

With the very first session, participants initiated a lively discussion on cause and effect and proposed a number of possible solutions to take companies out of the crisis, which is perceived as jeopardizing the development of enterprise in the formal sector. Strategies were proposed on the basis of two main approaches:

(1) the institutional and governmental approach, and

(2) the private approach, which participants referred to as integration from the bottom up.

Participants' proposals concerning the institutional approach were as follows:

- Reorganize the institutions responsible for promoting trade: make them less numerous and more able to meet the real needs of the private sector so that they can **provide strong support for the promotion of trade and act as a springboard for the reacquisition of market share.**

- Insist on the need for governments to transfer some of their powers to regional organizations; this process is recognized as indispensable for the promotion of regional trade, just as the WAMU is indispensable for monetary concerns.

- Review sectoral policies to extend beyond national borders; penetrate foreign markets and take control of companies downstream where necessary. For example, the cocoa industry in Côte d'Ivoire could envisage buying shares in European cocoa processing plants.

- Create a W st African **free-trade zone** in which customs duties would be phased out and protection from foreign markets provided. However, protection would be selective and temporary and companies and governments would draft common programs for the phasing out of these measures over a period of several years.

- Implement a training policy to further the emergence of a new breed of entrepreneurs who are familiar with modern management and marketing systems and who can analyze markets and define strategies to retain or win market share.

- Define and implement a regional framework for legislation on trade. This would provide economic operators with a common framework to be honored by all players, including the State.

With reference to the private approach, the members of the Commission made the following proposals to find a way out of the crisis:

- Create new **joint ventures** in the private sector, involving partners of different nationalities and shareholders in one or more countries. This type of regional joint venture is a perfect illustration of integration from the bottom up.

- Use all national and regional comparative advantages: West Africa could focus more on the agrofood industry, for example, as it can compete with imports in this area.

It must be noted that comparative advantages can only be deployed effectively on the world market as part of an overall strategy that has the agreement and support of the government. The example of Asian countries has taught us that spectacular breakthroughs on the world market are only possible if the government and the private sector join forces in a process of active cooperation.

- Recapture domestic markets as a top priority: growing domestic demand fuelled by an increase in rural incomes will make this task easier.

- Strive to produce quality goods and services at competitive prices. This will involve analyzing cost structure in detail and tailoring production to recognized markets.

- Discussing the current outlook, the members of the Commission made frequent reference to the organizational methods employed by Asian countries (quoted as examples earlier) to emphasize how much can be achieved when the private sector and the State decide to work together. Further, the spirit of innovation permeates every level of society in Asian countries, which also have a highly developed sense of national pride. This is not the case in West Africa.

With reference to the problem of economic integration, participants pointed to the monetary integration of the region as a prerequisite to be addressed with all urgency. The lack of integration is one of the main obstacles to the development of formal trade. Revitalizing such institutions as clearing houses or trade centers to encourage trade throughout the region is only conceivable within an organized regional capital market.

Participants taking the floor made a number of recommendations to the government and to the private sector.

Recommendations for National Authorities

A. Governments must consider how they can support the private sector, e.g., by creating a training center for entrepreneurs at the regional level and advisory centers to promote regional trade at the national level.

B. National authorities must address the removal of customs duties at the regional level while harmonizing import and export policies to protect the region from imports.

C. National capital markets must be liberalized to allow the creation of a regional capital market.

D. The different investment codes currently applicable in each country must grant foreigners from other parts of the region the same rights as nationals.

Recommendations for the Private Sector

A. The private sector should envisage the creation of a regional newsletter as one possible way of facilitating the dissemination of information.

B. A regional directory of businessmen should be compiled to promote the creation of a network of West African economic operators.

C. When comparative advantages give them competitive edge, economic operators must go on the offensive to win or regain market share at the national, regional and international levels. The successes of Asian countries have demonstrated that markets can only be conquered on the basis of a detailed strategy in which tactics are adjusted continuously by the State and the private sector, with each one playing its role.

D. The private sector must go beyond mere words to convince the State of the vital role that it can play in the economic development of the region. It must organize an effective lobby to make its voice heard and initiate actions that will improve its operating environment at both the national and the regional levels.

COMMISSION N°4

ORGANIZATION OF THE PRIVATE SECTOR

Introductory note: Certain words or expressions had to be defined for French and English speakers to understand each other; the word "syndicat", for example, applies to both workers and employers in French. The Commission recommended that a small glossary of terms be prepared to explain the nuances of certain expressions and to facilitate an understanding of the systems underpinning private sector representation in both environments.

The main points raised by the Commission can be summarized as follows:

I. Analysis of the Current Situation

The two main types of organization representing private sector interests are the Chambers of Commerce and the employers' associations.

A study of the background and organization of business associations reveals considerable differences between English- and French-speaking countries. One of the most striking distinctions is that the Chambers of Commerce in English-speaking countries have never been subject to strict government control. Financing methods also differ: English-speaking countries obtain their funds directly from members while French-speaking countries obtain theirs from the State, which raises the funds and directs them through the State Treasury, thereby giving officials a certain degree of influence over the business institutions that are dependent on these funds.

- The political context of each country influences the organization of the private sector as well as the objectives and actions of the groups that seek to represent it.
- The new context with its emphasis on democratization and liberalization has encouraged the organizations representing the private sector, e.g., the Chambers of Commerce and the employers' associations, to reconsider their role.
- The political and economic reform achieved owes more to donor pressure and widespread popular demonstrations than to lobbying by entrepreneurs.

II. An Appraisal

Business organizations have generally failed to take effective action.

- Participants agreed that the organization of the private sector has yet to produce tangible results for entrepreneurs. The few successes of the Chambers of Commerce or the employers' associations have fallen well short of the objectives that were assigned to them.
- The most that these organizations have been able to achieve is to bring about recognition of the private sector and, in certain cases, to establish links with government the authorities

that now consult them on a regular basis. Nevertheless, government representatives do not appear to give sufficient consideration to the private sector's viewpoint. The dialogue between public and private sector representatives is not a day-to-day occurrence and government still tends to fall back upon its well-established ways.

- The reasons for the relative failure of private sector organizations to influence government are many and varied. The main causes include:

a) A lack of human and financial resources. Participants criticized the numerous entrepreneurs who do not pay their dues regularly.

b) The State's grip on business organizations: the government appoints directors, controls personnel and provides funding, etc. This weakness is more apparent in French-speaking countries than in English-speaking countries.

c) The individuals controlling organizations see their own interests as more important than the general good or members' interests. In some cases, they endeavor to use the organizations to maintain the status quo.

d) The increasing numbers of business organizations with poorly defined mandates. Their lack of organization confuses economic operators who rapidly lose interest in them but suits the divide-to-rule policies of the State. With their overlapping organizational structures and frequent duplication of each other's work, these entities are generally inefficient. They waste energy and squander the valuable resources that are already in short supply.

e) Governments and operators lack a corporate culture and companies therefore continue to defend their own interests rather than working together through the Chambers of Commerce or the employers' associations.

f) Traditionally, the private sector has never been included in the debate on policy reform and it has learned to live with an environment that was imposed upon it without prior consultation.

III. Outlook and Recommendations for a Plan of Action

Financial resources must be found for the private sector to take over certain responsibilities that are currently held by the State. Possible sources include:

1. Members' dues.

2. Training: development of existing programs.

3. Management of infrastructure, e.g., trade zones at airports, haulage depots, weighbridges.

4. Organization of events to promote trade (trade fairs, exhibitions, etc.) at home and abroad.

5. A fee charged to members for assistance in creating or expanding a company (small- or medium-size) or in the performance of certain administrative procedures, publication of newsletters, data bank management, etc.

6. The funds collected by the State (the means of levy should be reviewed to prevent State interference).

7. Support from local and national government to cover the cost of the public services administered by private sector organizations.

8. Donor support for specific programs.

- The organizations representing the private sector must have a good grasp of economic facts to be effective.

- Certain training requirements can be satisfied within a structure that allows small and large companies to pool their experience.

- The question of whether membership of business organizations should be mandatory or voluntary was also discussed. The vast majority of participants believed that freedom of association should be the guiding principle. Membership should be encouraged by quality of service rather than imposed by government legislation.

- It was generally agreed that the government should not interfere in the management of private sector organizations.

- Participants identified full privatization of the Chambers of Commerce as a key objective.

The members of the Commission made a distinction between the legal structure of the Chambers of Commerce and their management.

Participants discussed how best to turn the government-dominated Chambers of Commerce into independent entities. The approach and the pace of change will vary from country to country.

- The Commission also discussed how to organize the bodies representing the private sector. Should the starting point be a single organization or a group of sectoral organizations that will ultimately be federated?

Participants agreed that it was vital to encourage organizations representing the specific interests of a sector or a profession but maintained that a superstructure was needed for organizations to form a united front in negotiations with the government and with unions and to enable them to define a common economic strategy. The superstructure should act as the collective voice on issues affecting a number of sectors but it must not supplant the grass-roots organizations that must be able to defend their own interests on questions that concern their specific area of activity alone.

- To prevent wastage of energy, efforts must be made to ensure that the organizations created do not have the same brief.

With reference to this point, the Commission discussed the respective roles of employers' associations and the Chambers of Commerce.

Participants agreed that the Chambers of Commerce should be based on an association of professional groups, and that each type of business association should have its own specific responsibilities.

a) Areas covered by the Chambers of Commerce: the promotion of trade, the collection, analysis and dissemination of economic data, training initiatives, assistance in company creation, lobbying for reform in partnership with employers' associations.

b) Areas covered by employers' associations: consultation with national authorities and workers' organizations, defense of corporate interests, the collection of economic data to support the Chambers of Commerce, assistance in defining training requirements and lobbying for reform.

- A radical change in attitudes and behavior change radically. Where this process has already been started, efforts must be continued:

  — The public sector must accept that its role is to serve the public, and economic operators in particular, rather than doling out favors as and when it sees fit.

  — Entrepreneurs must cease to rely passively on the State. They must develop a true entrepreneurial spirit and hone their capacity to innovate and to make proposals rather than simply reacting to outside events.

- The private sector must be included in discussions on economic policy ad a formal framework established for regular consultation between the State and the private sector.

- Private sector organizations must address the issues of communication and the development of entrepreneurial spirit.

- Participants discussed the relations between the formal and informal sectors and agreed on the need to facilitate and encourage complementarity.

The Chambers of Commerce could provide the link between the two sectors.

The informal sector is well organized as regards its own needs. However, it competes with the private sector and its possibilities for growth remain limited.

If the informal sector is provided with an appropriate framework combined with a number of incentives, e.g., credit, training, and the removal of administrative constraints, it could be induced to place its potential at the service of economic development.

- With respect to regional integration, participants deplored the relative inefficiency of existing organizations such as the federation of West African Chambers of Commerce and the West African industrial federation.

Past failures have stemmed from the weakness of the organizations' members and from a lack of political determination on the part of host governments whose words were rarely translated into deeds.

Communication problems (telephone and telex lines, transportation, languages), different currencies, a general lack of information and data and the instinct of protectionism have all contributed to the failure of regional organizations.

Participants believe that strengthening the national Chambers of Commerce will make regional institutions stronger. However, the approach and the objectives must be realistic and reflect the resources available. The definition of flexible structures with specific objectives would make it possible to trace a viable route to economic integration.

It is important to encourage bilateral cooperation between countries and between Chambers of Commerce within the sub-region as the basis for greater regional cooperation.

RELATIONS BETWEEN THE PRIVATE SECTOR AND THE STATE[1]

Working Document

Introduction

The economic role of the private sector has been the focus of growing interest in West Africa since the beginning of the 1980s. Three decades of State domination clearly have failed to maintain economic growth, and one wonders if the private sector could become a driving force behind more sustainable growth whose benefits would be felt by all sections of the community.

The current situation stems from the region's history. At independence, the formal private sector was small and consisted primarily of foreign companies. The new Nation States were anxious to achieve economic independence and, recognizing that the national private sector lacked the requisite technical and financial capacities, chose to create vast public sectors with the backing of foreign companies and capital. State-owned companies were viewed as the key to promoting development, creating jobs, distributing wealth and creating national added value. The State played a leading role in West African economies, and, when economic and financial crisis struck, that role became intolerable. It became clear that State-owned enterprises, with patronage and nepotism as management principles, were an obstacle to development.

The structural adjustment policies that were introduced to favor economic recovery stress the need to disengage the State from the economy. The State must now allow the private sector to play its rightful role and to become a full-fledged partner in development efforts. But closer analysis of the West African situation shows that the private sector is in a state of near chaos. As things stand, it is not in a position to meet expectations. We should perhaps start by giving a clear definition of the private sector, which consists of a modern "structured" sector and a "non-structured" informal sector, i.e., two sectors that follow parallel but separate paths.

Throughout French-speaking West Africa, the "structured" sector is dominated by large State-owned companies. Most modern private companies are foreign and account for only a small portion of the activities of the "structured" sector. They create few jobs, generate little income and are becoming less important than the informal sector. Why is the number of foreign companies contracting? Because political and economic conditions and the general business environment are unfavorable. Large numbers of foreign companies are curtailing their activities or pulling out altogether. National private companies are retreating into the informal sector to escape State control.

Unlike modern State-owned companies, most of which record losses, and modern private companies, which are frequently beset by difficulties, the "non-structured" informal sector is a wellhead of energy and activity. It creates jobs and generates incomes. Unaffected by State regulations, controls and taxation, the informal sector is versatile, adaptable and capable of taking opportunities to produce and generate profit. The sector comprises two main categories of players: the traditional large-scale traders and a plethora of micro-enterprises (artisans, services and small-scale traders).

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[1] This paper is based on the work of the steering committee, documents by Mr. Diop and Mr. Cissé, and the work of the Club du Sahel and its consultants.

The large-scale traders of West Africa have formed the basis of the African private sector for centuries. Some observers believe they work as oligopolies to limit competition. Whether this is true or not, their organization undoubtedly relies upon ethnic, religious and family networks that stretch the length and breadth of West Africa. These networks enable the large-scale traders to gather the information they need to set up systems of credit, to transfer funds and to distribute goods. The traders take advantage of the differences in economic, trade and monetary policies between African States and between Africa and the outside world. A shrewd combination of traditional and modern financing methods allows them to turn differences in exchange rates to their own advantage.

Micro-enterprises in the informal sector play an important role in West Africa. They may be a kind of corporate nursery for small- and medium-size companies but we cannot be sure of this. Although they satisfy a wide variety of needs in terms of production, trade and services, they are forced to remain invisible, i.e., outside the legal and fiscal system, in order to remain competitive. Being forced to remain out of sight severely limits their capacity to invest, expand and improve productivity, thus impairing their chances of becoming modern small- or medium-size companies.

The shrinking of the formal sector and the expansion of the informal sector will not help the private sector to become a driving force in development efforts. Further, government policy must change if the private sector is ever to play this role. Over the past three decades, the trade and fiscal policies, regulatory framework and legal system defined by the State have created a situation of permanent conflict between the private sector and the State, and the State has gained a position of clear domination. Further, the African private sector does not have enough independent trade unions, associations and professional organizations (i.e., the counterforces) to demand the impartiality of the State, and the State therefore has defined the ground rules to suit its own interests, rather than those of its citizens. The State has not played the role of arbitrator and its policies have distorted the development of the private sector.

If the private sector is to become a driving force in development efforts, then certain principles must be respected and certain conditions satisfied. The most important prerequisite for the expansion of the private sector is better relations with the State.

The role of this working document is to provide a basis for discussions on the relations between the State and the private sector. The document is split into three parts, one for each of the three sessions planned for the working group. The first part describes past and present relations between the State and the private sector; the second briefly sets out the consequences of these relations; and the third discusses what needs to be done to change the situation.

Session I: The present situation

In West African countries, the State is the main economic player. As the political and legal authority, entrepreneur, employer, investor, customer and supplier, the State is both judge and jury. The all-embracing State has not allowed private initiative to develop and has even actively discouraged it as a source of possible unrest. On many occasions, it has pushed the fledgling private formal sector into the informal sector.

These State hydras have managed to develop over the past three decades because the political system is such that the law is rarely applied in compliance with legislative texts. The role of the law is to organize social, economic and political relations within society. The rules laid down by the law are applicable to all members of society (individuals and companies in both the public and the private sectors). West African governments have paid lip service to the need for legislation but, in practice, they have only respected it when it was in their own interests to do so.

Until fairly recently, legislation in many countries of the sub-region was limited to public law and economic and social law. Few countries had any civil or commercial law except Nigeria and Cameroon. And even when this legislation did exist, the State continued to intervene freely in all areas of economic activity:

- Creation of monopolies in many areas of economic activity;
- Unjustified creation of State companies;
- Total or partial nationalizations;
- Commandeering of economic operators and workers for programs whose objectives corresponded to the State's aspirations only;
- Creation of legal and regulatory frameworks severely restricting the private sector's room for maneuver (investment codes, customs systems, tax systems, price polices, etc.).

Successive governments were thereby able to govern by exception and privilege. The role of State-owned companies became to maintain the ruling power's grip on the key sectors of the economy: management and marketing of agricultural produce, exploitation of mining resources and marketing of raw materials, and, more generally, all significant industrial activity and the marketing of the major staples.

In the years immediately after independence, the donors showed a marked preference for State-owned companies. They granted loans and subsidies to help to create public sector companies, and are therefore partly responsible for the present situation.

Public-sector companies enjoyed many State-proffered advantages:

- <u>Legal protection</u>: The private sector has rarely been able to turn to the legal system to settle conflicts with State-owned companies or the administration.
- <u>Access to credit</u>: The large numbers of government representatives on credit committees or in the banking sector made sure that the bulk of the credit available in the countries of West Africa was allocated to companies in the public sector.
- <u>Preferential status and advantages</u>: Special agreements offer many State-owned companies significant advantages, e.g., substantial tax and customs relief, and monopolies that enable them to sell goods at above the market price. State-owned companies thus have a significant head start on their competitors in the private sector. Even this does not seem to prevent them from running at a loss.

The private sector is completely overpowered by the State; its role has been routed into a source of fiscal revenue. It has no say in shaping its legal environment. Its relations with the State are non-existent and it is viewed as a subject of the State rather than a partner. Any attempts by the private sector to organize are subject to State control: Consular Assemblies must be set up, and the key positions in these assemblies are held by representatives of the administration. The elected bodies have little power and operate under the strict supervision of the relevant ministries. The government continues to hamper the organization of the private sector and to stop it from operating on its own initiative because it still views it as a potentially dangerous counterforce.

Questions:

Do the participants agree with this analysis of the relations between the State and the private sector?

What are the origins of current West African law? How did it develop?

Why do governments behave like this?

How was the private sector excluded from the definition of the basic laws governing its activity?

Why has the private sector been unable to defend itself against the measures imposed?

Session II: The consequences of the present situation

The existence of a controlled and centrally planned economy in which the omnipresent State seeks to take charge of everything has had disastrous effects on economic growth in general and on the private sector in particular. The two main players of the formal economy -- the modern formal sector and the State-owned companies -- are losing steam while the informal sector, whose contribution to State revenue is minimal, is developing rapidly. Instead of favoring growth, as it should, the business environment has actually caused the economy to stagnate.

The main consequences of this situation on the economy are as follows:

The State places an excessive burden on the economy: The centrally planned economy is extremely costly to the State budget. State-owned companies, which tend to run at a loss, depend on subsidies from the national budget. Further, the enormous, non-productive civil service, which absorbs most university graduates, generates high costs for the State: in some cases, the wage bill alone is equivalent to more than half the current budget. To maintain its level of income and to cover its budget deficit, the State continues to apply heavy fiscal pressure, which is crippling the development of a productive private sector.

Extensive State intervention prevents the market from operating freely: Transparency is vital for a market economy to operate efficiently. In most West African countries, however, transparency is completely lacking as all economic decisions must be approved by the government. The extreme slowness of the decision-making process precludes the autonomy and the flexibility that are vital to dynamic markets. The interventionism and omnipresence of the State leads to confusion over the respective economic roles of the State and the private sector. The State plays a dominant role in price fixing, controls the availability of the factors of production -- particularly trained personnel and credit -- and has secured a number of advantages for itself on certain markets. In this way, it has effectively crowded the private sector out of the economy.

The State only applies the law when it considers it to be in its own interests: As both judge and player, the State turns the situation to its own advantage when the public sector is in competition with the private sector. The State is a major supplier to the modern formal sector as well as being its main customer. In its business dealings with the private sector, the State rarely respects the laws; it amends them through decrees and directives; it interprets them to fit in with its own aims. The State frequently fails to meet its contractual commitments in its dealings with private companies. The size of the internal debt of numerous West African countries has been a severe handicap to the private sector. By granting substantial credit to public companies that rarely repay their debts, the State also has been instrumental in bringing the banking sector to its knees. With no counterforces to criticize its actions, the State has been answerable to nobody and has made no attempt to create an environment propitious to the development of a private sector that could constitute a danger to companies in the public sector. The State's attitude to the private sector has had the firm backing of government employees, for whom the private sector is often viewed as a trouble-maker with no concern for the interest of the population at large, but seeking to get rich on the back of the community.

In short, the State has created an environment in which the private sector has only a secondary role. The private sector has lost all faith in its ability to operate in this kind of market, which is neither healthy nor neutral. Conflict between the private sector and the State has pushed many talented entrepreneurs out of the private sector and into the informal sector, where markets are out of the State's reach.

Questions:

Do the participants agree with this analysis?

Does the State need to win back the confidence of the private sector? How should it do so ?

What has been the general pattern of the State's behavior towards the private sector? Has the private sector been able to influence this process?

West Africa consumes far more than it produces. African industries are not competitive on the world market. Africa is forced to import a growing percentage of its food and has lost market share in agricultural exports. If these trends are to be reversed, is there not an urgent need for the relations between the State and the private sector to become less conflictual?

Session III: Establishing healthy relations between the State and the private sector

Both the State and the civil society will need to change their attitudes substantially if better relations are to be established between the State and the private sector. It must not be forgotten that the private sector is more than just the large-scale traders and financiers from the modern sector who are represented at this seminar: it also includes farmers (70% of the population) and a myriad of micro-enterprises and artisans that are not represented here today. No real economic recovery can take place if these private-sector operators are not taken into consideration.

The role of the State is something of a topical issue in West Africa. National conferences, political reforms and media debates have all shown that there is widespread interest in this question. What role will the State play in tomorrow's Africa? Do we need a strong State to point the economy in the right directions and mobilize the population for the herculean development efforts ahead? Will the State need to persuade the population to adopt new objectives, i.e., production and productivity rather than consumption? All these questions and many others have been asked and will continue to be asked for a long time to come before real solutions are found. And we must accept that any solution that is found inevitably will be incomplete and subject to criticism.

The existence of effective counterforces could play a vital role in changing the political system and monitoring the government's decisions. Current moves toward the freedom of the press and freedom of association are encouraging. If current trends continue, political freedom should progressively take root. If the private sector organizes itself effectively, then it should be able to act as a counterforce. However, the organization of the private sector cannot be limited solely to employers, who account for a very low percentage of the private sector. The associations created by farmers, traders, transporters, artisans, etc. must be allowed to defend their own interests. The different groups inevitably will have conflicting interests, but that is no reason not to express them.

The creation of a fair tax system that is suited to local realities raises a number of thorny problems that it will be extremely difficult to solve. Before going into any detail, basic principles and objectives should be defined. If the objective is to boost production and productivity, then the tax system must offer incentives and encourage investment, reinvestment of profit, accumulation of capital, amortization, etc. All consumption must be taxed, except perhaps the most indispensable commodities. If fairness is the objective, then this must be reflected in the choices made. In African societies, the difficulties to be solved are immense. Until such a time as the legitimacy of the State is firmly established, a widespread refusal to help to pay the State's bills can be expected. How, then, can we reconcile the interests of the State with the need to revitalize the entire private sector?

The reform of the education system has not yet been mentioned. Yet this reform is crucial to the recovery of the private sector, and must encompass all levels of education and training. A modern society cannot emerge if it does not have basic education and job training systems. Intermediary and higher education must be dispensed by the men and women who are best suited to train future managers, entrepreneurs, modern farmers, etc.

Open, transparent and accessible markets are also a vital prerequisite for the development of the private sector. Until now, access to the market has been restricted to people close to the ruling class with good connections and a detailed knowledge of how to set up a company, which laws, regulations and directives were applicable, where financing could be found, etc. The transition from a planned economy to a market economy is fraught with difficulties. To make a break with the past, we must remain alert to ensure that the market really does open.

Privatization and restructuring of companies in the public sector must succeed if the transition to a market economy is to take off. The objective is not to transform public deficits into private deficits. Success in this area cannot be decreed; it will stem from the emergence of a climate of confidence, i.e., a healthy environment in which newly privatized companies can recover.

We have stressed the role of the State as arbiter of the conflicts that inevitably arise when interests do not converge. There is now a need to examine the creation of the impartial and independent legal system that is vital to the development of the private sector. A de jure State is a State in which every individual knows his rights and duties, in which he or she is aware of the laws and is obliged to respect them. In a de jure State, the law codifies the country's mores and corresponds to the norms of society. Confidence in the State and belief in its legitimacy will depend upon the State's ability to enforce the law and thereby offer a guarantee of equity.

The responsibilities of the private sector in a market economy and in a de jure State must also be specified. The private sector must work hand in hand with the State. It must play a role in the definition of economic policies, reforms, investments and infrastructure. An environment that is favorable to investment can only be created with the active participation of a private sector whose competence is recognized and respected by the State.

The role of external aid should also be examined in this brief overview of the relations between the State and the private sector. Donor agencies are currently seeking to reduce the economic role of the African States and to promote free markets. But there is no doubt that the methods and sheer volume of projects and programs financed by foreign development agencies have increased State responsibility, even if that was not the objective. Donors deal only with States. They allocate increasing amounts of aid to ensure the States can continue to function, while support for investment and production is falling. And attempts to help the private sector have proved relatively ineffective.

Questions:

If the majority of participants feel that the role played by the State has worked against the development of the private sector (agriculture, industry, services) in the past, what role must it play in the future in societies where growth of the private sector is a stated objective?

What steps must be taken to change the relations between the State and the private sector?

- Organize counterforces? Which counterforces? How can organization be encouraged? How can their right of expression be guaranteed?
- The creation of an appropriate and fair tax system? What would the objectives be? How could the tax system attain these objectives?
- The reform of the education system? What are the basic principles of an education system that would help the private sector to develop?
- Promote an open and transparent market? What steps need to be taken first?
- The creation of an independent and impartial legal system? How could this be achieved? What reforms are required? What measures are the most important?
- Do donor agencies have a role to play in promoting better relations between the State and the private sector in West Africa? How have they performed so far? What should they do now?

THE FUTURE OF FINANCIAL SYSTEMS AND CORPORATE FINANCE IN WEST AFRICA[2]

Working Document

The financial systems of African countries have been in a state of crisis since the mid-1980s. Many banks have been in difficulties and some have folded.

This financial crisis affects the banking system and all savings and credit institutions (savings banks, postal banks, pension funds, etc.).

The crisis partly explains why levels of savings and investments have fallen over the last decade. This drop in savings and investments is in turn one of the obstacles to the process of adjustment that African governments have been attempting to implement for the last ten years or so.

Rehabilitation and diversification of the financial system are thus two of the major objectives of economic and financial recovery programs in West Africa in the coming decade.

Financial systems ultimately must be in a position to meet the needs of the private sector, so attaining these objectives is of paramount importance. Development plans relying solely upon outside financing allocated to the African public sector have failed. The private sector should now take over, using all the entrepreneurship and initiative it can muster.

It must also be recognized that African financial systems are part of a worldwide system where interdependence and competition are increasing. Financial systems must provide attractive savings products that offer sufficient guarantees and levels of liquidity for African and foreign investors to choose to make short-, medium- or long-term investments in Africa rather than looking elsewhere in an effort to protect themselves from devaluation.

The Dakar seminar will analyze past experience and address the future of financial systems in West Africa. The first session will focus on the causes of the crisis. The second session will examine its consequences; and the third session will attempt to identify ways out of the crisis, laying particular emphasis on new opportunities for financing private companies.

Session I: Causes of the crisis

A) Current situation in West African financial systems

The many manifestations of the financial crisis affect all parts of the financial system. The extent of the crisis should not be underestimated: A total of FCFA 750 billion in bad loans had been refinanced

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[2] This introduction is based on the work of the steering committee (Mr. Sossah, Mr. Loum, Ms. Seifert), a document provided by the French Ministry of Cooperation (Financial System Restructuring Progams in West Africa) and the work of the Club du Sahel.

by central banks in the CFA franc zone at the end of 1988. More than thirty banks had announced they were in difficulties, i.e., they were experiencing profitability and solvency problems.

Banks in all the WAMU countries are going through the same kind of difficulties. In all, around twenty financial institutions in the WAMU area are in liquidation or being restructured, and frozen credits that have been refinanced are estimated at between FCFA 400 and 500 billion, which is the equivalent of about 25% of the money in circulation. This predicament is largely a result of the bankruptcy of fourteen development banks. Commercial banks have also been seriously affected.

At the same time, the post office savings bank and national savings bank networks have collapsed. Islamic banking institutions such as the MASRAF banks are suffering also.

The general deterioration has also affected non-banking activities: insurance companies, pension funds and social benefit organizations, and financial markets (where these exist).

The crisis in the financial sector is not limited to the CFA countries. Similar difficulties have been encountered in Guinea and Mauritania. Eight banks in Ghana are in difficulties, with net liabilities of more than FCFA 4 billion. The liabilities of the Central Bank of Ghana are also very high, notably as a result of exchange rate losses following successive devaluations.

B) The actors and their role in the financial sector

Before examining ways out of the crisis and the possibilities that exist for reforming financial systems, it would be useful to briefly discuss the causes of the crisis. We must reach a consensus on the causes of the crisis, and we must be ready to learn from experience. Every effort must be made to avoid repeating the same mistakes in the future.

Many of the factors behind the crisis have nothing to do with the different players in the financial sector. The general downturn in economic activity and the economic and financial consequences of successive oil shocks have taken their toll on the business community, and companies' deteriorating financial situations in turn have had a negative impact on banks' portfolios. The downturn in the economy has hit public finances severely, and governments have reacted by turning to the banking system for finance. The crisis in the formal financial sector has encouraged economic operators to seek financing in the informal sector, and the informal financial sector has expanded considerably as a result. Who, then, is responsible for the crisis? Five main groups of players can be identified: African governments, the central banks, financial managers at different levels, banks' customers, and the donors.

1) The State

Excessive State intervention in financial systems is one of the major causes of the crisis. The State has played a highly directive role in the allocation of bank credit. Customers with connections in high places have been granted loans easily: Some have been unable to meet repayments, others have never had any intention of doing so. Legal systems are so ineffective in most countries that the banks have been unable to seize collateral or even take bad debtors to court. In addition, the banks have been penalized further by local authority action aimed at blocking court procedures. As the main player on the economic stage, the State has failed to honor its commitments with respect to the financial system: Late payment or non-payment of debts by the State have weakened the system and paralyzed the economy.

2) The central banks

Overdependence on the State is behind the central banks' inability to refuse to refinance the primary banks (commercial banks and development banks). Initially, central banks attached too much importance to sectoral credit policies and paid too little attention to controlling the quality of management at the primary banks and monitoring their portfolios.

3) The primary banks

Mismanagement has been the order of the day in the primary banks. Insufficient provisions have been set aside for bad debt. Cumbersome organizational structures have pushed up overhead. Little attention has been paid to internal control and to the reliability of credit committees. They have not sought to mobilize local savings and have contented themselves with short-term deposits, which are insufficient and usually have consisted of cash assets from the corporate sector. They have financed medium-term loans with short-term deposits.

4) Banks' customers

Recognizing that the banking system was in bad shape, foreign companies have become accustomed to running up debts with the local banks, leaving limited cash assets on their accounts there, and systematically sending their profits out of the country. Many local customers have benefitted from their links with the ruling class to default on repayments even when they can afford them.

5) The donors

The donors must also accept their share of responsibility for the crisis in the financial systems of West Africa:

- They have been aware of abusive practices and mismanagement but have failed to take firm action.

- They have financed the State's budget deficits and repaid State-owned companies' bank loans; and they have injected fresh capital into development banks without analyzing the causes of the deficits.

- The have opened massive lines of credit without finding out whether the banks were capable of using them correctly.

- They have proposed or accepted projects that could only become profitable in the long-term future. Many of these projects have been particularly costly and of arguable usefulness. They have been financed by loans and credits carrying tough financial conditions that have contributed to exponential growth in public-sector debt.

It would be useful here to raise one underlying issue of fundamental importance. In many countries, the broadly accepted concept of a financial system is not restricted to the banking sector. The financial system is made up of a great many institutions and instruments, each of which plays a specific role and meets specific needs. In the financial system that has been created in Africa, the banks have been called upon to perform far too many roles, many of which they are not competent to perform.

Moreover, the private sector's conception of the role and functions of the primary banks has something to do with their current difficulties. It is fairly widely held in Africa today that the banks should play a social role. It is not surprising, therefore, that the banks have distributed money so freely, with little apparent concern for being paid back or generating the profits that ensure their survival -- the banks have been asked to do everything. They have been criticized constantly for "not playing their role". But just what is their role? Why has so little attention been paid to instruments that are suited to the functions the banks cannot perform?

<u>Questions:</u>

How do the participants' react to the above analysis and appraisal of the crisis in the West African financial systems?

Which are the most important causes of the crisis in their opinion?

- The role, behavior and attitude of the State (excessive intervention, mistrust of the private financial sector, creation of a tight web of constraints with numerous exceptions, toleration of unlawful practices, perpetuation of patronage, failure to honor commitments, etc.).

- Central bank policies: Which were the most serious errors (slack BCEAO control over banks, particularly development banks, formal control of sectoral loan allocation conditions and financial conditions applied without checking borrowers' reliability or monitoring loan repayment)? Were the central banks in a position to play their rightful role? And if not, why not?

- Primary banks and development banks. Have these banks simply been victims of the system or are they partly responsible for the crisis (insufficient guarantees based on incomplete balance sheets, fictitious collateral, loan allocation criteria based on references from outside West Africa)? Why do certain banks (BOA, Ecobank and others) seem unaffected by the difficulties encountered by many other banks, particularly foreign banks? What strategy have these banks been following, and what strategy are they following now?

- What role should the primary banks and other financial instruments play in development financing? Why have the banks been accused of not playing their rightful role?

- Has the informal financial sector developed because the formal financial sector has been unable to meet the specific needs of the different categories of players, and particularly the needs of small firms, artisans and private individuals? Or because no form of intermediation has existed for most savers and small-scale borrowers?

Have the donors reacted reasonably to the financial crisis in West Africa? Which are the most serious mistakes the donors have made? Should development agencies have reacted more firmly and more actively to stop the system deteriorating so fast? Could they have been more careful and more vigilant? Have they fulfilled their role by remaining relatively passive?

Have donors misjudged the banks' capacity to use the enormous lines of credit that have been opened. Have they exacerbated the banks' problems? Have these massive allocations of credit hampered the development of a genuinely diversified financial system?

How do the participants explain foreign private investors' attitudes towards local banks?

Session II: Consequences of the crisis

The most serious consequence of the crisis is that the formal financial institutions have lost the confidence of the savers, particularly individual savers, institutional investors, traders, small, medium-size and large-scale industries, and foreign private investors. Winning back customers' confidence is a difficult task.

There are many indicators of the crisis, which can be divided between short term and long term effects.

Short-term indicators:

- The banks have no liquidity: Individuals cannot withdraw their deposits.
- Companies and individuals are not in a position to settle their debts.
- Trade patterns have been disrupted at the national, regional and international levels. Archaic practices such as barter and other informal transactions are gaining ground.
- Tax revenue is falling.

Long-term indicators:

- Savers keep their savings at home rather than depositing them with the bank or making investments.
- Capital is being attracted outside the region to financial systems where guarantees are better, liquidity is higher and investments are more lucrative.
- Financial institutions avoid taking risks.
- Companies are not expanding and have stopped contributing to the development of the economy.
- The informal financial sector is growing apace, offering greater security and efficiency than the formal sector.

African governments and central banks started to react to the acute crisis in the financial sector about three years ago. Two specific objectives are being sought: i) creation of a monetary and financial framework that is better suited to requirements in the region, and ii) restructuring of the primary banks.

The governments' restructuring initiatives are advancing painfully slowly and are fraught with difficulties; but restructuring is essential if the formal financial institutions are to win back the confidence of the customers.

<u>Questions:</u>

Do the participants agree with this brief overview of the most serious consequences of the crisis in the financial sector? How do they account for the fact that customers of all types have all lost confidence in the system?

What do the participants feel about moves to restructure the primary banks? Has government action been decisive enough? Is it true that one of the most serious disadvantages of restructuring is that it bars companies' access to credit?

Has the convertibility of the CFA franc discouraged local investments and encouraged capital flight? What should be done about capital flight in a financial system that is becoming increasingly open?

Has the crisis stemmed the flow of private capital to West Africa? Is disinvestment likely to continue? How important is this trend? Is it unfavorable? And if so, why?

<u>Session III: What should be done in the future? Where are the ways out of the crisis? What can be done about corporate finance?</u>

Governments and central banks with the support of the donors have started to react to the disastrous situation in the financial systems of West Africa. It should be stressed straight away that, whatever efforts have been made so far toward recovery, the hardest is yet to come. Unless States become progressively more law-abiding, unless a deliberate choice is made to move toward a market economy, and without deep-seated reform of legal, monetary, fiscal and other systems, it will be difficult to rehabilitate the financial system and recovery is unlikely to be achieved. Will political and economic reforms enable financial systems to offer savers, investors and all the other categories of economic players greater reassurance, better guarantees, more security and higher profits than in the past? Will these reforms lead to more efficient services that are more competitive and better suited to the different requirements in the marketplace? What kind of government action would do most to win back the confidence of private-sector customers?

The States of West Africa are not cut off from the rest of the world. What are the advantages and disadvantages of belonging to an international financial system that is becoming more and more interdependent. How can foreign development agencies help financial reform most? Are current arrangements satisfactory? Are they likely to help the governments of West Africa to reach their objectives?

After seeking to answer these preliminary questions, an attempt will be made to analyze the main problems of tailoring financial systems to development needs in West Africa.

Strict application of the regulations introduced by the central banks clearly is one way of making the system more efficient. But this may not be enough. Perhaps central banks should be less dependent on the political authorities.

The modern banking system (conventional African or foreign commercial banks) needs to be rebuilt. Existing initiatives alone will not drive economic recovery in the short term. It has been stressed already that restructuring the banking sector encourages financial intermediaries to restrict themselves to short-term operations and commercial transactions, and to avoid taking risks. Further analysis is needed to find ways of mobilizing savings and organizing credit allocations. Existing financial intermediation methods have shown their limits.

A number of ideas could be pursued and developed:

- New types of banks with African capital, such as BOA and Ecobank, are appearing developing, and that development should be encouraged. Other African operators could build up the same kind of network of local intermediaries.

- Certain African countries such as Rwanda and Burkina Faso have encouraged the development of "mutualist" savings and loan organizations. These systems have been a success, and they should be examined closely to gauge how suitable this kind of approach would be elsewhere in West Africa. But first, what has stopped them spreading throughout the region already?

- In many West African countries, the crisis also has affected institutional investors such as insurance companies, pension funds and social benefit organizations. Most of these organizations are going through a financial crisis caused by slack management and by regular outflows of cash to finance State deficits.

- Remediation should involve attracting fresh capital, improving management and creating a sound regulatory framework in order to favor the development of new investment or insurance instruments, offer depositors greater security and promote the role of institutional investors.

- The development of more sophisticated financial instruments such as shares and bonds is an excellent way of channeling savings into productive investment. For the time being, however, companies' needs do not justify the creation of this kind of market. In addition, the Côte d'Ivoire experience has been less than conclusive.

In the current economic context, it is undoubtedly too early to become involved in developing financial markets in West Africa. However, it would be reasonable to progressively develop the use of marketable securities, for this would bring companies access to public savings. Privatizing public-sector enterprises could be a good way of promoting new attitudes to savings that favor productive investments. Venture capital companies can be created, provided the necessary precautions are taken. First, however, suitable regulations are needed for the new savings and loans instruments, and those regulations must be applied.

Will rehabilitating existing financial systems in Africa solve the financing problems of African enterprises? Accompanying measures and support structures seem indispensable:

- National venture capital funds;

- Advisory services and technical assistance (provided by financial institutions like Meridian Bank) for specific projects;

- Mutual guarantee funds; and

- Real estate companies set up to take over and guarantee the banks' property loans and improve liquidity with a view to creating a real-estate securities market.

Questions:

Is the recovery of the financial systems of West Africa dependent on the creation of a law-abiding State, with all the advantages that implies (greater stability and justice, creation of an environment that enables private enterprise to flourish)?

What role should the State play in the future in helping the financial system to operate correctly? Are there any signs that the State is determined to create an environment that would enable private enterprise to flourish? What are these signs?

How can the State help the financial systems to win back the confidence of the customers and thereby overcome one of their principal handicaps? By adopting a more suitable macro-economic policy? By restructuring the financial system? By introducing budget and monetary reforms? By guaranteeing the integrity of the legal system? Should the State play a role in credit allocation? What are the advantages and disadvantages of State control over credit allocation?

What should the development agencies do to support the reform of the financial sector? Do past successes and failures indicate which role donors should play? What examples can be found? Have the guarantee funds and lines of credit donors have set up been useful? Why are they not used? Should donors continue in this direction? What else can they do and how can they do it better?

What responsibility should central banks assume? Should they be less dependent on the political authorities? Should they be able to make objective appraisals of companies and individuals that are granted loans?

How can savings be mobilized and how can credit be allocated better in the modern financial sector and in the vast informal sector?

- by developing networks of local intermediaries: small, decentralized commercial banks that know the customers better and are more aware of local conditions?
- by encouraging the creation of mutual savings and loan companies?
- by creating venture capital companies?
- other means? Which ones?

What role have merchant banks played in the English-speaking countries of West Africa? Has it been easier to mobilize capital in the English-speaking countries than in the French-speaking countries? If so, why? Can successful projects in the English-speaking countries be used as models for French-speaking countries?

How can institutional investors attract fresh capital? What would be the advantages of such a policy? What assistance can be given?

Can foreign private capital be attracted, and is this the right time to try? Why? How?

On the basis of their experience, can participants suggest ways of helping the financial sector to recover? Which is the best way of proceeding now? Offering the customers the security, liquidity and level of remuneration they have the right to expect? Offering the different categories of investors (including micro-enterprises) the credit they need? Offering cash managers suitable instruments? What other suggestions can be made? Which are the biggest obstacles in the quest to win back the customers' confidence?

MARKETS[3]

Working Document

The development crisis in West Africa has led political authorities to consider every possible way of overcoming the current predicament and buoying growth.

The authorities consider that regional trade, expansion, and broader markets can breathe new life into African economies. In certain conditions, the removal of barriers, the free movement of goods and services, labor, capital and raw materials, optimum use of comparative advantages and synergies, and effective community projects could enable West African countries to make better use of the resources they have today and those they will have in the future in the interests of a rapidly expanding population.

Recent policy statements have referred to the grand design of regional integration. It is thought that economic integration could help local companies' markets to expand. This idea is not new, but, until recently, regional integration was not a particularly topical issue. For many reasons, the subject is again under discussion.

One of these reasons is that political leaders have recognized the many difficulties and distortions that excessively nationalistic policies can cause. Indeed, the difficulties are so great that companies are often obliged to concentrate solely on the domestic market, and domestic markets are often very narrow in West Africa.

Another reason for the renewed interest in integration is the widening gulf between population forecasts and economic growth forecasts. If the corporate sector does not expand, it is argued, where will today's children find employment?

There are also fears that Africa will suffer from its current state of fragmentation as major trading blocs emerge in Asia and Latin America. Indeed, there are already signs that these fears could be justifiable.

Finally, it is now clear that public and private capital will be in great demand in Europe and else where in the third world in the next ten to twenty years. There is no guarantee that Africa's needs will be given the priority they deserve. Nor would it be wise to rely too heavily on official development assistance. But if Africa can produce and conquer markets, hard currency will be available to finance investments and the incomes generated will drive consumption.

These dangers and opportunities have been widely recognized, but the conditions for change are tough. African companies' markets are in a deep crisis: We will discuss these problems in the first working session and attempt to pinpoint the causes of the crisis. In session II, we will be examining the consequences of the crisis. Finally, in session III, we will indicate some of the ways out of the crisis that the private sector could take.

[3] These introductory remarks are based on the work of the steering committee and papers by Mr. John Igué and Mr. Barbier.

Session I: Causes of the crisis

The broad definition of "an enterprise" used in this document includes farming enterprises, plantations and mining companies as well as manufacturing concerns and services. All these categories of companies are experiencing a crisis in West Africa:

- Farming enterprises are succeeding less and less well in safeguarding the population's food security.

- Plantations (coffee, cocoa, palm oil, etc.) are not performing any better; they are generating less of the hard currency needed to drive development and consumption.

- Mining companies are having increasingly difficulty in finding markets.

- The manufacturing and services sectors are shrinking rather than expanding.

And yet, economic recovery is not possible unless output and trade increase.

Why is the African corporate sector in crisis and why is there so little trade at the national, regional and international levels?

For farming enterprises producing food crops, the policies followed by the most interventionist governments generally have been unfavorable to growth in production and trade. Before structural adjustment, governments wanted to control prices, maintain marketing monopolies and control the distribution of inputs, extension work and research. Individual governments in the region have considered food self-sufficiency a major priority. Different economic policies have been adopted in different countries. Some policies are incompatible with those of neighboring countries and can even cause considerable distortions in the regional economic picture. Chances of deriving mutual benefit from the comparative advantages of coastal countries and inland countries, for example, have not been recognized by the policymakers.

For plantations, policies have also varied from one country to another. In some countries such as the Côte d'Ivoire, plantations performed excellently until the mid-1970s. Elsewhere, government policy has worked as a disincentive to produce. Even the more enlightened economic policies have cracked under the strain of plummeting world market prices. The first victims of a price collapse are the farmers, and the farmers' efforts to produce have been seriously undermined by low commodity prices and market uncertainty.

Mining companies are entirely outward-oriented, and have not been any more successful in resisting the State stranglehold. Although some governments have invested export revenues in infrastructure projects, they have failed to set aside a proportion of mining profits for investment later, when activity is slack and the economy needs to be revitalized.

African national strategies with respect to manufacturing and service industries have failed to use comparative advantages and specialization to generate trade. And yet, different countries in a given climatic zone produce broadly similar goods and services.

In addition to wrong-minded policies, a number of other obstacles have hampered the development of the productive sector and trade in West Africa:

- Approaches to industrialization have placed more emphasis on the supply side rather than on demand on domestic, regional and world market demand.

- Poor management has inflated the cost of the factors of production, severely eroding the competitiveness of local goods and services.

- Fiscal and excise policies, the regulatory context and the lack of ground rules have discouraged private initiatives by both nationals and foreigners.

- All attempts to promote regional trade by harmonizing customs practices and trade agreements are now being reassessed in the WAEC area and directives have rarely been applied in the ECOWAS area.

- Last in this list of obstacles to trade (and the list is not intended to be exhaustive), the exchange rate problems experienced by a region with nine different currencies -- only one of which is fully convertible -- have encouraged more speculation than investment or trade based on sound economic realities.

The politico-social causes of the production and trade crisis in West Africa should also be mentioned. Participants are invited to gauge the importance of these aspects of the crisis and to suggest workable solutions.

Questions:

How do participants react to this brief overview of the crisis affecting the markets of all types of African companies?

Which of the factors mentioned has had the most serious consequences?

What can be said about the politico-social causes of the crisis?

Do participants consider that the methods used to implement economic integration in the region are among the causes of the crisis in regional markets?

Could other methods have been adopted?

Session II: Consequences of the crisis

The current crisis affecting African companies' output and markets has many consequences, including growing foreign trade deficits, limited regional trade and the artificial nature of the factors behind that trade, and the rise of the informal sector.

In many cases, State policy is damaging to food crop production and trade. Food is not being transferred effectively from areas with surpluses to areas of the same country with deficits. At the regional level, trade patterns exist, but are largely dependent on re-exports by informal operators of cereals imported from the world market. The region is becoming increasingly dependent on the world market, and cereal imports from Europe, the United States and Asia have risen by 5.5% over the last twenty years. A significant proportion of these cereals are subsidized or donated as food aid.

Cash crop exports are less and less able to offset imports. After spectacular progress in the 1960s, the downturn in the international cocoa, coffee and oilseed product markets has weakened the balance of trade situations of West African countries. Falling world prices are partly responsible for the crisis, but cannot explain everything. To benefit from the advantages offered by distorting African policies, some Asian and Latin American countries began to produce these commodities and developed their own markets. In the 1970s, these countries began to capture markets that had been the traditional reserve of the Africans. When the prices collapsed, superior management, higher productivity and better knowledge of world markets enabled these countries to catch up by increasing production. Winning back lost market share is not an easy task.

Markets for various basic industrial products from West Africa (oil, uranium, iron ore, etc.) are in no better shape. Although the 1960s was a decade of progress and success, conditions are no longer the same. Demand from industrialized countries has fallen and the oil industry is in a state of constant flux. Virtually no prospection has taken place for the last twenty years.

African manufactured goods and services account for a tiny proportion of world trade -- probably no more than 0.2%.

Developing regional trade would have clear advantages. But State policies have had unfavorable consequences and major policy shifts seem unlikely in the short term:

- The facts show that very few local products are actually traded within West Africa. Those that are include fabrics from Mali and Guinea, plastic goods, objets d'art, certain pharmaceuticals, mineral water, canned sardines, matches, batteries and iron for reinforced concrete.

- National legislative frameworks are an obstacle to the mobility of the factors of production.

- Transportation costs are high and informal transactions push up these costs further.

- Informal trade takes advantage of disparities between economic policies (fiscal, customs, monetary) to supply markets with local products, but taxes, duties and tariffs are not paid so imported products are particularly competitive.

- Some developed countries take advantage of the loopholes in the region's patchwork of economic policies, policies which make no attempt to benefit from comparative advantages. For example, developed countries have sold heavily subsidized animal products to the Côte d'Ivoire.

Questions:

Do participants agree with the above appraisal of the consequences of the crisis affecting African companies' markets?

What additional comments could be made?

Has the regional integration policy seriously hampered the development of regional markets?

Session III: Ways out of the crisis

Despite this gloomy appraisal, we should not be overly pessimistic. On the contrary, the private sector should analyze the facts objectively. It should learn from the lessons of experience and lobby the State to implement the measures that are most likely to offer West African companies a way out of the current crisis. Is the development of regional markets one of these ways out?

The steering committee that prepared this seminar is not sure that customs harmonization and trade agreements are likely to materialize in the immediate or short-term future. The committee agrees that regional agreements should be applied with a view to developing regional markets, and considers that the private sector can insist on customs and tariff agreements being implemented. But in the current state of affairs (lack of coherence between economic, trade and monetary policies, incompatible attitudes and reactions on the part of both the State and economic operators), progress will be slow and difficult. To develop regional markets, action must be taken further upstream in preparation for the future.

The steering committee considers that each State should first concentrate on promoting national private enterprise. For many products, narrow domestic markets are not a major problem: The real problems are linked to ill management, low productivity, the rigidity of labor and labor laws, and poor-quality goods. If these problems can be overcome, companies will be better equipped to export their products. It is incumbent upon the private sectors in each country to convince their governments that this is true.

Second, efforts should focus on limited, functional agreements. If these agreements are implemented correctly, they could provide a useful testing ground for broader regional cooperation:

- Training: A number of training initiatives have succeeded in the region (e.g., the Ecole Inter-Etats d'Ingénieurs de l'Equipement Rural (EIER) for rural infrastructure, and the Ecole Supérieure Africaine des Cadres de Chemin de Fer (ESACC) for rail transportation management). Further schools of this kind could be set up. And training establishments that have not proven their usefulness should be close down.

- Infrastructure: The Communauté Electrique du Bénin (CEB) (electricity) and the Organisation Commune Bénin-Niger des Chemins de Fer et des Transports (OCBN) (transportation) have proved successful. Other regional cooperation initiatives are undoubtedly possible.

- Border agreements: Nigeria has reached economic and monetary agreements with certain of its neighbors, and solutions have been found to problems of migratory movements.

- Finance: The West African Central Bank (BCEAO), the West African Development Bank (BOAD) and Africare (African Reinsurance Company) have launched certain types of regional cooperation initiatives and developed common working methods.

There are grounds to believe that further regional initiatives in the financial sector would succeed. For example, regional merchant banks like Ecobank and Bank of Africa could be established. Similarly, a regional venture capital fund could be created, using the experience gained through La Financière. Multinational African companies could also be set up.

The mobility of labor, capital, services and raw materials is also a prerequisite for market development. Considerable progress can be made in this respect. For many years observers have stressed the importance of coherent transportation and communications networks. Harmonization of legislative and regulatory frameworks would make these networks more interoperable and thus enable the markets to develop.

The role of private investment from outside the region has also been discussed. West African governments have a variety of different views on the potential role of foreign capital. What role should foreign capital play in the development of West African markets? Should attempts be made to attract capital that otherwise would tend to go to more promising, less uncertain markets? And if so, how should this be done?

<u>Questions:</u>

Do participants agree with this succinct analysis of the most beneficial ways of achieving regional integration?

Do participants believe there is an immediate need to change the national contexts in which companies operate with a view to boosting competitiveness on export markets?

Do participants think that more practical measures are needed to prepare the way for regional integration (training, joint management of infrastructures, limited agreements on tangible problems, harmonization of transportation, mobility of factors of production)?

What are participants' views on extending financial initiatives to the regional level with a view to promoting trade and encouraging entrepreneurship?

What role should foreign capital play in the development of regional markets?

THE ORGANIZATION OF THE PRIVATE SECTOR[4]

Working Document

Introduction

Structural adjustment policies call on the private sector to play an increasingly important role in West African economies. In the years immediately after independence, most of the States in the region created a plethora of public companies whose activities encompassed virtually all areas of economic activity. The vast amounts of money soaked up by these companies placed a heavy burden on the public finances and on the national economies as a whole, while the private sector failed to develop beyond the embryonic stage. The largest private trading and industrial concerns were funded by foreign capital. The national private sector was trade-based and largely composed of small- and medium-size companies.

The structural adjustment plans introduced in the 1980s have slowed State spending and loosened its grip on the economy. The objective now is for the private sector to take over in a market economy. Virtually all new policies are based on the principle that "less government is better government".

"Less government" will involve disengaging the State from the economy to reduce its expenditure. This idea is at the core of ongoing efforts to restructure the public sector, and numerous closures and privatizations already have taken place. The main objective is to reduce the cost of public companies to State budgets by cutting or even stopping subsidies to these companies. When public companies are privatized, the private sector has been requested explicitly to take over from the authorities.

"Better government" in theory means that the new role of the authorities is to create a framework favorable to the development of the private sector, which will then be able to create jobs and local added value. This aim is behind policies designed to improve the company's legal, fiscal and financial environment.

In most West African countries, these policies run into numerous practical difficulties, partly because of structural resilience and unchanging attitudes, but partly because the private sector is weakened by the unfavorable environment.

The development policies adopted by West African States at independence are responsible for the emergence of an omnipresent and highly powerful administrative class, which has always viewed the private sector with distrust. The West African administrative class has always sought to control and regulate the private sector which, in its eyes, had little concern for the public good. The foreign private sector continues to exercise a certain form of colonialism whereby profits made abroad are spent at home. The national private sector primarily consists of illiterate traders seeking immediate profit and ready to do anything to increase it.

This negative view of the private sector led to the development of a legal environment that seeks to repress rather than to encourage initiatives. This has led to government by exception and privilege and prevented the free play of market forces. Rather than working in partnership with the State, the

[4] This paper is based on the work of the steering committee and documents by Mr. Diouf and Mr. Cama.

private sector in most West African countries is first and foremost a source of tax revenue. With a tax-hungry State that alters its policies and imposes new constraints at will, it is difficult to convince private operators that what is good for the private sector is good for the State. The difficulties of structural adjustment can be explained to a great extent by a general unwillingness to open up to the outside world and to a market economy.

Fortunately, the situation is changing, but progress is slow. The situation varies from country to country but, in most West African countries, structural adjustment measures aimed at improving the business environment in the private sector have been applied unwillingly, incompletely or not at all. West African administrations have showed boundless zeal in enforcing the measures placing new constraints on the private sector, but have tended to overlook accompanying measures. Some of these measures would likely have generated considerable extra cost for the States. But others would have facilitated adjustment at no great cost.

It is true that structural adjustment policies were a major psychological shock: The West African elites are becoming increasingly aware that they cannot continue their former practices indefinitely. Civil society is becoming more organized and no longer accepts the ossified social and political structures of the past. To achieve results, however, the private sector must show it can make its voice heard by organizing itself effectively. It must prove its ability to take initiatives and thereby play an active role in development.

This task will be difficult as the private sector is weak:

- The modern private sector generates only a small proportion of GDP, most of which comes from agriculture, State companies and, increasingly, companies in the non-structured informal sector. The number of companies in the formal sector has fallen overall: Closures are not offset by start-ups.

- The companies in the modern private sector are suffering the consequences of the economic crisis, which has reduced their revenue considerably. And they cannot look to the banking sector -- itself involved in full-scale restructuring -- to solve their financial difficulties. The companies in the formal private sector have very little room for maneuver: the legal environment is unfavorable, productivity is low because of the high costs of the factors of production, and domestic markets are increasingly narrow so economies of scale are impossible.

- The modern private sector in West Africa is far from homogeneous. Most of the largest companies in terms of revenue and jobs are foreign. The subsidiaries of major groups follow strategies defined by corporate headquarters abroad. Many medium-size businesses and industries are also controlled by foreigners who do not necessarily follow the same approach as the major groups. Only a small percentage of the companies in the modern sector are in the hands of private nationals, and in any case the sector is centered more on trade and services than on industry. This lack of homogeneity hampers attempts by the private sector to organize. Foreign companies frequently form pressure groups to lobby the authorities in their home countries. In dealings with West African authorities, however, the preponderant role played by personal affiliations hampers any effective organization of the national private sector.

- The informal "non-structured" sector generates a significant percentage of GDP and is a source of employment. Invisibility is its raison d'être. It is made up of individuals and has little collective voice.

The private sector -- formal and informal -- has achieved a certain level of organization is some West African States but the situation varies considerably from one country to another. All the countries have Consular Assemblies in which the State plays a major role, providing both funding and key personnel. In some cases, the private sector has set up employers' organizations alongside the Chambers of Commerce. These organizations are a direct extension of the companies themselves and their role is to defend the collective interests of the profession. The informal sector sometimes achieves a level of organization in countries where its role is recognized, such as Senegal and the Côte d'Ivoire. Joint ventures are the organizational model most commonly adopted. The CNP in Senegal won the elections to the Chamber of Commerce after negotiating an agreement with representatives of the informal sector.

In Senegal, the employers' organization has made its voice heard in government circles and a dialogue has been set up between the private sector and the State. Organizing constructive dialogue is complex, however, and requires resources that the private sector does not possess. If the private sector is to become organized and to emerge as a potential partner of the State, it must remain independence and scale its ambitions to match its resources. Strategic choices must be made. The credibility of the organized private sector must be rooted firmly in its skills. For this to come about, the private sector must:

- Know itself better, and develop a system to monitor companies, their progression and their difficulties in order to make an accurate assessment of their development potential and limits;

- Acquire the expertise needed to effectively assess the impact of policy measures on the private sector, to participate in the definition, implementation and follow-up of these measures, and to obtain changes where necessary;

- Define a dynamic policy to promote the corporate sector at the national, regional and international levels.

The role of this working group is to examine the initiatives that have already been taken to promote the private sector and to look at what can be done to obtain better results. The first half-day session will study existing private sector organizations; the second will look at the results achieved by these organizations; and the third will attempt to make proposals for the future.

I. Current Organization of the Private Sector

Introduction

During the colonial era, the private sector was organized around Consular Assemblies -- Chambers of Commerce or Chambers of Agriculture in most cases. There were also a number of independent employers' organizations whose role was to defend companies' interests under the colonial administration. These organizations were naturally in Dakar -- capital of French West Africa and headquarters of the main companies operating within the region -- but were far less common elsewhere.

These organizations did not disappear on independence but certain changes took place:

- The Consular Assemblies suffered the consequences of the State's increasingly strong grip on the economic activities. The State took control of these organizations by appointing civil servants to key posts, particularly in the General Secretariat. The Assemblies were divested of certain budgetary prerogatives, placed under the supervision of technical ministries, and stripped of many attributions that were progressively appropriated by the government. However, the State's financial crisis has cut Chamber of Commerce and Agriculture budgets. The Consular Assemblies are dying but local people are unmoved.

- The employers' organizations continued their activities at independence. They were composed primarily of foreign companies and thus did not constitute a counterforce. Membership gradually opened to African operators who nevertheless remained a minority for a long time and had no real influence on internal policy, which was shaped by a concern to avoid conflict with the authorities of the foreigners' host country. It was only with the emergence of a modern national private sector at the end of the 1970s and a perceptible fall in the number of foreign companies that the management of the employers' organizations started to become Africanized. With the decline of the Chambers of Commerce, employers' organizations have become genuine pressure groups.

The present situation with the Consular Assemblies is somewhat confused. The role of the Assemblies is to provide a forum for companies in the private sector, irrespective of size, nationality, formal or informal status and sector of activity (trade or industry). In principle, therefore, the Consular Assemblies are the instrument of dialogue between the private sector and the State. They have the structures and the resources needed to make the necessary analyses and expert appraisals. However, when real dialogue is established between private companies and the government, as is the case in Senegal, the private sector is represented by employers' organizations. These bodies have few resources and are entirely dependent upon members' subscriptions.

This anomaly probably stems from the fact that the Chambers of Commerce are run primarily by civil servants secunded from the administration and the private sector prefers to dialogue in a framework that is independent of the State.

Small professional associations are springing up in a number of countries, including Senegal and the Côte d'Ivoire. Originally based on ethnic or religious ties, organized sections of the non-structured sector are progressively seeking to defend the interests of a given profession.

A regional structure has been created by professional organizations. The West African Chamber of Commerce -- headquartered in Lagos -- already plays a major role in bringing together private-sector operators from the different countries in the region, and its importance is likely to increase as moves toward economic integration continue. There are no regional employers' organizations. However, regional structures have been created in certain sectors of activity: the FANAF for insurance and the BAO (headquartered in Freetown) for the banking sector.

Topics for discussion

- Do participants agree with this analysis of organizational structures in the private sector?

- Have the Consular Assemblies and employers' organizations played their role to the full? What have employers' organizations contributed?

  What are the reasons behind the decline of the Consular Assemblies and what is the attraction of employers' organizations? How can the Consular Assemblies be revived? Should they be privatized? What mandate should they have in the future?

II. Review of Initiatives by Private Sector Representative Bodies

Introduction

Since the beginning of the 1970s, the West African States have acknowledged their inability to do everything. They have sought to attract foreign investors in industry and have tried to promote small- and medium-size industrial companies, particularly of national origin. African governments with the support of the donors have deployed a full range of measures to achieve this objective, including:

- Legal and fiscal advantages through investment codes;

- An investment promotion system designed to identify national entrepreneurs and assist them in the different phases of their projects;

- The creation of modern industrial zones and, in certain cases, free areas for exporting companies.

The donors gave broad support to these measures. In addition:

- They have opened preferential lines of credit for national development banks and some commercial banks seeking to promote small- and medium-size industrial companies.

- They have created venture capital companies, such as PROPARCO, to take minority stakes in industrial projects in Africa and transfer full ownership to local nationals after the start-up phase.

- They have created offices in Western countries to promote African companies and find technical and financial partners.

- They have organized and funded numerous round tables to bring together potential African and Western partners.

- They are progressively injecting a certain amount of direct aid into the private sector. Donors agree to participate in the funding of studies and occasional technical assistance missions.

Although considerable efforts are being made to help start-ups in West Africa, the results are mediocre: Few new companies actually have been created, many of the companies created since independence have failed and the many instances of unsuccessful cooperation between African and Western companies have tarnished Africa's image in the West.

Efforts to create a fabric of modern small- and medium-size industrial companies have failed because the environment continues to be unfavorable to private enterprise. Private sector organizations, whether Chambers of Commerce or employers' organizations, have not made their voices heard in the majority of West African countries on the subjects that concern them most closely:

- They have tolerated the development of a legal system that was inherited from the colonial era.and which is not necessarily suited to the real conditions in which companies operate;

- They have not curbed the system of government by exception and privilege that has led to manipulation of investment codes, inequitable application and interpretation of the law, and all manner of other practices that have made companies unequal before the law and damaged competition.

- They have been unable to check the growing corruption and fraud that have completely annihilated efforts to protect national products on local markets.

Much of the non-performance of private sector organizations probably can be put down to by the crushing weight of the State and the scant consideration it gives to the needs of the private sector. Nevertheless, the responsibility is shared: Most economic operators have preferred to defend their interests alone through their personal relations with the administration and the government. In certain West African countries, the private sector has become almost a vassal of the State because of this attitude, and the State readily excludes private sector representatives from key discussions.

Structural adjustment is working toward a market economy in which the role of the State will simply be to define the ground rules and ensure all the players in the economy are applying them. However, it seems uncertain whether the private-sector organizations will be able to play their rightful role in this new context.

Topics for discussion

- Do participants agree with this analysis of the results achieved by the representatives of the private sector?

- Is it fair to say that, in the past, private-sector organizations simply complied with the State's wishes rather than trying to establish a dialogue? If so, what were the reasons for this attitude? If not, in which fields have private-sector organizations demonstrated their ability to analyze the situation and to make proposals? In which fields do they feel their ideas have had a positive impact?

- Which aspects were particularly damaging to the development of the private sector and could have been addressed effectively by the Consular Assemblies and the employers' associations?

- In which sectors could the Consular Assemblies and employers' associations work to promote the private sector?

III. Ways of Improving the Organization of the Private Sector

Introduction

If current trends continue, the private sector will need to play an increasingly important role in national economies and should be in a position to make itself heard and work in partnership with the State. If this is to come about, then economic operators must speak collectively rather than individually. Forming a united front will make them stronger. As an effective pressure group and counterforce, the private sector will be able to participate in shaping the policies that affect it.

Independence from the State is one of the prerequisites of any credible private-sector organization. Funds must not come from the State, and funding levels to independent representative groups must be in line with the efforts made by their members. The companies in the private sector are all in the throes of crisis: They have extremely tight budgets and all their resources are channelled into running costs and restructuring. We cannot expect them to allocate large sums of money to representative bodies whose results are usually indirect or slow to appear.

The effectiveness of these organizations will depend largely on the way in which they use the resources placed at their disposal. Simple organizational models should be used, with skilled staff, the ability to make expert appraisals and an efficient General Secretariat. They should be in a position to make decisions and establish priorities.

Topics for discussion

- What are the main tasks of private sector representative bodies? Which are the most important?
- Which tasks should the Consular Assemblies and employers' organizations perform? Are both bodies always needed?
- What can be done to make the Consular Assemblies and the employers' organizations more credible?
- Can pressure groups be formed, as in Senegal, to liaise with representatives of the informal sector?
- How can the representative bodies be funded without turning to the State or the development agencies?
- Would private sector employers' organizations have more weight if a regional network existed?

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