PN-ABL-148

Background Documents to the Seminar on the Private Sector in West Africa

Dakar, Senegal
November 22-25, 1991

GEMINI Technical Report No. 38

GEMINI

GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS
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PN-ABL-148
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Organized by the Senegalese National Employers' Union (CNP), the Club du Sahel, CILSS and USAID

This work was supported by the U.S. Agency for International Development, through a buy-in to the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project, contract number DHR-5448-Q-00-9081-00, from the Bureau of Africa, Office of Operations and New Initiatives formerly MDI, contract number DHR-5448-Q-32-9081-00 and from the Bureau of Africa, Office of Sahel and West Africa Affairs, contract number DHR-5448-Q-04-9081-03.

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: Relations between the Private Sector and the State, The Nature of Markets in West Africa, The Role of Advocacy Groups in Supporting MSE in the Sahel, and The Organization of The Private Sector in West Africa. The principal rapporteur for the Seminar was also a GEMINI consultant.

The following report The Private Operators' Perspective on an Agenda for Action 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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ECONOMIC DEVELOPMENT AND REGIONAL MARKETS IN SUB-SAHARAN AFRICA

J.P. Barbier

ECONOMIC DEVELOPMENT AND REGIONAL MARKETS IN SUB-SAHARAN AFRICA

Regional integration is not a new idea in Africa. The continent has seen countless attempts to achieve political or economic union since independence. Everything points to the concept of regional integration as a rational objective: the weakness of States that would like to make their voices heard in the concert of nations, the constraints brought to bear by markets that are too narrow for modern industry, the example of Europe, where integration has provided the springboard for new economic dynamism and political credibility, etc. The multiplicity of regional cooperation organizations in Africa(1) is indicative of the considerable institutional activism that has marked the past three decades without, however, having any real impact on official intraregional trade statistics, which have stagnated at a very low level. This failure can be explained to a great extent by the economic strategies pursued, which were founded more or less explicitly on strictly national development models: allowing for differences in climate, the list of products manufactured by each African country is the same throughout sub-Saharan Africa. Today, the donors are once more championing regional ideas. But how can this concept be revived successfully when efforts have failed so often in the past? Before looking at the courses of action that are currently under study, however, it would seem useful to review past endeavors in this field. For the most part, the efforts made over the past thirty years to achieve industrial and commercial integration have been centered on customs and economic unions and regional development projects.

1. Integration through customs and economic unions

Customs and economic union is the major objective of eight different African organizations at present: the Central African Customs and Economic Union - UDEAC (1966), the West African Economic Community - WAEC (1973), the Economic Community of West African States - ECOWAS (1975), the Economic Community of Lake Countries - CEGPL (1975), the Indian Ocean Commission - COI, the South African Development Coordination Conference (1980), the Preferential Trade Zone for Eastern and Southern African - ZEP (1981), the Central African Economic Community - CEEAC (1983)(2). These organizations are probably the most well known illustration of all that has been done in Africa to promote regional cooperation but we can point to no visible successes in integration efforts. This paper will look at just the three oldest organizations, which offer ample illustration of the limits encountered by this approach.

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(1) The World Bank has counted more than 200 such organizations of which 160 are intergovernmental.

(2) The Senegambian Confederation, which was created in 1967, was dissolved on September 30, 1989.

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1.1. The Central African Customs and Economic Union: UDEAC

This union spans five countries: Cameroon, Congo, Gabon, Central African Republic and Chad. All five belong to the franc zone, had a common convertible currency from the outset and share a common language (French). And yet trade within the group has decreased while trade with other countries has developed. In terms of inter-African trade, Cameroon trades mainly with Nigeria, while Congo trades with Zaire. Trade with UDEAC partners accounts for less than 40% of official inter-African trade flows of UDEAC member countries.

What are the objectives of the UDEAC?

- The reduction or the elimination of obstacles to inter-State trade and the introduction of a common external tariff with a view to constituting a true customs union in the long term;

- The implementation of a policy for the equitable distribution of industrial projects within the community;

- The coordination of development programs.

A single tax system was defined to promote the free movement of locally manufactured goods inside the customs union and to support the development of manufacturing industries for the market as a whole.

The results are extremely disappointing:

- The common external tariff has never emerged. Member States did not have the political determination necessary to harmonize their import taxation systems with a view to introducing single tariffs.

- None of the industrial or agricultural projects defined as priorities have become a reality. The regional refinery that was originally planned for Gabon, for example, was abandoned when Cameroon and Congo each obtained their own refineries.

- The UDEAC has always been beset by major problems between member countries, particularly the distribution of customs revenue and transit problems, the latter being a source of conflict between inland countries and their neighbors. The best results achieved by the UDEAC to date are probably in the transportation sector, which has enjoyed the strong support of donors. Successful projects include the trans-African Mombassa-Lagos road, the Bangui-Océan river route and the development of the port of Douala.

- The UDEAC has a profusion of staff (almost 400 people) at its headquarters in Bangui. Over the past few years, the financial difficulties of member States, some of which are considerably overdue in the payment of their subscriptions, has put the very existence of the Union in jeopardy.

Perhaps the sole reason for the Union's survival is that none of the countries that host the summit meeting wishes to be associated with its disappearance!

One possible solution could be to merge the UDEAC with the CEEAC, the youngest economic community, which is headquartered in Libreville. The members of the CEEAC include all the countries of the UDEAC in addition to Zaire, Rwanda, Burundi, Sao Tome and Principe. But the ailments of the UDEAC appear to have spread to the CEEAC: decisions not applied, late payment of subscriptions, etc.

In short, central Africa has the same problem as West Africa in that it lacks one or more regional leaders.

1.2. The West African Economic Community (WAEC)

In the same way as in the UDEAC, two major pro-integration factors link the countries of the WAEC (Benin, Burkina Faso, Côte d'Ivoire, Mali, Mauritania, Niger and Senegal): a common convertible currency, the CFA franc (with the exception of Mauritania) and a common administrative language, French. The WAEC has been more successful than the UDEAC in furthering inter-State trade and the mobility of the factors of production, particularly labor.

The successes achieved by the WAEC include:

- A reduction in nontariff barriers and a significant drop in the rates of protection for intra-zone trade;
- The regional cooperation tax (TCR), which lowers taxes on exports of value-added products (primarily of local origin) to other member States;
- The counterpart of the TCR system is a mechanism to compensate for the loss of budget revenue. This mechanism, which is based on a mutual development fund, has worked well: Côte d'Ivoire, and, to a lesser extent, Senegal, have played a leading role in endowing this fund through the compensations generated by their exports;
- A liberal policy for the movement of labor from the poor countries of the Sahel (Burkina Faso and Mali, for example) to the richer coastal countries (Côte d'Ivoire and Senegal).

The successes of the WAEC are currently jeopardized:

- By poor management of the administrative structure and even embezzlement (a problem already encountered by the Fonds de Solidarité et d'Intervention pour la Coopération – FOSIDEC);
- By the constraints arising from the structural adjustment policies(3) implemented in all the countries of the WAEC;

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(3) See the CERED/LAREA study, March 1990. Programme d'ajustement structurel et intégration régionale.

This report notes that free trade tends to favor extra-African imports. The emergence of Inter-African complementarities has been generally limited by the priority given to the development of cash crops – as a source of hard currency – and the current deindustrialization.

- Overall, by the budgetary difficulties of member States, which have led to the emergence of huge deficits at the WAEC and other organizations. Regional integration offers no immediate profits. A policy of this type requires a preliminary investment that the poor countries may not be able to make alone(4).

1.3. The Economic Community of West African States: ECOWAS

ECOWAS embraces all the countries of the WAEC in addition to Ghana, Gambia, Cape Verde, Guinea Bissau, Sierra Leone, Liberia and the two founders, Nigeria and Togo. The group formed by these fourteen countries appears to be more of a political than an economic force.

- Originally, Nigeria took the initiative of creating this Community in order to set the seal on its political and economic preeminence within the region. Its ambitions in this area were clearly illustrated by the pressure that it brought to bear on Togo and Benin to stop them from joining the WAEC(5).

- Fifteen years after the creation of ECOWAS, tariff and nontariff barriers remain unchanged and official statistics indicate that trade between member countries has remained stagnant since the beginning of the 1970s. Just 3% of foreign trade in ECOWAS countries concerns fellow members. Tariff negotiations saw no real efforts to push for change: the countries concerned generally raised their customs duties before sitting down at the table. Moreover, ECOWAS has ruled that only products that are manufactured by companies in which ECOWAS nationals hold at least 51%(6) of the capital are eligible for preferential tariffs as local products. This rule discriminates against products from many companies in WAEC countries where foreign participation is high. Here again, Nigeria has imposed its own legislation on ECOWAS.

- The mobility of labor has decreased considerably, the main illustration being Nigeria's decision to expel two million ECOWAS nationals (mainly Ghanaians) at the beginning of the 1980s. Further expulsions have taken place over the past few years.

- The greatest success achieved to date by the Community is the military intervention engineered by Nigeria -- acting under the ECOWAS banner -- to end the war in Liberia. This initiative is considerably removed from the economic objectives officially pursued by the Community.

It must be remembered that Nigeria is home to 65% of the ECOWAS population and generates 50% of its GNP. It is therefore a major force:

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(4) It would be interesting to analyze the costs borne by European taxpayers and consumers for the creation of their Economic Community.

(5) Benin withdrew from the WAEC in 1974 but joined again in 1985. Togo has yet to become a member.

(6) The figure was 35% until May 1989.

- Studies on regional integration cannot overlook the economic and, more particularly, the commercial dynamism shown by Nigeria in the informal import/export border trade and in the official exports of its manufactured products to neighboring countries;

- Nigeria seems to be more aware of its responsibilities in West Africa than in the past. By extending its banking system beyond its borders (to Benin in particular), Nigeria has shown a new interest -- albeit with ulterior motives -- in the countries of the region.

In short, the final shape of regional integration will depend to a great extent on Nigeria's attitude:

- It could promote a free trade zone that would institutionalize, as it were, the informal trade that currently thrives around its borders. However, such a move could prompt defensive reactions on the part of other countries, which would view the dynamism of Hausa traders, in particular, with considerable apprehension.

- Alternatively, Nigeria could acknowledge its responsibilities and long-term interests by becoming one of the main players in a true process of regional integration and by showing that the fruit of these efforts could be fairly shared.

Some 25 or 30 years after their creation, there is still disagreement about whether customs and economic unions such as the UDEAC, the WAEC and ECOWAS serve any useful purpose and indeed whether they deserve to survive. They have failed to stimulate any sort of dynamism as originally hoped. National preoccupations continue to take priority over Community interests. The main focus of interest has been how to draw immediate profit from the scant and precarious resources of the Community.

2. Integration through regional projects

The concept of integration through regional projects emerged at the same time as the customs and economic unions. Based on a more global and more functional (although not necessarily less single-minded) approach than the unions, the concept of integration through regional projects covered the regional cooperation institutions created to concentrate on specific problems, regional industrial projects and regional inter-enterprise cooperation projects.

2.1. Regional cooperation organizations with specific objectives

Numerous organizations, intergovernmental bodies for the most part, fall into this category. Occasionally they work within the orbit of the customs and economic unions but it is more common for them to step outside this structure to bring together countries that have observed a common problem in a particular sector.

- Most of the organizations are involved in research, training and education: e.g., l'Ecole Inter-Etats d'Ingénieurs de l'Equipement Rural (EIER) in Ouagadougou, l'Ecole Supérieure Africaine des Cadres de Chemin de Fer (ESACC) in Brazzaville, le Centre Régional d'Agriculture, d'Hydrologie et de Météorologie (AGRHYMET) in Niamey (attached to the CILSS, etc.).

- Other organizations were created to utilize common resources, particularly with respect to economic infrastructure. Examples include le Communauté Electrique de Bénin (CEB) for electricity production and the operation of the electrical network spanning Benin and Togo, the joint Benin-Niger organization for railways and transportation (OCBN), the electrification of the lake region (EGL) in Zaire, Burundi, Rwanda, etc.

- A third category concerns the organizations set up to control drought and major endemic diseases, e.g., the Permanent Inter-State Committee for Drought Control in the Sahel (CILSS), the International Organization against the African Migratory Locust (OICMA), the Joint Organization for Locust and Bird Control (OCLALAV), etc.

- A fourth category of organization seeks to promote agricultural products, e.g., the Inter-African Coffee Organization (IACO), the Economic Community for Livestock and Meat (ECLM), etc.

- A fifth category seeks to develop river basins, e.g., l'Organisation pour la Mise en Valeur du Fleuve Senegal (OMVS), l'Autorité du Bassin du Niger, etc.

- A sixth category consists of financial organizations, e.g., la Banque Centrale des Etats d'Afrique de l'Ouest (BCEAO), la Banque des Etats d'Afrique Centrale (BEAC), the West African Development Bank (WADB), la Société Africaine de Réassurance, AFRICARE.

It is impossible to make a global appraisal of these organizations, which have highly diverse objectives and operating modes. The problem with some is that they were designed to satisfy political rather than technical considerations. For example, why was the Ecole Supérieure des Industries Textiles (ESITEX) set up in a city like Ségou, which has no real textile tradition and also lacks electricity. Many intergovernmental organizations are in dire financial straits and require permanent donor support.

The organizations involved in the management of the economic infrastructure, e.g., CEB, EGL, OCBN, have the same financial problems as other public services in Africa but their actual existence is not endangered. Last, a number of organizations that are linked to the donors or that enjoy donor support fulfill their mandate effectively: e.g., les Banques Centrales de la Zone Franc, l'Agence pour la Sécurité de la Navigation Aérienne en Afrique et à Madagascar (ASECNA), etc. However, autonomous regional organizations that are in good financial health, such as the WADB, remain the exception.

2.2. Industrial or commercial public projects at the regional level

In addition to creating regional bodies with administrative or financial functions, the authorities also sought to promote regional integration by setting up regional projects in the private sector. This approach was officialized in the Lagos Plan of Action, which was approved by the Heads of State of the OAU in 1980. The document identified regionally planned industrial specialization as a direct complement to customs and economic unions, the ultimate objective being to create an African Common Market by the year 2000.

A number of major projects were identified and distributed over the African continent. Emphasis was placed on heavy industry and efforts were made to take comparative advantages into account and to allocate an acceptable share of the projects to each country.

The idea of globally planned regional development has not emerged as a reality. This is a good thing if we look at the fate of two regional projects that did take place. The first project, which concerned heavy industry and West African cement (CIMAO), suffered a total collapse while the second, which concerned the services industry and Air Afrique, was saved in extremis.

CIMAO

The CIMAO project involved three African States (Côte d'Ivoire, Ghana and Togo), which held 87% of the capital in equal shares, the rest being supplied by a foreign partner. CIMAO was to produce 1.2 million tonnes of clinker for the three participating countries.

In 1975, the three countries above signed an agreement stating that their domestic market would be reserved for CIMAO.

Amply funded by numerous donors (World Bank, EIB, ADB, EDF, CCCE, KFW, CIDA, ABEDA), the US$300 million project appeared to satisfy all the conditions necessary for success when production started in Togo in February 1980. In April 1984, the company closed. So what happened? Without going into any great detail, we can point to two main causes: first, it rapidly became clear that production costs were higher than originally estimated and second, the price of clinker and cement collapsed on the world market.

Implementing the agreement signed by the government would have forced the cement works in Côte d'Ivoire to purchase their clinker from CIMAO at double the world market price. However, the Côte d'Ivoire government was unwilling to see the consumer price of cement -- a politically sensitive product -- rise sharply and did not compel the cement works to buy from CIMAO. Ghana reacted in a similar manner. The defection of a clientele that was, theoretically, captive, resulted in the closure of the facility.

One of the main reasons for the high cost of the CIMAO project is that, at the height of its activity, the facility was running at just 58% of production capacity. This is because customers were reluctant to purchase clinker at CIMAO prices. From the outset, therefore, the company was caught up in a vicious circle. The facility was running below capacity and therefore had to charge high prices. Customers therefore looked elsewhere and this in turn caused a further drop in activity and an increase in the cost of each tonne produced. Given the surplus of clinker and cement in southern Europe when CIMAO started, we cannot be certain that the project would ever have been successful. Nevertheless, a lesson has been learned: it is already difficult for a national company to obtain State protection for its market during the start-up phase. And obtaining protection is even more problematic when a regional company located outside the national territory is involved, even if the government has invested capital.

AIR AFRIQUE

Air Afrique, a multinational airline, was created by ten African States in 1961. In 1988, it was hovering on the brink of bankruptcy before it was taken over by a team of expatriate managers backed by external financial assistance. Why was it in trouble? Primarily as a result of the problems that beset so many other intergovernmental organizations in Africa, i.e., lax internal management (overstaffing, recruitment based on nepotism rather than skills, high overheads, decreasing quality of services owing to the lack of controls) and equally lax external management. The individual interests of national governments took priority over the regional interest of supporting the air line (bilateral negotiations

undertaken by different States to grant traffic rights to foreign air lines in direct contradiction with the agreement made on the creation of Air Afrique, member countries falling into arrears, etc.). Although the air line now appears to have regained financial equilibrium, as illustrated by the renewal of its fleet, the long-term future is far from secure. National egotism could rapidly eclipse regional interest. Over the past few years, regional interest has been strongly personalized by the President of Côte d'Ivoire, an African patriarch who has thrown all his weight behind moves to save Air Afrique.

CIMAO and Air Afrique illustrate both the difficulties and the limits of regional projects as well as the need for unshakable political determination to weather any storms and to prevent the centrifugal forces of conservatism and individualism from pushing the project into bankruptcy.

2.3. Private enterprise and regional cooperation

The concept of import substitution is at the core of the industrialization strategies pursued by the different African countries. The markets concerned, however, are very narrow (except possibly in Nigeria) and it is hardly surprising to see that all the States are engaged in the same types of industrial activity, as described in the introduction to this document. It is therefore difficult to see what manufactured goods(7) could possibly be traded between neighboring States. The situation is amply illustrated by the ongoing competition between manufacturers of African "pagnes". A few exceptions to the overall lack of specialization do exist, however.

These exceptions naturally include products from heavy industry, which need to be marketed in several countries owing to the sheer size of the companies involved and the production capacity demanded by the requisite economies of scale. In Côte d'Ivoire, for example, oil products from the Société Ivoirienne de Raffinage and cement from the SICM or SCA cement works are also sold in Burkina Faso and Mali.

Two interesting approaches can be identified in the sector of light industry: the case of SAP, a Burkinabé company, and that of transnational companies.

The Société Africaine de Pneumatiques (SAP)

A limited liability company governed by private law, SAP was created in Haute Volta in 1972. Fortunately, the good fairies were present at the christening. The Presidents of Côte d'Ivoire and Haute Volta agreed to center tire production in Haute Volta for two-wheeled vehicles and in Côte d'Ivoire for four-wheeled vehicles.

Côte d'Ivoire never started production but the President must be commended for never going back on his word. Although he was brought under considerable pressure, the President respected the terms of the initial contract and forbade the production of tires and inner tubes for bicycles and mobylettes in Côte d'Ivoire. SAP was thereby able to acquire a dominant position on the market in Côte d'Ivoire. The

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(7) The situation is slightly different for agricultural products in that climatic conditions impose specialization.

original agreement expired in 1986(8) but SAP continues to dominate the market through the network of distributors that it created when it had a protected market.

The activity of transnational or multinational companies

These companies, which are controlled by non-Africans, have sometimes succeeded where governments have failed in that they have effectively specialized their production units in order to extend their series and to increase productivity. Further, they sell their products throughout Africa. One example is that of the Pechiney subsidiaries, which produce finished aluminum products, household articles, items for buildings, etc. Pechiney has workshops in a number of African countries and has always endeavored to optimize production through the partial specialization of its units(9).

However, as a result of the bureaucratic obstacles existing in certain African countries and the high transportation costs, regional strategies are not an attractive option for industrial groups.

3. Possible courses of action for the future

The preceding overview could give rise to a certain feeling of pessimism. However, our opinion is that a favorable context is emerging for future initiatives:

- The growing economic and financial difficulties of African countries, and the resultant political unrest, are leading many African leaders and intellectuals to the conclusion that economic solutions cannot be found at the national level alone: virtually all the countries in sub-Saharan Africa are facing comparable problems and the concept of regional integration is currently emerging as one of the most promising ways out of the crisis;

- For convergent reasons, the donors are increasingly considering sub-Saharan Africa as an entity, given the similarity of the problems observed. Further, many donors are showing a marked reluctance to maintain individual administration structures for the mosaic of African countries(10). This last reason may seem to be purely a question of organization but it is nevertheless important if we consider the vast numbers of requests from all over Africa that are currently pouring into bilateral aid organizations in Western countries.

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(8) Since this date, the competition has become stronger for SAP on the Côte d'Ivoire market. SAFAC, a Senegalese company that was originally created by SAP in the free trade zone of Dakar and which is now autonomous, has created an inner tube manufacturing facility in Bouaké (Côte d'Ivoire).

(9) Over the past few years, Pechiney has parted with a number of its workshops. However, it is still shareholder and operator of both Friguia in Guinea and Alucam in Cameroon (the first producing aluminum for the second).

(10) The GNP of the forty countries of sub-Saharan Africa is lower than that of Belgium. The GNP of the fourteen ECOWAS countries, with the exception of Nigeria, can be compared to that of Hungary.

Even if we recognize that the context is fairly favorable to the concept of regional integration, we still have to identify promising courses of action.

We believe that efforts should focus on two main courses of action: the recentering of institutions and sectoral policies.

3.1. The recentering of institutions

The recentering of institutions will involve a dual-edged approach to address both the existing intergovernmental organizations and the emerging new generation of institutions.

Existing organizations

First, an appraisal must be made of the 160 struggling African intergovernmental institutions, which were created through international agreements and that have the status of international institutions. The appraisal will identify the indispensable organizations that are worthy of support as well as those that would be best abandoned. It will also serve as a basis for a cost/benefit analysis and help us to draw upon the lessons taught by past experience. The African governments and the donor community must then make a clear statement on the future of these organizations. This shake-up is vital if African countries wish to remain credible when they request greater support for regional integration. It should also prompt the definition of specific operating rules to make the organizations more effective in the future: e.g., abrogation of the rule of unanimous decisions that paralyzes initiatives; automatic exclusion of member countries that have accumulated arrears, etc.

Major surgery is, unfortunately, inevitable if the future of regional organizations as a whole is not to be definitively jeopardized.

New intergovernmental organizations

These bodies are -- or will be -- specialized and funding will be organized on an automatic basis insofar as possible. Most importantly, however, the abandon of sovereignty by the State will form the basis of their creation and define their role.

It is probable that the two central banks of the franc zone, the BCEAO and the BEAC, are still too dependent on the State. They nevertheless embody a regional power that has proved itself able to shoulder its responsibilities despite the reticence or even the objections of certain member States. The resultant monetary restraint has kept the rate of inflation low in all the countries of the franc zone.

The change of direction is also illustrated by other specialized organizations in the financial sector: regional commissions of inspection for banks have been set up in the WAMU and BEAC regions and the creation of a regional commission of inspection for insurance is in progress.

3.2. Sectoral policies

The second course of action that could open new horizons is that of sectoral policies. French-speaking countries have initiated an analysis whose focus is the States in the franc zone. A conference

for the ministers of finance from the franc zone was organized in Ouagadougou in April 1991. The fourteen countries present at the conference adopted the principle whereby they would seek to create "a vast single market governed by common rules and encompassing a wide area from the harmonization of taxes to business law and secure investment, etc.", the ultimate objective being to create "a broader area of commercial and economic union"

As the most tangible illustration of a regional policy in Africa today, the franc zone could serve as the basis for economic union. In the long term, it could provide an anchoring point for a broader African monetary policy, which would be linked to the Ecu zone on the basis of a structure that has yet to be defined.

The sectoral policies envisaged concern two categories: agricultural policies and food security and finance policies. Cooperation in the transportation and telecommunications sectors is also a future objective. The ultimate objective is to create an economic union to complement existing mechanisms of monetary solidarity.

Agricultural policies and food security

Within the franc zone, work is already in progress on the regional organization of the cereals, cattle, meat and oil crops markets and also on the promotion of exports, etc.

At a broader level, the Conference of the African Ministers of Agriculture in Dakar (March 91) and the Brussels Conference (October 1991) initiated a process to promote regional integration initiatives in the agricultural sector. A number of promising areas have been identified, including trade between the Sudanian zone (surplus of cereals and meat) and coastal Africa (deficit of cereals and meat but surplus of oil products).

Financial sector

The financial sector has been one of the priorities addressed by African governments and donors over the past few years. Efforts have centered on the rehabilitation of development banks, commercial banks and other banks. Today, new areas of regional cooperation are emerging, particularly with respect to the harmonization of legal and regulatory environments.

Projects have been undertaken in a number of areas:

- The insurance sector (FCFA200 billion in premiums annually) in twelve countries. An agreement on a common insurance code and a regional commission of inspection is currently under preparation. The agreement, which is to be signed in 1992, will progressively create a single insurance market within the countries concerned.

- A regional financial market in the WAMU area is also under study. Future objectives include the rehabilitation of the Abidjan Stock Exchange and the emission of bonds in FCFA by the WADB in order to mobilize long-term savings and to orient them towards investment, etc.

- The introduction of regional business law and the creation of a regional tribunal of commerce to act as a final body of appeal.

Further, within the ECOWAS structure, a number of donors have agreed to support the creation of a regional guarantee fund.

Transportation and telecommunications policy

In the past, the emphasis was placed on projects to develop regional infrastructure: the Dakar – Bamako – Abidjan – Ouagadougou railways, the railway and road linking Cotonou and Parakou-Gaya, the equatorial Congo – CAR – Cameroon route, the Cameroonian road network (Cameroon, CAR, Chad), etc., not forgetting the multinational air line Air Afrique. In the telecommunications sector, the creation of regional infrastructures has been the focus of numerous programs. The majority of these initiatives were part of the PANAFTEL project, which was launched in the 1970s by the International Telecommunications Union (ITU). The ITU is now involved in a new project called RASCOM whose objective is to put an African telecommunications satellite into orbit.

In addition to new investments or back-up investments on ongoing initiatives, however, much remains to be done. One of the main areas of activity must be transportation policy, e.g., coordination of the activities of national shipping boards, regulations governing access to professions, harmonization of the roles played by the different auxiliaries in the transportation sector, progressive unification of regulations (tire loads, vehicle inspections, etc.).

The above examples of sectoral approaches may seem far upstream of real regional markets but they are often vital prerequisites to their emergence. The fragmented markets and the balkanization of regulations constitute two of the main barriers to the development of the private sector in Africa: serious investors of any nationality, cannot waste their energy trying to implement the myriad regulations applicable to each micro-market, especially if the interpretation of these regulations varies from one interlocutor to the next. Today, the main objective must be to shake up, simplify and harmonize the regulations governing investment and company operation in the different countries of the region. Embracing this aim will give meaning to the new spirit of regional cooperation that is blowing over Africa.

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PRIVATE SECTOR AND REGIONAL ENVIRONMENT IN WEST AFRICA

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PRIVATE SECTOR AND REGIONAL ENVIRONMENT IN WEST AFRICA

The question of regional trade in Africa has been a focus of preoccupation for several years now, given the situation of the nation States inherited from the colonial era: scarcity of natural resources, low population density, low wage levels for workers, etc. Under these conditions, the problems of national development can only be overcome by pooling resources.

Yet the more talk there is of the need to pool resources, the less official inter-State trade develops. Since independence, the volume of such trade has never reached 10% of the African States' overall trade volume.

With traditional, unofficial trade, however, market integration is more advanced. Unrecorded trade amounts to considerably more than 30%. But this traditional trade is not developing according to the rationale that African decision-makers would like. One of the weaknesses of traditional trade is the part it plays in regulating society; its sole purpose is to provide for the traders' families and their security. This means that, however rich a trader may be, he cannot move on from purely speculative activities to a real enterprise approach. But if commercial activities do not lead to the creation of proper business enterprises, the question of their part in the development process remains wide open. For these activities to make a valuable contribution to national wealth creation, they must move on from speculation to capitalization by developing a more effective accumulation capacity. Capitalist accumulation is only possible when traders stop distributing their wealth through grand festivities to celebrate baptisms, marriages, funerals etc. It is certainly because African leaders have been skeptical as to the possibility of traditional trade moving away from its social regulation role, based on the distribution of wealth among members of the trader's family or the trading community, that they have tried to create proper business enterprises under State control.

But the facts show that the State cannot ensure that businesses function properly in Africa. The experiments attempted by African governments have brought no satisfactory results. In fact, the government's grip on sectors that are vital to development (in the case of countries that have had Marxist-Leninist regimes) or its strong intervention in a number of mixed-economy sectors (in the case of economically liberal regimes) has led to nothing but heavy debts and the failure of nearly all the companies concerned.

Government control of businesses or government shares in their capital have tended, instead, to enable African executives to reach very high positions in commerce or industry without having the necessary skills or the stature of a real entrepreneur. Worse, the hasty changes made by some of these senior civil servants in charge of companies have not given them the chance to gain a grasp of their craft through on-the-job experience. The result has often been a mess, so that Western partners in the development of the African countries are now suggesting that governments withdraw completely from vital sectors of the economy.

The question today is whether this withdrawal may not do more harm than good in view of the market situation. To try to suggest some tentative solutions, we have approached the question as follows:

- The domestic markets and their limitations,
- The difficulties of a regional approach,
- Alternatives for the future.

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I. The domestic markets and their limitations

No solution has so far been found, within a strictly national framework, to the questions of scarce resources and the low purchasing power of the workers(1).

It can be said that, with the exception of Nigeria, the national framework is too narrow to provide a basis for proper business enterprises to flourish. It is for this reason that it was decided to set up several regional integration structures. Of all the African continent, West Africa is the region where the most initiatives have been taken towards regional integration. Since 1952, when the Senegal River Development Mission was set up, more than forty-two regional cooperation bodies have been attempted or established so far.

Besides these regional organizations (very few of which have been successful), a number of tripartite or bilateral firms were set up. One example of a tripartite enterprise was CIMAO (Cimenterie de l'Afrique de l'Ouest), jointly set up by Côte d'Ivoire, Ghana and Togo. The factory was built in Tabligbo, a small town in Togo. It produced cement to meet part of the three countries' requirements. But the experiment lasted only a few years; today the firm has gone bankrupt and the cement works is closed.

The most interesting examples of bilateral projects concern Nigeria and its neighbors. Benin alone has undertaken three project with its huge neighbor:

- The extension of the port of Cotonou,
- The creation of the Onigbolo cement company,
- The Savè sugar complex.

To take just the example of the Onigbolo cement company, this firm has a capital of FCFA10 billion, invested by Benin, Nigeria and a Danish firm(1). The plant was designed to produce 1,500,000 tonnes of cement in its final phase. It was built at Pobè, Benin, where there is a plentiful, readily available supply of high quality raw material. Pobè is 100 km from Cotonou and Lagos, with very good access by road. There is also a potential market (Nigeria's deficit in 1981, when the factory started up, was estimated at around 2,124,000 tonnes)(1).

Despite all this, the plant's annual output has never risen above 164,000 tonnes - 32.8% of its real capacity. Today the firm produces only 70,000 tonnes a year. The company's problems stem from a poor organization of labor between the Benin and Nigerian management staff and a poorly organized

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(1) For a better appreciation of the difficulties connected with this issue, see the SOFRECO report, "Etude d'opportunité pour la régionalisation d'industrie existant et/ou la création de nouvelles industries régionales dans les pays membres de la CEAO". CEAO (WAEC), Ouagadougou, December 1989.

(1) Benin's share is 51%, Nigeria's 43% and the Danish firm's 6%.

(1) E.J. Houssou, "Production et commercialisation du ciment au Bénin", geography master's thesis, UNB, 1990.

distribution chain. But the most serious problem is the price of getting the cement to market. This problem is reflected in the fact that there are now two prices, a fact which threatens the company's profitability:

- Benin factory gate price: FCFA28,860 per tonne,
- Nigerian factory gate price: FCFA15,900 per tonne, or Naira 530, at average 1990 prices.

The Nigerian price takes account of the price of cement throughout the Federation. The Benin factory gate price is higher than the Nigerian market price, and is also higher than Niger's import price of FCFA23,000 per tonne.

This price distortion complicates the placing of the product in the markets of both Niger and Nigeria. This is so because production costs are very high (around FCFA124,755 per tonne) owing to the heavy impact of costs relating to the firm's bilateral nature.

Generally speaking, national or bilateral enterprises suffer two handicaps:

- The narrowness of the market. This acts against low price and improved quality, insofar as these two factors are intimately tied to the volume and quality requirements of the demand.
- Penetration (often fraudulent) of competing products from a variety of sources, at very low prices. This problem is particularly crucial between neighboring countries with different currencies. Between Nigeria and her neighbors -- Mauritania and the Canary Islands, Guinea and Mali -- it is worrying. Most Nigerian products are between 20% and 50% cheaper in these countries.
- Production conditions. National firms are very small by international standards, yet still operate far below their production capacity. In Nigeria, for example, the main factories operate at less than 40% of their capacity, as can be seen from the table below.

Table 1: Estimated utilization of existing production capacity, by industry

INDUSTRY	1988	1989
Food, drink and tobacco	33.6	30
Wood and carpentry	NA	NA
Chemicals and pharmaceuticals	30.5	21
Non-metal minerals	42	31
Textiles and tanneries	46.4	42
Paper	40.1	42
Plastics	39.38	29
Electrical and electronic goods	22.2	31
Steel and metal products	26.6	20
Vehicles	NA	27
Average	35.1	30.3

Source: Association Nigériane des Manufactures

This low output can be attributed to lack of the financial means to acquire either raw materials or spare parts. It is also due to the difficulty of placing products on the market. Along with the high cost of factors of production -- energy and transport in particular -- it helps to make the prices of goods manufactured at home excessively high compared to those of imported products, to the benefit of the latter.

In view of these difficulties, prospects for a large national company are very poor in most African countries. It is in the light of this fact that regional debates have now become essential.

II. Regional approaches and their limitations

Under pressure from aid donors, the African countries are gradually introducing new rules into the economic game. The main new elements are:

- Liberalization of trade,
- Reduction or abolition of protectionist systems,
- Privatization of public sector or mixed-economy firms.

These new measures are aimed at improving the competitiveness of local enterprises; they are necessary, but they raise many problems. They can only lead to good results if free competition is allowed full play in the sub-region. This applies not only to the African countries, many of which fear their neighbors: it must also apply to their Western partners with their various subsidy systems and protected markets.

As to how African firms can operate with a view to tackling regional markets, three problems arise:

- Outlets, i.e., the destination of the manufactured products;
- Raw materials supplies;
- The degree of integration of the African markets, to facilitate placing goods manufactured either by one country or by partnerships of several countries.

With respect to the question of outlets, African firms are faced with the following obstacles:

- Poor market analysis. A poor appreciation of the market can be seen by the way these firms fall victim to political game-playing. Political interference runs counter to the need for profits, without which no business enterprise can survive.
- The leaders of most African businesses do not operate in terms of the requirements of the international market. As a result, the market prices of goods produced in Africa are quite high compared to the international market prices, although the quality tends to be low. To conquer the regional market, production costs must be lowered. This question is directly linked to the quality of the workforce and its level of pay. While labor force performance is in many cases low, workers are well paid compared to the civil service sector.

The guaranteed minimum hourly wage rates of most West African countries are as follows:

Benin	FCFA81
Burkina Faso	FCFA125
Côte d'Ivoire	FCFA207
Mali	FCFA 67.22
Mauritania	FCFA116
Niger	FCFA109
Senegal	FCFA184(1)

As the figures show, rates of pay are fairly disparate, with high rates in Côte d'Ivoire and Senegal. In Asia, by comparison, minimum hourly wage rates are around FCFA100 to 200(2).

But these guaranteed minimum rates are never taken into account in the wage scales actually applied in African companies. In the Benin cement factories, for example, a manual worker's average monthly pay is FCFA114,138, 8.21 times the country's legal minimum. Such a disparity makes it harder to place products on the regional market. In Benin, which produces a surplus of cement, the price of cement at the factory gate is already very high compared to the regional market price. It is FCFA18,003 per tonne, while in Niger, imported cement costs only FCFA23,500, transportation included. In Nigeria, the equivalent price is less than FCFA15,000. The discrepancy between the production price and the market price explains why Benin's three cement works are running at low capacity.

Operating conditions are far worse for African firms than for Asian. A survey of the oil palm industry, carried out by the French Caisse Centrale de Coopération Economique, is informative in this respect.

"In 1987, average production costs per tonne of palm oil (FOB, in French francs), for African and Asian firms, were as follows:

Firm	Average cost (French francs)
Palmindustrie (Côte d'Ivoire)	2,766/tonne
Socapalme (Cameroon)	3,663/tonne
Socfindo (Indonesia)	699/tonne
Pamol (Malaysia)	1,081/tonne
Socfin (Malaysia)	1,253/tonne

- The very distorted nature of costs in Africa is spectacular in scale and bad for business. The difference between African and Asian costs varies between a factor of 2.2 (between Socfin and Palmindustrie) and a factor of 5.2 (between Socfindo and Socapalm).

(1) and (2) SOFRECO report, Op. cit.

The same year, the average cost of palm oil CIF Northwestern Europe was FF2,062. That meant heavy losses for Africa, and substantial margins for Asia(1).

The reasons for this distortion are as follows:

- Low yields in African agriculture,
- High overheads in Africa and no financing costs in Asia,
- Very low production costs in Asia,
- Inflated, overtaxed transportation costs in Africa.

The question of raw materials supplies is also a preoccupation insofar as the African countries have practically the same natural resources and produce the same agricultural products. West Africa has plenty of limestone, bauxite and iron resources and produces oil crops, cotton and cocoa in abundance. But apart from Nigeria, it is poor in readily exploitable energy resources.

Having similar raw materials does not necessarily favor the creation of sufficiently diversified industries without calling on raw materials from distant sources. Importing raw materials often involves problems because firms have little financial autonomy and lead times are often long. These firms' dependence on their raw materials deliveries regularly affects their pace of production and reduces their ability to act on the market.

This situation is all the more worrying for the fact that most African industries cannot get long-term loans at reasonable interest rates. Loans are granted at commercial rates rather than development rates.

There are a number of obstacles to integration of West African markets:

- Disparate tariff and non-tariff barriers,
- Transportation and communications difficulties,
- The scarcity of factors of production,
- The currency question.

Disparities between customs tariffs are incompatible with regional groupings like the WAEC and ECOWAS. The WAEC's Centre Régional d'Informations et Documentation Commerciale has recently

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(1) R. Hirsh & J.F. Benhamou, "Etude comparative des conditions techniques et économiques de production de l'huile de palme en Afrique et en Asie", Caisse Centrale de Coopération Economique, Paris, June 1989.

published a survey on this thorny problem(1). The existence of different measures undermine the intention of the regional cooperation tax that governs the entry of manufactured products to the different member States. The rules of this tax allow properly registered business enterprises to sell their products in all other WAEC countries freely. But, in order to block the application of this law, every member country sets conditions on the entry of goods from the other member States to its markets. These conditions are never the same from one country to another. In Niger and Burkina Faso they are flexible; in Côte d'Ivoire, Cameroon and Mali they are restrictive. Despite this, customs services add further complications to the entry of foreign goods, even when they are registered under the regional cooperation tax. Irregularities are found in transportation documents to prevent products entering the WAEC or ECOWAS markets. Generally speaking, all the countries of West Africa protect their markets against their neighbors' products. For example, it took several years for the Société Béninoise des Textiles to market its products in Côte d'Ivoire, even though there is an agreement between the textile plants in Benin and Côte d'Ivoire to trade fabric patterns.

Tariff problems are even more marked among the ECOWAS member States, owing to the tenacious prejudices that separate the French- and English-speaking countries.

It would seem that the real problems of regional integration are glossed over at the various meetings of the WAEC and ECOWAS, in favor of issues that are more agreeable to heads of State.

Even assuming that legal arrangements exist for trading in one country goods manufactured in another, the problems connected with transportation and communications prevent any rapid movement of goods. The development of regional trade will depend on a transport system capable of carrying raw materials and finished goods at the best possible rates and with the shortest possible lead times.

The inventory of road networks in the sub-region shows that these infrastructures are very unevenly developed from one country to another. Comparative density per 1,000 km² for the WAEC countries shows this situation clearly:

Benin	65.4
Burkina Faso	48.5
Côte d'Ivoire	142.4
Mali	10.37
Mauritania	7.3
Niger	7.7
Senegal	70.0
All WAEC	24.86(1)

The differences in each country's situation sets a very real limit to market integration. It also masks other problems related to the isolated situation of some countries in the sub-region, especially some countries of Senegambia (i.e., the group of countries that have elsewhere been termed the Western

(1) CRIC, "Repertoire des textes législatifs et réglementaires régissant le commerce extérieur des Etats membres de la CEAO." (RCI) July 1989.

(1) SOFRECO report. Op. cit.

Sub-market)(2). In this part of West Africa, roads leading from one country to another reach a dead end on each side of the border. Highways that actually cross borders are few and far between. This situation is particularly critical for Mauritania, Mali and Guinea.

Apart from these problems of isolation, road haulage rates are very high and vary according to country and type of merchandise. The most expensive countries in this respect are Mauritania, with about FCFA36 per tonne/km, Niger at FCFA35, Senegal also at FCFA35, and Benin at FCFA31. Côte d'Ivoire, Burkina Faso and Mali are at about FCFA28 per tonne/km(1). In addition to these high rates, allowance has to be made for charges paid to traffic control officials. Spot surveys carried out in Cotonou in August 1991 showed that the cost of transporting a 25,000 tonne load of merchandise from Cotonou to Niamey amounted to FCFA710,000, about FCFA60,000 of which was accounted for by contingencies en route. There are 22 check posts between Cotonou and Niamey, and tipping is obligatory at each one. Between Cotonou and Bamako, the same tonnage costs FCFA1,500,000, about FCFA500,000 of which goes to contingencies en route. These incidental expenses are particularly high in Mali. Between the Burkina Faso border and the town of Bamako, about FCFA200,000 per truck is regularly paid in this way.

Everyone knows these practices go on, but even in these days of democratic revival, no-one dares to challenge African soldiers.

The scarcity of factors of production is related to the skills of the labor force and its performance level, and also to the problems of accessibility and cost etc. of raw materials and energy. With regard to all these problems, Africa is still far below the standards and facilities of Asia or the developed countries. The complexity of these problems far exceeds the strictly national context, and they can only be solved by pooling resources.

Lastly, the currency issue is one of the political obstacles to integration. There are two types of currency in the sub-region: convertible and non-convertible. The convertible currencies (the CFA franc and the Liberian dollar) conflict with the non-convertible currencies (the Nigerian naira, the new Ghanaian cedi, the Gambian dalasi, the Sierra Leone leone, the Guinean franc, the Cape Verde escudo and the Mauritanian ouguiya).

The CFA franc has the advantage of belonging to the West African Monetary Union (WAMU), guaranteed by France. This ensures that the CFA franc is convertible everywhere. It also gives it high international credibility, whatever the economic situation of the system's member States. The Liberian dollar enjoys the same advantages.

The seven other countries in the sub-region chose non-convertible currencies because they hoped to restrict the outflow of money to neighboring countries or the West, to keep tight control over business activities and to control the financing of industrial production.

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(2) "Cereals Trade and Agricultural Policies in the Western Sub-market", INRA/IRAM/UNB, April 1991.

(1) SOFRECO report. Op. cit.

From the standpoint of regional trade, however, non-convertibility has many drawbacks. It greatly restricts international transactions, hampers official trade between countries in the sub-region owing to payment problems, it creates a chronic debt situation that is in the long run damaging to State enterprise, etc.

The practice of exchange controls creates obstacles to official regional transactions that private sector operators find virtually insurmountable. Any payment for imports from a neighboring country must go through the receiving country's central bank, then through the regional clearing house in Freetown, Sierra-Leone, before reaching the payee via the central bank of his own country. This procedure makes for very slow payment, which is incompatible with the need for rapid turnover of commercial capital. The Sonara company in Niger, for example, finds that payment for cowpea exports to Nigeria can take up to twelve months.

It is easy to see why the practice of exchange control stimulates cross-border smuggling. To bypass the difficulties involved in currency non-convertibility, several parallel exchange markets have grown up. They operate like high street banks: the exchange rate is always lower when selling a currency, higher when buying. The difference can vary from FCFA5 to 15, depending on the currency and the state of supply and demand.

The emergence of parallel exchange markets has confirmed the supremacy of the convertible currencies, whatever the economic situation in the issuing country. It has sharpened price disparities in the sub-region, given that all the non-convertible currencies are at a discount compared to the convertible. Rates on the parallel exchange market are determined by currency supply and demand, so this discount is not solely the result of the over-valued official exchange rates stemming from the voluntarist monetary policies of some States. It also reflects the economic operators' currency needs, which the banking system is unable to satisfy.

As a result of all this, in the current situation, West Africa is divided into nine currency zones. Trade takes place across several economic zones in which market conditions are very different and often versatile. Of all the obstacles to integration of the West African market, the currency question seems to be the most delicate problem because its role is both economic and political. Most conceivable ways of clearing this obstacle are blocked by political considerations.

In relation to all these difficulties, then, what future can business firms in Africa expect?

III. Alternatives for the future

We now know more about the obstacles to economic development in the African countries. Apart from the historical legacies, which will still have a heavy impact on the future of these nation States, few frameworks for political intervention now offer a bright future for industry: the examples of Nigeria, Cameroon, Côte d'Ivoire and Senegal are revealing in this respect.

The question of the development of private sector firms in Africa is first and foremost a question of strategy in relation to regional and international markets. It is also a question of organization. State withdrawal from vital sectors of the economy necessitates new behavioral responses from African economic agents. However, many of them count on their patronage "clientéliste" links with their country's regime, and have so far shown little imagination. Worse, some of them have operated in an individualistic way.

Today, African businessmen must learn from the traditional traders; there are two essential lessons:

- The need to work in close cooperation at the national, regional or international level, to break down protectionist barriers, as the old African merchant communities do so well.

- The organizational discipline without which it is hard to succeed. This must include due respect for the existing forms of hierarchy in African societies. Through this respect for hierarchy, our forebears shared out commodity fields precisely, so that today each one is now the monopoly of a particular merchant brotherhood. It is the existence of these monopolies that strengthens the acquisition of experience. And modern entrepreneurs seem to lack experience of the West African market. This is also reflected in a preference for restricting activities to the domestic market, for which purpose State protection is requested. Within a national framework, African manufacturers compete fiercely with each other, and this compromises chances of success in regional integration. The result is a refusal to exchange the ideas and information needed for a business to run smoothly. Yet it was by exchanging ideas and experiences that the traditional African traders built up their powerful brotherhoods. The solidarity within these brotherhoods enabled them to adapt to changes brought by colonization and the development of modern States.

Modern African entrepreneurs should learn from their ancestors if they wish to breathe fresh life into trade and industry. Bringing elements from the old into the new is essential if African businessmen are to get beyond the stage of pure speculation and capitalize the means of production. That way they will be capable of producing for the international market rather than the national or regional. It is by aiming at conquest of the international market that the issue of regional trade can be properly resolved. To reach this stage, integration of the means and factors of production is essential. And this can never be achieved through State control.

The liberalization of trade that Africa's development partners would like to see must be understood as a risk to be taken first and foremost by the entrepreneurs themselves. This risk should lead to the development of trans-national cooperation, with financial flows, raw materials and know-how circulating freely. Only this freedom of movement can guarantee the future of the private sector on the black continent.

THE RULE OF LAW AND THE PRIVATE SECTOR IN WEST AFRICA

Jacques Giri

Seminar on the Private Sector in Africa
Dakar, November 22 to 25 1991

The Rule of Law and the Private Sector in West Africa

Jacques Giri

Subsaharan Africa is in profound economic crisis. One reason often proposed to explain this crisis is that the African states which emerged from colonization are not institutions which respect what has come to be called the "Rule of Law". This state of affairs, we hear more and more often, has apparently prevented the private sector from playing a driving role in local development.

The thesis developed here is that rule of law developed in North America and Western Europe under pressure from the mercantilist bourgeoisie. To the extent that rule of law provided a favorable framework for commercial initiatives, it spurred the industrial revolution and has fostered two centuries of economic expansion.

There are, however, other places in the world where strong economic development has occurred without there being any real rule of law and order. This is the case in Japan and it is also the case in most of the newly industrialized Asian countries (NICs). There is a working partnership between business and government which is not regulated by any existing laws, but rather, the terms of partnership are in constant negotiation. Such an arrangement has proven fruitful for development.

West Africa is a different story. Before the colonial period, the merchant class had its own characteristics which were different from what could be found in Europe or Asia. Colonization overlaid imported, European style government systems over indigenous societies. This graft was a success, but it has yet to allow the new African States which use it to manage the deeper structures in such a was as to foster development. Government-business partnerships in West Africa have not been able to develop within the rule of law models, nor have they been able to develop under another formula.

Given its history and its culture, shouldn't Africa now search for its own framework for development instead of trying to graft on Western style rule of law or Asian models? Closer study of the possibility of the latter would be fruitful.

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Given its history and its culture, shouldn't Africa now search for its own framework for development instead of trying to graft on Western style rule of law or Asian models? Closer study of the possibility of the latter would be fruitful.

The Rule of Law provided an environment favorable to the initiatives of Western entrepreneurs.

In Western Europe the merchant class was able to function with a large degree of autonomy within feudal society, as early as the Middle Ages. The royal, noble and ecclesiastic powers were concerned with important things: war and the service of God, they let the merchant bourgeoisie take care of such inferior business as commerce and nearly let them govern themselves within the urban communities. Later when the rise of absolute royal power threatened freedom of trade, it had to be regained: the English revolution in the 17th century and the American and French revolutions in the 18th can be seen as successful attempts on the part of the merchant bourgeoisie to shield itself from despotic royal power. Royal caprice and privilege for favorites were replaced by a stable, clearly-defined, legislative framework which is the same for all, or what we are calling here "legalist government", a notion also related to "law and order". Independent judges are in charge of making sure that the law is respected by everyone including the authorities. In such a framework, entrepreneurs find the security they need and initiative blossoms.

Naturally, the corruption and clientelism which characterized the previous regimes and their feudal roots did not disappear overnight and have never entirely disappeared from any Western society. But, little by little, they have become the exception rather than the rule. Thus the legalist state played an important part in fostering the industrial revolution and continues to play an important part in development in the West.

The Imperial Chinese blocked entrepreneurial initiatives

China experienced a completely different past. For many centuries, it was a major source of invention and held a technical edge over the rest of the world. Coal was being exploited as a large-scale source of energy in China centuries before the Western industrial revolution. Which is to say, China was using the very substance which would power so much of the industrial revolution. Then in the 18th century, the Chinese were confronted with a serious energy crisis and lost their ability to innovate at the same time that the English were implementing a series of innovations, including the steam engine, which would allow them to increase their production of coal.

What made Chinese ingenuity run dry? Apparently, what blocked initiative and led the country into so critical a situation was a highly-organized and powerful imperial government which maintained tight control on a class of wealthy merchants who were scorned and considered dangerous for the stability of the empire.

Japan's development occurred within a different framework.

Japan's history is unlike China's and Europe's. During the feudal period, there emerged a small number of dominant social groups, each of which enjoyed a great deal of autonomy. After the Meiji revolution, the Japanese government sponsored the first wave of industrialization but quickly "privatized" the businesses it had created (many of which were on the brink of bankruptcy) by signing them over to a few influential families. After the second world war, the United States attempted to dismantle the Japanese "military-industrial complex", considered responsible for the war, and tried to foster the democratic tradition in Japan. This effort was only partially successful. Today Japan's politico-economic system is fairly different from Western models.

Japan's system is composed of three large ensembles which are related in complex ways. A small administration produces the laws which the Diet systematically ratifies, makes sure the laws are applied, issues guidelines for business, and supports business activities. Japanese businesses are linked through very large financial groups, associated through powerful employer's associations, subject to government guidelines and wield a strong influence on the party in power. The political party governs without alternation but has limited power; it directs a certain number of administrations but has little control over others. Some observers say it's a system without a head, decisions come as a result of negotiations and consensus between few influential elements.

It would appear to be a parliamentary democracy. But, is it really a state of law? Certainly not in the Western sense of the term: most Japanese laws remain vague and the administration has full latitude in interpreting and applying them. Administrative sanctions are rarely applied, and corruption and clientelism are as rampant as the number of "scandals" which break regularly would imply. In fact, corruption and clientelism are the rule in certain sectors. Nevertheless, one has to admit that the system has been favorable for the development of business.

The newly industrialized countries of Asia are following a path closer to the Japanese model than Western Rule of Law.

What about the newly industrialized countries, and in particular, the "Four Asian Dragons"? There is no doubt that Hong Kong's development took place in the context of a legalist state based on the British system, as did Singapore's, at least in part. But wasn't Korea's and Taiwan's development

closer to the Japanese model in so far as they were marked by connections between the public and private sectors which are not those one would expect to find in a State of Law?

Korea's path to development was particularly close to Japan's in that the first phase of industrialization was sponsored by the state, and in a second phase, large and powerful private enterprises (the Shaebol) maintained complex links to an interventionist state.

Is development in Thailand, which seems to be on its way to rapid expansion, occurring in a legalist context? In the last couple of years Thailand has seen a double digit growth rate which no African country would even dream of, accompanied by levels of corruption and clientelism which are probably not very different from the worst cases in Africa....

These newly industrialized Asian countries seem so different from Western style democracy and legalism that it has been said that in Korea and Thailand the absence of democracy is the price of prosperity. It is true that government and business form a sort of partnership. Government controls and supports businesses which support it, and in the end business enjoys a large degree of freedom.

The Entrepreneurial autonomy so necessary for development can be obtained through different channels.

Doesn't this rapid historical overview of development in the world demonstrate that entrepreneurial autonomy coupled with protection from despotic power is a decisive and necessary factor for development?

And can't we add to this conclusion that entrepreneurial autonomy can be had through different channels? Western-style rule of law may provide it, but it can also be realized through the more complex negotiations which characterize frameworks of the type used in East and South-East Asia where such negotiations are informally institutionalized, without ever actually being regulated by law.

It should also be noted that the apparent difference between the two systems is not as clear as it might seem. In Europe and North America, large corporations certainly operate according to the rule of law, but they are also in partnership, and thus negotiated positions, with governments whose budgets make an enormous difference to the economy and whose decisions to regulate or deregulate a given sector of the economy have an enormous impact on business. Perhaps the essential difference between the East and the West lies in the weight attributed either to legislation or negotiation.

Pre-Colonial African trade networks had their proper form.

Centuries before the colonial period, large trade networks already existed (the Dioula, Haussa and Maure networks). These networks were responsible for long-distance trade inside the African continent, and particularly trade in gold and kola nuts. Through the Maghrebian traders whose trans-Saharan caravans transported goods, West African trade networks imported and distributed foreign goods and also supplied foreign markets. From the 15th century on, these networks also supplied the European trade posts which began to appear along the coasts. These networks were fairly independent; their members were long-time followers of Islam who traded with populations attached to traditional religions. The traders were unheedful of the borders between kingdoms, and did not form a separate class within West African societies, but rather, formed independent communities which handled trade between the

societies they were not a part of, societies in which consumer-producer relationships were not governed by the principles of commercial trade.

This historical trait is important in understanding West Africa today: traders operated between societies but never within their own. It should also be noted that for these African traders, foreign trade was always in the hands of foreign intermediaries, of the ones who ran the caravans, and that there was little opportunity to accumulate the kind of capital accumulated by merchants in other parts of the globe.

Until the beginning of the 19th century, this system allowed the development of commercial relations which satisfied Arab and European traders. However, the extraordinary economic expansion which followed the industrial revolution caused European traders to want to increase the volume of trade with Africa, to get more raw materials from the continent and to sell larger quantities of European manufactured goods. They soon found that the way commerce was organized in Africa presented a number of obstacles. Therefore, one of the objectives of colonization was to eliminate these obstacles and increase trade between the colonized territories and the metropolis.

Implanting Western States on African Societies.

After massive colonization at the end of the century, European trading companies and the services their operations required expanded considerably and the colonial powers, as a matter of course, supplied them with legislative, financial and regulatory frameworks in the image of what they'd left behind. The new frameworks remained foreign to West-African culture.

We will give two (out of many) examples of the ways in which these frameworks have remained foreign. Relations between economic actors in Western countries are essentially constituted by written documents and are only marginally or for short periods of time oral agreements. The opposite is true in West Africa. In Western countries, the guarantees one economic actor gives another are in general "real" (based on material things), this is not difficult to do in countries where land ownership has long been the rule and property is scrupulously accounted for. In West African countries, "personal" guarantees, based on the solidarity of the members of a same group, is the rule.

The colonial powers probably never had the means and never seriously tried to oblige the colonized people to fit their activities into imported frameworks. Indigenous activities continued within traditional frameworks. When the African states became independent, only the modern concerns supported by foreign interest (European or Syro-lebanese) operated within Western colonial frameworks. African entrepreneurs who operated their businesses within these new frameworks were rare and the ancient West African trade networks had managed to adapt to the new situation without ever profoundly modifying their traditional operations.

At the time of independence, West Africa was a dual society in which two different forms of economic organization existed side by side, though there were a certain number of bridges between the two forms (eg., the large traditional traders often served as relays for colonial trading companies).

The transformation of the Colonial State into and African State

One of the concerns of the leaders of the newly independent countries was to gain control, considered inseparable from political power, over the national economy. In countries where socialist ideology was dominant, this control was tight, stifling, and hit and miss. In other, more liberal countries,

control of the economy may not have been as tight but, in other forms, was no less real. Didn't the government of the Ivory Coast maintain extended control over an economy which was considered liberal?

Faced with such leaders, the ancient trade networks did not help develop the economy as similar networks did in other parts of the world. This lack of participation is probably due in part to the historical singularities we emphasized above, but it is also the result of the networks having been weakened during the colonial period. The governments tried to gain control over them and were more or less successful depending on the country.

One would think that the new leaders would have wanted to close the gap between the two forms of economic organization by replacing European colonial frameworks with structures which better reflected native culture, but they didn't. Taken with the modern appearance of what the colonial powers had left in place, the new leaders decided that the old colonial frameworks would provide an efficient means for supervising economic actors both foreign and domestic. Thus, the colonial structures were faithfully preserved. In any case, their underlying principles were never called into question and, a glance at the way these structures have evolved over a long period of time reveals that they tend to grow more complex and to multiply regulatory roles.

As a result, the dual character of West-African societies has not disappeared but has been reinforced. On one side are the foreign companies and the African state enterprises which continue to multiply as well as a certain number of private, usually larger, businesses, all of which operate within the official framework, and as a group are most commonly referred to as "the formal sector". On the other side, are a very heterogenous group of activities, generally called "the informal sector", operating either completely or partially outside of official frameworks (they may, for example, be paying a patent, but not taxes and operate without regard to labor laws).

Government by exception to the Law, rather than by the Law.

One would imagine that the proliferation of regulatory agencies would have allowed the official framework to be rigorously applied; but it is only partially applied and this partial application is not merely the result of the government's inability to enforce its legislation. Non application is the result of a strategy which is never spelled out but which is nevertheless highly visible, and this strategy might be called **"Governing by exception or privilege."** What happens is that an extremely restrictive framework is set up, which, if truly applied, would most likely paralyze all private activity or, in any case, seriously stifle it. But it is not uniformly applied and trying to get it applied is a source of hassles illustrated time and again in every country in West Africa. The hassling eventually leads to government-business negotiations which place business at the mercy either of the administration or its representatives.

Governments in West Africa have always, for example, preferred encouraging private investment through regimes of exception, whose definitions and applications are constantly negotiable, rather than creating a common policy favorable for private investment. Or even, given their growing financial requirements, African governments have been driven to levying heavier and heavier taxes on private economic activities, which, in order to survive, must negotiate — officially or officiously — exceptional applications for an unbearable regime. Or even, their overvalued currency makes it imperative to protect national industry with customs barriers to which some exceptions can always be made, leaks in the barrier.

Government by exception or privilege is regularly applied to businesses held by foreigners, but it is also applied to domestic enterprises, even when it seems that there is a tacit alliance between the

government and some private Sahelian outfit, between the government and say, certain large traditional merchants. In such a case, both those in power and the entrepreneur profit from the deal they have made, but the threat of derogation or withholding privilege are nonetheless the ordinary means by which governments keep private actors from straying afield of clientelism.

Today, West African societies are in a situation in every way unlike the one which prevails in the West, one could even say that theirs is the opposite of "law and order". Not that laws are hard to come by in West Africa (God knows they abound!) but because the system is based on favor, on special personal relationships and on negotiation, never on a pure and simple application of law. What African judge is in a position to force a government to respect its own laws or legal framework? None, and for the majority of Africans, this not only makes sense but is considered natural: of course the people in power have the last word.

What we are trying to get at here is that the situation is not solely due to the behavior of the elites in power. When certain Westerners criticize African elites (for corruption, nepotism, etc.), they are making moral judgements based on the norms which determine correct behavior in their own societies. The situation in West Africa today concerns the functioning of the whole society, a way of functioning which is excepted by the elites and the majority alike.

Are West-African societies in a situation closer to situations in Asian countries? Most likely, the answer is yes. The importance of being a loyal member of a network, clientelism and its consequences, are present both in Africa and Asia and characterize relations between government and civil society. This being said, however, there are differences between the way African and Asian societies function which, as far as I know, have not yet received significant attention. It is particularly evident that clientelism and corruption don't have the same effects on these two continents, most likely because they are not done in the same manner.

What model for Africa?

Current ways of functioning in Africa have obviously not been favorable for development and discourage foreign initiative: who invests in Africa today? Foreign entrepreneurs do not invest unless they are sure of returns substantial enough to make up for the thousand and one hassles and surcharges government by exception causes, and if they are also sure that the niche they will occupy is strategic enough to offer some protection to their revenue. As for local initiatives, either they also benefit from revenues substantial enough to share with the government and its representatives or they are forced into informal operations or operating on the margins of the formal and the informal in order to avoid government levies.

In today's Africa there is an incentive for milking revenues as well as a complex and often ingenious system for dividing them up between the state, its servants and the economic actors. There is also an incentive for creating artificial revenue, for creating scarcity through manipulating regulations and then sharing the profit made. There is no incentive, however, for increasing the productivity of work — which is the very foundation of development — and it remains low in practically all sectors of activity.

Could ways of functioning quickly evolve toward the legalist European model? A legalist state can not be decreed. It can only be the cumulative result of the way economic actors and people who hold power (including the most modest of responsibilities) behave. African values are certainly more and more influenced by outside values, but they are not about to become a thing of the past. Could they change

fast enough for African governments to move toward legalist states in the medium term? There is no guarantee that they will.

Would an Asian model for Africa be more realistic? At this point, no government-business partnership for encouraging development as in the newly industrialized countries has appeared. Might such a partnership appear in the medium term? It is possible. Current changes in African political life will probably make it impossible for the government monopolies which we have been seeing in many countries over the last three decades, to recur. There is reason to believe that governments will move toward cultivating the productive forces and thus will make it easier for entrepreneurs.

Whatever the case, it seems that West Africa's history and specific cultural traits should orient Africans in searching for their own model for relations between government and business and that almost all of this work is yet to be done.

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ADVOCATES FOR MICROENTERPRISE DEVELOPMENT

William Grant

ADVOCATES FOR MICROENTERPRISE DEVELOPMENT

The current atmosphere in many West African countries, including those in the Sahel, is one of high tension and demand for political change. For the first time since the early 1960s, people are clamoring for the right be heard and to have an impact on the rule of their countries. Weak economies and increasingly dismal economic prospects are some principal causes of this recent turmoil. Consistently poor management of state-dominated economies has brought these countries to the brink of economic disaster.

The failures of state-run enterprises (parastatals) to stimulate their economies is finally forcing governments to turn their attention to the private sector as the motor of development. In particular, there is an increasing awareness of the important role micro and small-scale enterprises (MSE) can play in stimulating economic growth. However, the oppressive political and economic policy environments that have grown up under state-dominated economies impose serious constraints on private sector growth, particularly for MSEs.

On other continents, MSEs are fighting to compete with large-scale enterprises; in the Sahel, the private sector as a whole is fighting for its basic right to compete with the government. Private advocacy groups are just beginning to develop a dialogue with government and fight for fundamental policy change such as eliminating price controls, reducing import restrictions, facilitating registration of companies of all sizes, easing tax policies, and removing interest rate ceilings. These policies handicap all private sector firms, not just MSEs.

To gain a seat at the policy table, advocates for policies beneficial to MSEs must ally themselves with those of larger, private sector firms. Once policy dialogue is opened, and the private sector is winning greater liberalization in the economy, more specific dialogue on policies favoring MSEs can be introduced.

Donors now recognize the need to understand the policy reform process to improve it; however, the dynamics of policy reform are extremely complex. Major obstacles include the vested interests created by existing policies, the short-term political benefits of maintaining the status quo, the short-term hardships necessary to achieve long-term economic efficiency, the difficulties of forging consensus, and the addressing of cultural and educational factors that led to the policies in the first place. To overcome these obstacles, stable, independent groups are needed to advocate and lobby for policy and institutional reform.

An advocacy group may come in many forms. It may be a formal public sector agency, a purely private for profit group, a not for profit, or some group in-between. The discussion below reviews many different groups that play some formal or informal role in advocating reform of the policy environment.

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The Policy Reform Process

The process of policy determination, and its subsequent reform, differs greatly between the countries of the Sahel and developed countries. The fundamental difference lies in the level of public participation. While governments in most developed economies are essentially representative in nature with significant public participation in their selection, Sahelian countries are governed by central bodies with very limited grounding in public representation. These central bodies rely on a few principal decision makers to establish policy.

The relative transparency of the process of policy formulation in developed countries is protected and promoted by both governmental and nongovernmental institutions. These institutions facilitate and guarantee the open debate of important issues that both support and pressure the policy makers into being responsive to their constituencies. The principal policy makers in the Sahelian countries rely primarily on government institutions and semiofficial organizations, which fall under direct or indirect government control, for advice and information to help them formulate policy. There is no mechanism to ensure transparency of the process, so the ultimate policies are decided by a few top decision makers.

The following figure presents a framework for analyzing the positions and relationships between the different interest and advocacy groups that have a role in influencing policy determination with respect to MSEs and the private sector. At the center of the figure are the decision makers. Around them fall four main categories of interest groups: government ministries with official responsibility for policy analysis and subsequent implementation, semiofficial agencies with official ties to the decision makers, bilateral and multilateral donor agencies that control the supply of development assistance, and private advocacy groups.

The heavy arrows indicate that formal access to policy makers exists only for the first three groups. These are the best-organized and -funded groups with the strongest institutional bases. The private advocacy groups are poorly organized and have few, if any, direct links to policy makers. This situation is largely a result of the weakness and immaturity of the private sector in these countries, but also reflects the exclusion of local nongovernmental advocacy groups from participation in the decision-making process. They are just beginning to mature as representatives of their interest groups.

Policy Makers at the National Level

Given the general nature of political structures in Africa, often a select group of a few actors are ultimately responsible for all policy determination. These policy makers must be sensitized to, and convinced of, the beneficial impact of proposed reforms. These individuals sit at the top of the political structure and need to respond to few constituencies, most of whom are in the public sector, and are hence not necessarily sympathetic to private sector issues. Their actions will most likely be taken in response to short-term issues and pressures being applied from those constituencies rather than sound economic logic.

Formal Public Sector Advocates

Line Ministries and agencies perform the analysis and develop the programs to support and regulate private sector development. Historically these have been the Ministries of Industry and Commerce, to promote private sector development, and the Ministry of Labor, to support employment creation.

Recently, there has been a subtle but increasingly important shift toward supporting small-scale enterprise activities. Niger and Burkina Faso provide two such examples with their recently created Department of Artisanry, split away from the Department of Industry, to address all small-scale productive activities. Other ministries have various oversight and regulatory roles for MSE.[1]

Identifying the proper role for a government agency is an important step in determining its effectiveness as an advocacy group. The issue of implementation versus oversight and management becomes critical, particularly since it may shape the policies and stance the government agency will take. Agencies that are busy implementing activities will promote policies to protect or favor their investments, and to meet their short-term goals, perhaps to the detriment of private actors and the subsector as a whole.

Semiformal Public Sector Advocates

Semiformal public sector advocates include organizations that are nominally independent from the government but are, in reality, closely allied with or financed by the public sector.

Political party. Despite moves toward *democratization* and *multipartisme*, each Sahelian country still has one dominant political party. It supports the officials in power and has a large effect on the decision-making process. Political parties may gloss over substantive economic issues, but can support issues that are important to political constituencies. Political parties will often sponsor activities for disadvantaged interest groups such as women, or advocate enterprise-creation programs that respond to the pressures of increasing unemployment, particularly among young graduates.

Chamber of Commerce. This advocate is nominally the representative body for the private sector, often entitled the Chamber of Commerce, Trade, Industry, and Artisanry. As the formally appointed body for the private sector, it interacts with the policy makers. Unfortunately, it is usually managed by civil servants, appointed by ministry officials, thus drastically limiting its capacity to conduct policy dialogue. Policy dialogue and reform require conviction and persistence. Ordinary civil servants have no incentive to take the hard positions necessary to stimulate change, particularly if it involves standing up to those who appointed them.

In Niger, the Chamber sponsored meetings between private businessmen. Policy recommendations were presented to the government for implementation, but, because of the lack of interest within the Chamber to apply continued pressure on the policy makers, these recommendations have yet to result in any policy reforms. This case demonstrates the neutralizing role that civil servants can have if they are mandated to represent the private sector.

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[1] The *Plan Directeur pour la Promotion de l'Artisanat au Burkina Faso* identifies 13 different agencies with policy or regulatory responsibilities for MSEs.

Nongovernmental Organizations

Nongovernmental organizations (NGOs), also called private voluntary organizations (PVOs), can be focused advocacy groups for MSE development issues. NGOs provide an organizational structure with grassroots contacts and first-hand experience with the problems small entrepreneurs encounter on a regular basis.

Indigenous private NGOs. Local NGOs vary in capacity by country. Niger has only a few weak local NGOs because there was no statute for their existence until recently. Burkina Faso and Mali have some well-organized local NGOs, although financing is a problem and internal management is limited. In Chad, local NGOs are virtually nonexistent. In Senegal, regulations governing the income-generating activities of nonprofit organizations make them dependent on outside donations, limiting their capacity to finance growth.

Indigenous NGO MSE projects tend to be very small, with limited funding and a narrow target group. These projects, however, still provide examples of the impacts of specific policies and highlight opportunities for policy modifications. Indigenous NGOs can rarely be expected to develop a direct dialogue with their government, but can serve as valuable links to those groups (such as the donors) who carry on the dialogue.

International PVOs. The international PVOs are often the strongest NGOs in the Sahel countries. These PVOs have provided the longest sustained program assistance to indigenous groups with only limited government guidance or intervention. This has provided them with the information and experience base necessary to understand the issues and constraints to MSE development from a perspective that can lead to positive change. Dealing from an international base, they are often experienced in negotiating with governments and can bring enough clout and sophistication to gain the ear of the government. However, an international PVO's presence is dependent on the invitation of the government, thus putting the PVO in a tenuous position to institutionalize its role as an advocate of policy reform.

Labor unions and syndicates. Within the socialistic environment of the Sahelian countries, the issue of workers rights is important. Labor unions tend to be well organized, reflecting their relatively large membership and the official support that has been provided to help them organize. Their role as advocates has often been limited by the degree of government intervention in their management, but this appears to be gradually changing. They are an underdeveloped resource.

Trade associations and employers unions. Nominally, these associations and unions should be the best advocacy groups for the private sector. They cover a wide range of indigenous organizations with varying levels of financing, organization, and management. They often work under the auspices of the Chamber of Commerce, but without direct government intervention.

Across the Sahel, the most effective advocacy groups, in general, have been the employers unions (*patronnats*) representing the largest companies. They have the greatest economic and political clout as well as the managerial capacity to understand the way to address the strategic management issues of importance to the private sector.

In Niger, the Syndicat Patronal (SPEIN) is the only private advocacy group that has earned a seat at the Ministry of Commerce's policy coordinating committee. It has had relatively little impact on shaping overall policy, however. The other trade associations are trying to get the SPEIN to act as their spokesman, bringing them added clout.

Efforts are being made to start new associations in Niger, called Groupements d'Intérêt Economique (GIE), which can eventually serve advocacy roles. GIEs have no legal statute in the country, hampering their start-up, but the current repressive environment is forcing the small formal sector entrepreneurs to group together and speak out.

The most striking example of successful debate led by a trade association appears to be in Senegal. The Conseil National du Patronnat (CNP) is organizing the debate for freer private sector initiatives and a more liberal policy environment with the government. Part of its success lies in having captured the attention of the policy makers; it conducts official dialogues with senior government representatives, overseen by the president.

Donor Organizations

The donors can play a major role in promoting policy change in several ways:

* Projects can develop and test hypotheses in the field at a micro level, to provide examples of policy constraints to MSEs and to identify needed policy reforms.

* Programs concerned with policy dialogue can negotiate policy reform and serve an educational role in the process of preparing the program.

* Direct dialogue with government officials at the highest levels, either by the ambassador or directors of foreign aid missions can apply continued pressure to promote reform.

The multilateral donors are represented primarily by the World Bank, the International Monetary Fund, and U.N. agencies. They carry considerable weight in discussions with the government based on the financial resources they can provide for those countries. The World Bank and the International Monetary Fund, in particular, are concerned with macroeconomic factors and overall growth and less with the effects of policy change on particular sectors of the economy. This causes them to focus on the policy issues that affect the growth of the economy as a whole.

Heavily focused on structural adjustment in recent years, the World Bank has become far more enlightened with respect to the importance of MSEs and is analyzing methods of improving the environment for stimulating their growth. The European Development Fund is also becoming involved in MSEs.

The bilateral donor agencies rarely have the same clout as the multilaterals in terms of negotiating policy reform because of the limited policy reform resources they can offer the host country governments. Some of the larger bilateral programs, such as those of the United States, are involved in policy reform programs, but usually take on a smaller role and in coordination with the World Bank. A more relevant role for the bilaterals involves project implementation and includes elements to facilitate policy reform measures.

The agendas of the bilateral agencies are always a bit muddied by political issues. The desire to promote trade links with their countries and develop joint venture arrangements with local firms may lead some countries to offer concessionary programs that may not be in the best macroeconomic interest of the host country, but provide concrete short term results that are used for political advantage at home.

In addition, the competitive (often chauvinistic) nature of bilateral programs can lead to special incentives to increase levels of beneficiary participation in a market sometimes saturated with donor projects. For example, two or three MSE programs may be competing for the same clients (small enterprises/entrepreneurs) leading to distorted effects. Coordinated actions on the part of the bilaterals (and multilaterals) in this area are necessary but not yet underway.

Implications for Donor Intervention

Each group of actors described above has its particular strengths and weaknesses in promoting dialogue to improve the policy environment for the private sector. Donor agencies promoting policy dialogue should be aware of the potential, but also the limits, of each different group, to make sure that it is tapping into the appropriate resources but is not pushing beyond its capacity or into an inappropriate role. The following guidance is offered on how the donors can intervene to simultaneously strengthen the dialogue for policy reform and play a greater role in promoting advocacy efforts.

* **Strengthen indigenous nongovernmental advocacy groups.**

Donor agencies have historically provided assistance to government-sponsored institutions. It is increasingly apparent that, although government institutions supporting private sector activities should be strengthened, they are necessarily limited as advocates of policy reform due to their simultaneous roles as regulators as well as promoters. Therefore, the donors need to provide more direct assistance to NGOs to provide them with both the organizational capacity and the resources to pursue the issues identified as important.

* **Improve the role of existing projects in the policy reform process.**

Within the structure of existing donor projects, there is ample room for strengthening the capacity to pursue the advocacy process.

Provide concrete examples of policy constraints. Projects often encounter the problems facing the private sector and are in a position to document and analyze them as items for policy reform. This function is rarely built into projects, however. Donor projects should be aware of the need to identify and document policies that serve as constraints to MSE development.

Projects should leave behind systems that enable interested groups to measure the impact of policy constraints. Good data-collection systems are scarce in the Sahelian countries; yet reliable data are necessary for the time-series analysis required to measure impact. Donor projects are in ideal positions to develop at least the baseline data to serve as reference points for future analysis.

Train local counterparts and officials. Sensitization of host country officials to the beneficial role of the private sector, through tours to other countries or special programs, will serve to diffuse the adversarial relationship between government and the private sector. Even if these officials move to other posts, it will be an important effort in developing the critical mass necessary to pursue effective policy implementation over the long run.

Develop local capacity to pursue the process. Projects should include efforts to expand beyond governmental institutions and to develop at least the seeds of private local advocacy groups that can follow up on actions begun under the projects.

Ensure greater coordination among donors. Lack of coordination among donors often leads to competing projects that pursue conflicting policy agendas. Because the environment surrounding MSEs is not fully understood, continued experimentation is necessary to identify the best techniques and methods to assist them. However, donors must present a cohesive front on those policies, such as market rates of interest, they agree on as necessary for sound growth.

* **Continue to pursue direct dialogue with host country governments.**

Donors have applied sustained pressure over recent years to promote policy reform. Many host country government officials claim that the major reforms have been made, at least on paper, and that therefore the issues do not need as much attention. Many reforms still need to be implemented, however, and their implementation monitored to ensure respect of the enacted reforms. Private advocacy groups must carry on much of this dialogue to ensure that policy reforms are respected. Until these groups are strong enough and organized enough to establish direct dialogue with policy makers, donors must be aware that they may need to serve as spokesperson for the private sector and for MSEs in particular.

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