AFRICA PRIVATE SECTOR DEVELOPMENT

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GENERAL CONCLUSIONS AND SUMMARY

Note: This section presents a general overview of the general conclusions and lessons learned from private sector developmental activity. Specific analysis and cases are explored in the body of the report.

The failure of past donor policies to create growth and political stability in Africa was due, to a considerable degree, to a high reliance on public sector institutions. It is now recognized that the key to achieve a broad-based development in Africa is through development of strong Enabling and Business Environments. Smaller and better government should emerge in Africa alongside a large, dynamic and competitive private sector in an environment of entrepreneurship and risk taking. The private sector would be placed on a near-equal footing with government, as in developed nations, providing an equilibrium for growth and political pluralism. Business would become the driving force in economic resurgence and growth, replacing static economies.

There is a general political movement towards liberalization and rejection of failed, statist policies. However, African states are only just learning the implications of Structural Adjustment and an effective Enabling Environment. Donor agencies must provide the technical resources to guide the process beyond simple legal reforms as well as a sense of final purpose, through conditionality, to insure fulfillment of liberalization goals.

For Africa to grow and break out of the cycle of poverty, it must develop business environment that provides the same incentives conditions and tools that business receives elsewhere in the world. Business works at a disadvantage in Africa. Most governments and many of its people exhibit hostility towards business, not understanding the process and the benefits a free enterprise system can produce. Donor support for a business environment requires a high degree of creativity, flexibility and rapid response time. Among these key incentives and tools are:

- Respect and a general understanding of the business process in government and society

- A suitable macroeconomic environment with predictable growth, inflation, currency and interest rates.

- The Rule of law

- Property rights

- Predictable and reasonable government regulations of investment and trade

- Predictable and reasonable government regulations to deter monopoly and promote growth

- Freedom from government exploitation

- Financial markets to provide credit

- Strong business networks and organizations

- An adequate transportation and communication infrastructure

- Adequate manpower with training mechanisms

The Africa Bureau's Perspective

In the complex and rapidly-changing African environment, U.S.A.I.D., and other bilateral and multilateral donors and non-government organizations (NGOs) must continually reassess their approaches to develop cost-effective strategies that will yield concrete results to private sector development. The policy debate is still ongoing. But there is no single model. With thought and reason a number of models are developed for the different circumstances of each country.

Africa is a continuum of nations in the process of reform and assistance policies must be adjusted in line with specific conditions. This requires flexibility on the part of the donors in both levels and timing of response. Donor support for reform must be rapid to take advantage of those scarce moments when political support for liberalization is strong.

The challenge facing the Africa Bureau is complex, ranging from promoting a general business environment favorable to large firms and financial institutions to developing microbusiness support for small scale agriculture, women in development and tradespeople. In specific terms, the Bureau fills a much-needed gap of technical assistance and business understanding through the provision of:

1. Specialized business knowledge, through consultants, for the specific needs of individual African nations;

2. Rapid assistance, once local African political support for reform has coalesced;

3. Linkages between African business groups;

4. Support for U.S.A.I.D. missions and officials in Africa that lack current business knowledge or sufficient contacts to respond rapidly to nations' needs;

5. Communications with and leverage resources of USAID missions, the PRE bureau and other, multilateral donors for greatest efficiency.

The Bureau works in providing support in these specific areas:

Trade and Investment Promotion
Privatization Efforts
Financial Market Development
Venture Capital Development
Networking and Association Development
Microenterprise Development

Among the general criteria which has been used in deciding on private sector interventions include:

1. The activity is undertaken in a country where there is a commitment to reform and where policy reforms are underway or about to begin;

2. The activity reduces government involvement in the market place (e.g. privatization);

3. The activity involves an increased role for the private sector, be it in dialogue on policy reform or in governing boards of regulatory bodies;

4. The activity mobilizes local private sector intervention and resources;

5. The activity focuses on promotion of African entrepreneurs;

6. The activity builds on existing African practices and efforts;

7. The activity mobilizes financial and management resources on a market basis (in investment finance, debt or equity);

Economic Reform: General Lessons Learned

Assistance for private sector development will not succeed in a political environment that is either implicitly or explicitly hostile to investment.

Reform does not come overnight. Rather, it is frequently a two-steps-forward-one-step-backward process. The goal is to lay the groundwork, among leadership elites, to show how public sector stifles productivity and national progress to build political support for a reformist government.

Reform without pain does not work. Efforts to restructure weak African economies inevitably leads to short-term declines in economic well being and increases in unemployment.

Partial or incomplete economic reforms may be more damaging than no reforms at all.

Government and Donor Relationships

The failure of Structural Adjustment and creation of Enabling Environments in many African nations is due to a lack of confidence and commitment in African governments to implement fully these reforms. Part of the fault lies with donors that refuse to take difficult decisions and reduce assistance for non-compliance.

Relationships and agreements between governments and donors and among the donors themselves are key to a successful reform program. They must together work to persuade African nations that a failure to implement effective measures should lead to immediate donor reappraisal and reduction of resources.

In those nations where funding continues without reform, statist regimes are reinforced and development is further harmed.

Donor coordination is critical. Host governments frequently receive mixed messages and use one agency against another in soliciting support.

Commitments to reform enabling environments are frequently not carried out or have little impact on the private sector because of informal barriers or resistance to business. Donors must work to eliminate these obstacles as much as to achieve macroeconomic goals.

The success of assistance must be more important to the local participants than to the donors.

Donors, as with African governments, must come to accept profit and business as a good, rather than an evil. Similarly, they must also understand that bankruptcy and unemployment are parts of the business cycle and not rush to subsidize failing sectors.

Donor assistance should try to build on ongoing structures. Financial and commercial assistance should work with existing entrepreneurs.

Donor support should be provided more and more to business rather than government. Past experience has shown that public international agencies assistance to African governments for business reforms does not work. The money is sidetracked and policies that work against bureaucrats best short-term interests are not implemented. To be sure,

Defining The Private Sector

The Africa Bureau's efforts work to create strength among domestic business leaders and associations, to involve them in reform efforts and to improve investor confidence. A.I.D., African governments and other donors must first understand who the private sector is in each nation, its presence and its interests.

The Bureau has developed and sponsors MAPS (Manual for Action in the Private Sector) studies in those nations considering reform. Through a process of surveys, interviews and dialogue, MAPS has succeeded in eleven African countries in identifying the structure of the business sector, as well as well as to develop a dialogue between government officials and entrepreneurs. Missions have come to understand the environment in which they work. The complexity of the private sector in Africa emerges from the MAPS study. It varies from the businessman who relies solely on government contracts for support as well as marketwomen who understand the strengths and weaknesses of local markets.

Generally speaking, the existing entrepreneurial talent in Africa derives from:

1) Agriculture small- and large-holders.

2) Microentrepreneurs: Truckers, smugglers, craftsmen, and marketwomen who have grown despite a poor operating environment.

3) Government-linked private suppliers.

4) Government managers of parastatal firms. who must be retooled to operate in a market economy.

5) Offshore Talent who left their nations or sent their capital abroad and who will return, and bring with them sophisticated knowledge of management and commerce.

6) African managers of multinational firms.

The Investment Climate

The Africa Bureau provides assistance in developing the investment and trade potential in Africa through technical assistance in legal and regulatory reform, in promotion, in develop of market information and in establishing linkages with US firms. These efforts have been done on an ad hoc basic, using outside consultants, as well as through cooperation with the Overseas

Private Investors Corporation (OPIC) and the Foreign Investment Advisory Service (FIAS).

The Africa Bureau's effort efforts to promote investment, including revision of investment codes, sponsorship of US investment missions and support for new investments through financial intermediaries has shown that investment promotion in nations that have basic flaws in the Enabling Environment is useless, even if some partial reforms have been undertaken. Mission efforts throughout the 1980s at sponsoring trade & investment centers confirm this lesson, yielding minimal results. However, once the political atmosphere is ripe for reform, investment promotion in these same nations where promotion once failed can work, as in the case of the Uganda Investment Authority after 1990.

Investment sites must have a clear competitive advantage, especially because their locale is in Africa. Investors prefer to keep their money in safer havens with greater predictability. However, they will invest if the risk/reward ratio is beneficial.

Accurate information must be provided to facilitate outside investment interest and follow through.

Extreme patience and persistence are required to see investments to fruition.

Investment in export industries is far more likely to succeed than those for the domestic market because the business will be able to earn hard currency to finance its enterprise.

Entrepreneurs, over the years, have become secretive and suspicious of government entities, for obvious reasons. Business frequently in isolation, preferring not to show its size or interest. The Bureau must work to identify them and remove the causes of this insecurity.

Revision of foreign investment codes frequently leads to revision of domestic investment codes, because local entrepreneurs complain, rightly, that they are working at a competitive disadvantage. Furthermore, as the benefits of new capital are discerned in the form of job creation and technological replenishment, countries are more willing to relax restrictive requirements.

The Trade Climate

Traders are the backbone of African entrepreneurship, both in local and regional marketplaces and in regional trade. It is they who understand the rules of the game and the best manner to survive within them.

A liberal trade policy is key to structural adjustment and the creation of an Enabling Environment. If African nations are grow, it must be through exports; and exports are not possible until the nations become globally competitive. To become competitive, African enterprises must lose their traditional tariff and legal protection from imports. Ultimately, government

The major constraints to trade growth are government policies and regulations, bureaucratic inefficiency and corruption, transport (infrastructure, cartels, costs), and banking - not supply and demand. In fact, unquantified informal trade (contraband) often thrives across many borders to circumvent controls and inefficiencies.

The Africa Bureau has achieved its greatest success in those nations that have not welcomed general liberalization through the introduction and promotion of Export Processing Zones. Within the limited context of the zones, it is possible to engage the government in a dialogue concerning trade reform, use of foreign exchange, private provision of services including energy and communications and liberalization of labor codes, taxes and tariffs. Success has been shown in five African nations.

Developing Private Sector Networks and Organizations in Africa

A key restraint to private sector growth is the lack of sophisticated business networks in Africa. In the developed world, business associations represent individual industrial and agricultural sectors, provide up-to-date information on current business trends and opportunity and represent their sector to government and international associations. In Africa, the small and medium entrepreneur community works in isolation from other businessmen, neighboring countries and from the world economy. Because of hostile operating conditions, most businessmen work in secrecy, too insecure to cooperate with their compatriots.

The basic need for African entrepreneurs is to break out of the isolation in which they worked by establishing a strong network. African business must be kept aware of the impact of the rapidly changing African environment. Markets and sources will radically shift as government subsidies and protectionist policies are abolished and liberal import regimens are established with low or no tariffs. Above all, the entrepreneur sub-culture must develop confidence in its operating environment.

In an effective African business environment, a broad band of associations, representing competing sectors and interest groups, would address obstacles to private sector development by representing the interests of its membership to government and other industries with regard to the substance of policy and the process of regulation, providing members with information on policy, regulatory and market environments, facilitating access to credit, supplying technical assistance and training and establishing industry standards.

The Africa Bureau devotes considerable energy and technical support to developing business networks and associations. It promotes regional and sectoral meetings and it links, on an ad hoc basis, businessmen in various nations and regions, including the United States.

Privatization

The Africa Bureau works to promote privatization, understanding that the measure has been the keystone of liberal reform efforts throughout the world. Privatization symbolizes a political will to take strong steps and end monopolies and favored treatment to elite groups and workers in bureaucracy, to reduce government spending and fiscal deficits, improve services to the general population, reduce patronage and burdensome taxation of the populace, free-up resources for more productive, social and infrastructure uses, and to improve the overall competitiveness of national bureaucracies in the face of global competition.

Privatization cannot be achieved overnight. Even in countries with more advanced economies, such as Mexico, Malaysia and Argentina, it took seven to ten years of political maneuvering and false starts before the political will formed sufficiently to allow for serious privatization efforts. In Africa, privatization faces the legacy of 30 years of statist rule; its implementation is a shock to governments and societies alike.

Among the key lessons learned from AID and other donor's privatization experience over the past four years are:

1) The decision to embark on a privatization program is in the first instance political, regardless of the economic and financial pressures that may have promoted consideration.

2) The handling of opposition to privatization is of central importance to any privatization success.

3) Privatization of useless firms implies closure, which means that some assistance is required to assist in redundancies ("privatization funds").

4) No amount of strategic planning or technical assistance will help a program work unless there is full, consistent and continuing commitment to privatization at the highest levels of government.

5) Privatization must not be a process of converting public sector monopolies to private sector monopolies.

6) Firms to be privatized must be carefully selected for their

likely success.

7) Once firms are privatized, government institutions and international donors should remove themselves as far as possible from their operations.

Finance

Finance is at the crux of the developmental problems facing Africa's private sector. Without an access to credit at reasonable rates, growth is difficult. However, mcst financial markets in SSA are artificial, supported by government agencies and multilateral donor groups.

Most of Africa lacks the prime conditions that usually attracts and maintains capital: a sufficient rate of return and predictability. Inflation and high taxation erodes the value of money. Financial markets are very small and the size of their potential business does not merit investment of resources. Private capital needs to understand what are and will be the general rules of the game in both government regulation and implementation as well as in markets. Capital abhors political and economic uncertainty and a climate of unpredictable corruption. Trust is critical. Only after this basis is established will capital markets begin to look at Africa seriously and invest in both production and markets.

Most African banks lend to large customers and for trade. They are reluctant to lend to small business and take local currency risk. The loans on their books weakens their credit worthiness. In many countries, the World Bank and the I.M.F. impose stiff credit and liquidity ceilings, limiting loans to 3%-10% of asset capitalization; Banks prefer to use their scarce resources for established, less-risky and favored clients. Beyond this, high interest rates and closing fees are too high for small and medium-sized entrepreneurs to support, especially in areas with small markets. These businessmen also lack collateral for many loans.

In such a difficult market, the Africa Bureau -- in cooperation with other A.I.D. agencies, bilateral and multilateral donors and NGO -- has learned that it must use a broad variety of approaches to stimulate financial mechanisms, including:

1. Continue to inform and pressure SSA countries to establish an attractive environment for financial instruments through continue dialogue, networking and cooperation with the IMF.

2. Continue to develop networks between African private and government financial experts and international markets to explore creative financial mechanisms as well

as to understand current global market conditions.

3. Develop financial skills.

4. Provide technical and institutional support for financial instruments to serve as an underpinning for financing of the growing entrepreneurial class, which currently lacks access to credit

5. Attempt to expand micro-African financial institutions (such as tontines, La Financiere movement) into larger activity.

6. Assist in debt-swap activity, especially in the debt-for-development arena.

7. Provide technical resources for venture investing.

Microenterprise Development

The African informal sector contains the largest number of enterprises and employers with the potential to generate earnings and employment. An estimated 75% of all African manufacturers are micro and small enterprises. It is a highly efficient user of both capital and labor. It is a resilient "people's economy" which grows when the overall economy expands. This resiliency contributes to broad-based economic growth objectives.

The informal sector has served as an incubator for an emerging class of new entrepreneurs in Africa. This is particularly true for women who have traditionally been more disadvantaged in their access to credit and opportunities. Small and microenterprises provide a viable point of entry to fulfill poverty alleviation objectives.

As a response to a government suppression of entrepreneurial activity, African micro and small scale entrepreneurs were forced to adopt a "no growth" survival strategy designed to avoid and evade unwanted intervention from the state. Government barriers to growth include archaic business regulation, over-regulation of the market place, excessive taxation, lack of access to a fair judicial process, harassment by "rent-seeking" police and local authorities, and lack of enforceable property rights. Rather than expand the income and employment generation capability of a successful micro or small enterprise, African entrepreneurs start a succession of "invisible" new businesses. Their investment strategy is "horizontal" rather than vertical and is often diversified in livestock, real estate and other appreciable goods.

The problems constraining microeconomic growth include, but are not limited to, the following:

- o inadequate market research and outlets;
- o access to adequate supplies;
- o inappropriate production technologies;
- o inadequate working capital;
- o insufficient inventory size and controls;
- o inadequate production volume and quality controls; and,
- o inadequate financial management systems and skills.

The increase in small/microenterprise support from donors has resulted in a directed credit approach operated through formal institutions including commercial and development banks and parastatals. Most conventional credit programs operated through development banks and parastatals have relatively high costs, low recovery rates and have difficulty meeting internal operating costs.

Most of these programs offer integrated training and technical assistance services which are costly and generally lack data on cost-benefit impacts. These mechanisms are criticized for being top-down, supply driven and non-participatory.

For these reasons, increasing emphasis is being placed on the "minimalist" approach which makes these services demand-driven with an emphasis on maximizing cost recovery. Management styles are also more participatory and generally rely on community peer group pressure for loan collection. Recovery rates are been significantly better and community outreach is greatly expanded.

AFRICA PRIVATE SECTOR DEVELOPMENT

Introduction

The promotion and support of formal private sector development in Africa is fairly new, dating only from the mid 1980s. Donor objectives are still emerging in response to experience in projectsand increased understanding of the African reality. By and large, the Africa Bureau aims to nurture smaller and bettergovernment alongside a large, dynamic and competitive private sector in an environment of entrepreneurship and risk taking. The private sector would be placed on a near-equal footing with government, as in developed nations, providing an equilibrium for growth and political pluralism. Business would become the driving force in economic resurgence and growth, replacing statist economies. Through development of small and large business groupings, Sub-Sahara Africa (SSA) would be able to attract new capital and modern technology. Financial institutions would emerge. African peoples would be able to compete effectively in the global market, jobs created and the long dependence on international assistance would decline.

Before these ambitious goals can be achieved, a long and painful restructuring must take place, not only of the enabling environment, but the general atmosphere in which African business and government leaders consider entrepreneurial work. However, the legacy of colonialism and post-colonial statist epoch weighs heavily. In most African nations, the private sector is held in low esteem and there are few successful local private entrepreneurs. African governments and many of its people exhibit hostility towards business, not understanding the process and the benefits a free enterprise system can produce. Accusations of speculation and unfair trading practices by business persons, including non-African entrepreneurs, have further provoked governments to monopolize and "indigenize" markets. Business activity and knowledge has been stifled. All this must be repaired.

In the 1970s and 1980s, economic and trade liberalization swept through Eastern Europe, Latin America and Asia, yielding impressive results. Korea, Taiwan, Mexico and Chile became beacons and models for other nations: Thailand, India, Argentina, Colombia and others. But despite high levels of assistance, efforts at private sector development in Africa did not yield similar results. Net resource flows to SSA in the 1980s totalled more than $100 billion, yet the region's economy grew at a mere 1% a year, with real per capital incomes dropping by 40%. In the first two years of the 1990s, Real GDP is declining 1% per year. Political instability, natural and public health disasters, corruption, excessive government regulation and the lack of a dynamic business sector were exacerbated by inappropriate development strategies focused on government-sponsored growth. By the end of the decade, SSA was marked by low productivity, shortages of capital and credit, shortages of goods and services, high public sector debt and a sharp decline in infrastructure. Beyond this, the continued high rate of population growth, malnutrition, and low health standards maintain a constant economic pressure on the continent.

Perhaps the greatest indicator of failed policies in Africa is the erosion of agricultural production and food distribution. Nations that once were food exporters, such as Zambia and Cote d'Ivoire, have lost their agricultural capability. Government attempts at maintaining food costs deprived farmers of profit and thus, production declined. The key lesson is that those same factors that worked against agriculture worked against all sectors of business in Africa. The state piled on disincentive after disincentive and thirty years of statist ideology has imbued Africans with a profound distrust of the profit motive and individual entrepreneurship.

The initial efforts at private sector reform have yielded harsh lessons of which the number one is this: In the complex African environment, U.S.A.I.D., and other bilateral and multilateral donors and non-government organizations (NGOs) must continually reassess their approaches to develop cost-effective strategies that will yield concrete results for a strong business climate. The Africa Bureau, together with the World Bank and other donors, have moved to undertake a broad variety of efforts, ranging from reform of enabling and business environments to support for macroenterprise development. Many have gained substantial results, of which the chief one is the continued tendency in Africa to move towards reform. Others have been less successful, meeting political resistance.

But there is still considerable uncertainty in assistance strategy. Issues exist of policy goals: what should be the role of the state in a post-liberalized economy? Of timing: when should austerity and rationalization take place, putting a political burden on ruling groups? When to provide massive support to countries entering reform and when to reduce support to recalcitrant regimes? Many African nations play one donor against others. Some make agreements that they carry out in law but not in fact. Among donors themselves, there is still a considerable bias to statist policies, working in diametrical opposition to liberal policies. The issue of bureaucratic capability -- within the donor community as well as within African governments -- looms large as officials who have had no or minimal experience in business environment are asked to develop, oversee and implement business-oriented reforms.

The Challenge

Africa is beginning to change. Governments and elite groups are adjusting their visions and ideologies under the combined pressures of international donors, especially A.I.D., and popular African discontent against failed, statist policies and ideologies. But Africa is a Gordian knot of entrenched groups, traditional practices, xenophobia, donor confusion and inexperience. Unraveling the old system while creating growth economies is not easy.

The challenge facing the Africa Bureau and other USAID agencies and donor institutions is complex and multifaceted, ranging from promoting a general business environment favorable to large firms and financial institutions to developing microbusiness support for small scale agriculture, Women in development and tradespeople. Most international donors now accept that an effective business environment must emerge with a strong physical, institutional and human infrastructure, with a consistent and logical macroeconomic policy framework and with a microeconomic incentive structure. Expressed in other terms, roads, computers and trained African managers must emerge in countries with legal structures that promote enterprise and without informal barriers to trade and investment and with markets that accurately reflect cost, demand and supply to allow farmers, entrepreneurs and other producers a fair return on their labor.

However, a key lesson is that Africa is a continuum of nations in the process of reform and assistance policies must be adjusted in line with specific conditions. This requires flexibility on the part of the donors in both levels and timing of response. Many nations are at a point of development where substantial progress is possible. Zambia, Uganda, Zimbabwe, and Ghana each are implementing liberal reforms and have critical requirements for development: natural resources, a moderate size of population, willingness to continue reform and to attract capital. Their governments require effective and rapid assistance to take advantage of the local political acceptance for reform. Elsewhere, such as Tanzania and Kenya, the learning process is taking hold, with some significant problems. Reform has hardly yet to begun in Cote d'Ivoire, Togo and Zaire. And elsewhere, in Somalia, Chad or Gabon, the lack of natural resources and/or of political consensus renders reform difficult. The Africa Bureau fully supports those nations that are advancing with strong technical and financial advice, but the challenge is also to continue to maintain a dialogue with the other nations as well, to bring them along to a point where political acceptance can lead to liberal reforms.

Africa Today

There is no one Africa. Levels of development, stability and understanding of markets vary. Burundi, a nation with 90% rural farmers and herders differs from Zambia, where more than half the population live in towns and cities. Gambia, with 300,000 people, is a fraction of the 100 million people in Nigeria. The resources and manpower of a nation like Chad are radically different than a nation like Mozambique with good land and mineral resources.

Education levels in Zimbabwe are far higher than those in Zaire.

The reality of most of Africa's private sector is that it is micro and small, except for the parastatals, foreign investments and enterprises belonging to "stranger" groups such as Greeks, Lebanese and Asians. African businessmen, farmers and microentrepreneurs have worked under the yoke of erratic government regulation and political turmoil; neither they nor public officials understand the process of a free enterprise system. African entrepreneurship, always vital, must be grown and supported to the point where it can have a strong political and economic voice at the national level. It must be provided with the confidence to increase investments locally -- rather than exporting capital abroad -- to create jobs and wealth. Business networks must be formed and strengthened. African financial institutions must emerge to support the effort.

Furthermore, the cost of doing business for international businessmen and financiers is far higher in Africa than other developing regions, especially given weak transportation and communication infrastructures. Most African nations have smaller economies in relation to other nations and, equally as important, they are more distant from stronger markets than other developing lands. Mexico and Colombia have the major U.S. market at their doorstep. Korea and Taiwan have Japan.

The challenge is made more complicated by the difficulty in assessing growth. By and large, there is no quantifiable indicator to measure the impact of private sector assistance activities over an economy as a whole. Economic growth and/or shrinkage is too easily affected by natural causes, global commodity prices or short-term monetary expansion. (e.g. global oil prices fuel economic expansion in Nigeria but cause contraction in other, non-oil producing countries; drought in East Africa causes contraction but may spur growth in neighboring agricultural countries).

Without a narrow focus on each subsector, it is difficult to not only assess the impact, but also to attribute which factors led to growth/shrinkage: to what extent is AID's assistance responsible for a particular effect, be it the effectiveness of a Central Bank, fiscal resources diverted to subsidize losing parastatal operations, capital market development or the impact on the poor, women or microentrepreneurs. One strategy for measuring impact is to perform a narrow comparison, to compare -- qualitatively rather than quantitatively -- situations, structures and trends before and after intervention. An assessment can be made of whether the results would have occurred if the intervention had not taken place. Analysis may be itself subjective; great care must be undertaken not to have the original sponsoring office skew the assessment.

Developing a Strong Business Environment

For Africa to grow, it requires a strong business class to emerge on an equal political and economic footing with government. A business class representing agricultural and urban entrepreneurs must be able to dialogue and pressure ruling authorities -- as it does in every developed nation -- to communicate economic realities, the need for growth to spur job creation and well being. It must enhance the likelihood of implementation of policy reform by broadening the range of actors involved in implementation and provide political support to maintain what are frequently, difficult austerity measures. In Zambia, for example, private businessmen took the risk to support and fund political activities that have led to liberalization. In Nigeria, businessmen support a free press that pressures for pluralism and the rights of individuals.

Even in those African countries where business has been suppressed for thirty years, a strong entrepreneurial base exists upon which to build. The sources of this entrepreneurship are:

1) Agriculture small-holders. Farmers who, over time, have developed linkages with cities and neighboring nations for their produce.

2) Microentrepreneurs. Truckers, smugglers, craftsmen, and marketwomen who have grown despite a poor operating environment.

3) Government-linked private suppliers. Businessmen who, in the past, relied on support from government contracts for gain and who frequently were an avenue for corrupt public sector practices.

4) Government managers of parastatal firms. Government officials who have some managerial and technological skill but who must be retooled to operate in a market economy.

5) Offshore Talent. African financiers, businessmen and engineers who, in response to poor business conditions, left their nations or sent their capital abroad and who will return, given the right business conditions.

6) African managers of multinational firms. Businessmen who have developed skills in foreign enterprises that have invested in Africa. Petroleum, mining, agriculture and hotel industries are the chief sources for talent.

To allow these entrepreneurs to flourish, first and foremost, a strong Enabling Environment must be created that allows the business class to work under consistent economic conditions without fear of confiscation either through unreasonable regulations, taxation, currency and fiscal policies, or corruption. The rule of law must be maintained. Interest and inflation rates must be reasonable. Government spending and indebtedness, both abroad and at home, must be kept at reasonable levels.

But, secondly, the Africa Bureau has learned that a strong Enabling Environment is not, in and of itself, sufficient. Equally as important is the emergence of a Business Environment. Without a firm understanding of the business process, African government and business leaders cannot succeed in generating wealth. Africa has functioned outside the financial, commercial and economic rules of the modern business world; all these must be learned. Subsidies of favored businesses must end. So too must monopolies. Bankruptcies, the creative destruction mechanism of capitalism, must be allowed to take place. And massive profits for successful businessmen should not, in and of itself be discouraged.

Third, in the absence of support mechanisms for business, donors must provide training and financial support to fill in gaps that have not yet developed. This is particularly true for infrastructure, technology and finance. Basic road and rail networks must be maintained. New business skills have to be developed among middle classes, with appropriate technologies. And basic financial instruments should be developed to provide African business with many of the same benefits of their counterparts elsewhere in the world.

Fourth, public sector managers must be retrained and retooled into private sector managers. Most of the skilled and educated populations in Africa are in government or government-supported agencies. They are the existing human capital of the modern economy. As in Eastern Europe, where Communist managers became Capitalist businessmen, in Africa, statist officials must learn the rules of business management and competition.

Fifth, donor support for reform must be rapid to take advantage of those scarce moments when political support for liberalization is strong. Donor support must also provide those business skills that are required at the moment.

Sixth, as with African economies, donor support should be provided more and more to business rather than government. Past experience has shown that public international agencies assistance to African governments for business reforms does not work. The money is sidetracked and policies that work against bureaucrats best short-term interests are not implemented. To be sure, donors must continue to provide basic support for debt service, emergency food relief and basic, overall stability but assistance should be aimed at establishing financial and training mechanisms for the private sector. Business groups should be supported to put them on equal footing with their better-financed government counterparts as well as to foster business communication.

The Role of the Africa Bureau

Large multilateral institutions, such as the World Bank and the I.M.F., concentrate their attention on the technical components of reform: monetary adjustment, legal reforms, and static goals. The Africa Bureau, on the other hand, provides assistance to missions, governments and business institutions for their specific needs, responding rapidly with the right type and high quality of technical assistance. Multilaterals are mostly concerned with the Enabling Environment; the African Bureau is more concerned with the Business Enviroment.

The Africa Bureau works closely in coordination with other donors and NGOs to develop policy. But it also has found a substantial need to be flexible. The "Office of New Initiatives" provides just that: new initiatives in business. Rapid political change and acceptance of the need for reform requires quick response. Many of these requests could not have been foreseen six or twelve months before and therefore could not be covered under existing Mission programs. Tanzania, Uganda, and Mozambique sought assistance in development of their investment codes; Namibia wished to establish an export processing zone; Tanzania and Mauritius were interested in implementing debt-swaps; and Burundi, Gambia, Cape Verde and Zambia were interested in implementing privatization strategies.

These efforts take time as well as sophistication, especially in an atmosphere of bureaucratic rigidity that exists in most of Africa. In Niger and Ethiopia, just at the early stages of developing effective enabling environments, officials and entrepreneurs alike must develop a firm understanding of how entrepreneurial systems function and the role of government in that system; in Zambia, Ghana and Tanzania, political leaders need assistance in developing reform strategies, policy structures and entrepreneurial skills.

In specific terms, the Bureau fills a much-needed gap of technical assistance and business understanding in the areas of trade and investment, privatization, finance and venture investing, networking and Association development and microenterprise development through the provision of:

1. Specialized business knowledge, through consultants, for the specific needs of individual African nations;

2. Rapid assistance, once local African political support for reform has coalesced;

3. Linkages between African business groups;

4. Support for U.S.A.I.D. missions and officials in Africa that lack current business knowledge or sufficient contacts to respond rapidly to nations' needs;

5. Communications with and leverage resources of USAID missions, the PRE bureau and other, multilateral donors for greatest efficiency.

To be effective, US government officials, in A.I.D. and other agencies, who have lacked private sector experience or who have been living in Africa for many years, must receive assistance in implementing private sector programs as well as maintain strong communication with AID private sector experts and business groups. The Africa Bureau has been instrumental in providing long-term PSA technical assistance for missions in ten countries -- Burundi, Zimbabwe, Gambia, Cameroon, Zaire, Ghana, Swaziland, Lesotho, Kenya (regional) and Ivory Coast (regional) -- that has led, in turn, to the growth of private sector programs in those nations and furthering of US objectives. It provides short-term assistance on an as-needed basis for missions that seek expertise in specific industrial sectors, in private sector reform or in privatization. In Mozambique, where war relief was the central concern, it provided guidance on establishing a Foreign Investment Code; in Zambia, where agricultural assistance was the focus, the Africa Bureau assisted the mission in creating a privatization program. In South Africa, where the Bureau's program was limited, it assisted in assessing the possibility for developing black entrepreneurship in the post-apartheid era. Similar, ad hoc assistance took place in Togo, Ghana, Zimbabwe and other nations. The Bureau also provides communication among the missions on new strategies being developed by other offices as well as new business and financial trends emerging in the global economy. It has been instrumental in training Africa Bureau Agricultural Development Officers (ADO) in the elements of agribusiness.

To be effective in promoting business development in Africa, international agencies must maintain open and close lines of communication with business in the United States, Europe and Africa. With global economies, markets, competitive conditions and trade regulations changing rapidly, international agencies must understand the conditions in which their operating. This is particularly true for the Africa Bureau that supports missions frequently isolated from business information. Donors must also make sure that they use consultants aware of current conditions, practices and technologies. A banker who has not been involved in banking for a decade has minimal value as has a trader who has not worked in international markets in recent years

Economic Reform: General Lessons Learned

USAID experience in private sector development throughout the world has shown that there are no simple generalizations. Liberalization in Eastern Europe, where infrastructure and education are strong, is far different from in Bangla Dash. The timing and source of reform is unpredictable. Few if any foresaw in 1982 the massive reforms in Mexican or Argentine business and financial policy. However, donor experience has come to understand basic principles of reform that are applicable in Africa as elsewhere.

Above all, assistance for private sector development will not succeed in a political environment that is either implicitly or explicitly hostile to investment. Some nations have made policy concessions without implementing de facto reforms (e.g. the Nigerian duty draw-back system, which is not functioning) or others have committed to establish an Enabling Environment while continuing to arrest businessmen for earning too much money on legitimate business(Ghana).

Reform does not come overnight. Rather, it is frequently a two-steps-forward-one-step-backward process. The goal is to lay the groundwork, among leadership elites, to show how public sector stifles productivity and national progress to build political support for a reformist government. Partial reforms in Zambia and Tanzania took place over a five year period before a political environment emerged to permit private sector reform. In Ghana, Zimbabwe and Kenya, leadership elites allow, to date, only a partial reform to strengthen business sectors, but political change is likely over the next five years that will permit further change.

Once reform does come, it frequently appears as a "shock," requiring rapid action. The political victories of liberal forces in Zambia, Poland, Argentina and India led to rapid movements for economic change within a manner of months. When the political timing was right, these nations had to be prepared to move rapidly and forcefully or the moment would pass.

Reform without pain does not work. Efforts to restructure weak African economies inevitably leads to short-term declines in economic well being and increases in unemployment. Government services halt. Quasi-public monopolies go bankrupt. Patience and political support are strained until productive business can emerge and reverse the downturn.

Partial or incomplete economic reforms may be more damaging than no reforms at all. Minor and gradual reforms cannot succeed with fundamental changes in economic structures; their failure leads to political repudiation of reformist groups. It also leads to a high degree of frustration. Frequently heard in Africa is the argument: "no investment resulted after a [minor] reform of the investment code, so why should additional reform take place?"

While it is not positive for the long-term, political uncertainty and unrest may not necessarily halt private sector growth. Despite civil strife, the Togolese free trade zone continues to expand because it meets the needs of entrepreneurs and works with international markets effectively; private investment in Mozambique has expanded in the midst of a major civil war; and policy reforms continue to emerge in Kenya, despite political uncertainty.

Government and Donor Relationships

The relationships and agreements between governments and donors and among the donors themselves are key to a successful reform program. African nations, leaders and managers must be persuaded that the age of international subsidy for dysfunctional policies is over; failure to implement effective measures should lead to immediate donor reappraisal and reduction of resources. This multilateral policy proved effective in Zambia and Mozambique. It is yielding results in Zimbabwe and Uganda. Areas where multilateral policy has not been followed, despite government commitments, are in Nigeria, most of Francophone Africa and Kenya.

Commitments to reform enabling environments are frequently not carried out or have little impact on the private sector because of informal barriers to business (corruption, uncertainty, lack of confidence). Some nations have agreed, time after time, to implement reforms but have never fulfilled their commitments. "We will reform meat prices as many times as they will pay us," a Senegalese Minister commented recently.

Bilateral and multilateral donors must be firmly committed to the policy of strong and effective conditionality. Coordination is critical. In the rush to assist African governments with private sector development, donor agencies have not always collaborated closely, with the result that host governments receive mixed messages and use one agency against another in soliciting support. Some well-intended donors continue to funnel assistance directly to the public sector, supporting bureaucratic regulation and controls and working at counter-purposes to U.S.A.I.D. principles. The "creative-destruction" of capitalism is not allowed to proceed as in developed lands. Rather, losing industries are propped up and subsidized further. Other donors are firmly committed -- for political reasons -- to protectionist policies and over-valued currencies (e.g. C.F.A. Franc), creating an economic environment that is opposed to free market principles. Others provide support to the public sector in the name of private sector development; this does not usually work. African Development Banks that received large infusions of funds from multilateral institutions were extensions of governments, doling out funds to favored groups and supporting business operations sheltered from competitive forces.

In those nations where funding continues without reform, statist regimes are reinforced and development is further harmed. On the other hand, positive results have been achieved with donor cooperation, such as in Burundi and Zambia, where USAID, the I.M.F., the World Bank and other bilateral agencies cooperated on providing structural adjustment and technical assistance.

Governments resist policy reform for concrete reasons: fear of political disruption, defense of vested interests, or not believing that donor support will be withdrawn. But they should understand that resources are diverted to countries more receptive to reform. Then, after withdrawal, donors must seek discrete entrees to promote new initiatives, but avoiding massive assistance. The Africa Bureau has found that some progress may be made in pre-reformist nations by concentrating programs on discrete areas, such as Export Processing Zones (EPZs), networking of business organizations, or training.

The success of assistance must be more important to the local participants than to the donors. In countries that rely upon international assistance to maintain external accounts, donors have more leverage than in those that are more self-sufficient. However, if leaders perceive a difference in opinion or a lack of commitment among donors, their commitment will decline.

Towards a Business Environment: Reform of the Enabling Environment is Not Enough

Despite substantial steps taken in many African nations towards reform, there has been little domestic or foreign investment response to adjustment measures. Indeed, capital flight rather than inflows continues to be the rule of the day. The reasons are complex and go to the heart of underdevelopment. But key to the lack of confidence is the failure of African nations to be fully committed to reform. In part this is because reform comes from outsiders and has not emerged from an African source. But more important is the lack of consensus among elites and bureaucrats on the need for reform and a distinct fear of the implications of a free market system on their positions yield half-hearted policies. The lack of convertible currencies, high and irregular degrees of corruption, erratic regulations and general high costs of doing business works against major change.

This is particularly dangerous when governments begin structural adjustment and austerity and fail to take the required measures to promote entrepreneurship and business; adjustment destroys local industry without the eventual productive benefit of modern enterprise.

Investor requirements are fairly simple: either a source for a product to export or a significant market to sell goods, in either case at a profit that is worth the effort and risk. Local business managers and workers must have a minimal level of training. There must be a minimal financial presence in African nations, to allow for trade credits. From the government, investors requires, above all, predictability. An inflation rate that fluctuates between 10% and 20% each month is far worse than a constant 20% inflation rate. Currency valuation must remain fairly constant. There must be a rule of law. Corruption is not good, but a predictable corrupt environment is alright because it may be factored into costs. Business requires security of product and of wealth.

The case of Francophone Africa provides the best example of the negative impact of partial reforms. While many in this region have been willing to undertake Structural Adjustment in government spending, they have not willing or able to break from the chronically overvalued CFA Franc. The impact of this is broad. West African nations that used to dominate regional markets for their exports now must import. There is little or no growth other than that deriving from foreign donor assistance. Rather than promoting growth, the formal economy is dying; the modern legal system is being totally undermined; and there is a general tendency to return to old market and smuggling systems. Crime has reached epidemic proportions and political instability has grown.

Businessmen who once thrived in Cote d'Ivoire have lost so much confidence that they now argue to maintain the high value of the currency to gain a high currency price for the sale of their business, understanding that a devaluation would make their enterprise more productive.

Even international donors have been affected. Multilateral institutions are under explicit instructions to not mention the exchange rate; they argue for increased tariffs to protect domestic industry in complete contrast to their beliefs elsewhere in Africa.

Partial reform frequently sets back long-term efforts. The announcement of major changes in an investment environment must be followed with concrete results. In Nigeria, after sweeping revision of the national investment code, new investors found that regional governments blocked their enterprises through control of land In Ghana, up until a year ago, foreign investors and domestic businessmen alike were told of a new climate for investment; some, however, were arrested by military officials and held on capricious charges of profiteering.

Private enterprise has succeeded in those areas where the government has been involved least. The petroleum sector in Nigeria or the mining sector in Zaire and Zambia functions because of its autonomy and the dependence of government upon the hard currency it produces. All other sectors are subject to capricious rules, regulations and political fluctuations. Macroenterprises, smuggling, and other informal entrepreneurial activities thrive at the margins of this restrictive environment.

Defining The Private Sector

The Africa Bureau's efforts work to create strength among domestic business leaders and associations, to involve them in reform efforts and to improve investor confidence. A.I.D., African governments and other donors must first understand who the private sector is in each nation, its presence and its interests. Traditional views of the existing African private sector hold them as corrupt entities, living off of government handouts. The Bureau's experience shows the reality to be far different. The private sector is a broad range of groups ranging from market women to truckers to service industries. Some are linked to multinational firms while others are traders.

Entrepreneurs, over the years, have become secretive and suspicious of government entities, for obvious reasons. Business frequently in isolation, preferring not to show its size or interest. How to identify the private sector has been a key concern of the Bureau. In this regard, it sponsors MAPS (Manual for Action in the Private Sector) studies in those nations considering reform to identify the structure of the business sector, facilitate reform as well as to develop a dialogue between government officials and entrepreneurs who have heretofore lacked a political voice. The MAPS, developed by the PPC/Policy Bureau, occurs over a period of four to six months during which time the private sector is surveyed to establish its size and scope and to obtain insights into its attitudes and views. Where does business exist and where does government limit entrepreneurship?

This MAPS process involves local consultant and survey firms who are then trained to undertake MAPS surveys so that missions and the private sector in the country can have local, experienced firms able to undertake MAPS updates.

The exercises brings together various segments of the private sector, some of whom have a history of antagonistic relationships, to discuss shared constraints. It also engages the AID mission to learn how to find significant private sector actors and to engage in a dialogue with the private sector.

The key is what constitutes a significant private sector actor. A businessman who relies solely on government contracts for support should be represented, but a trader who understands the strengths and weaknesses of local markets is far more critical. Which entrepreneurs would survive the end of statist support and subsidies and thrive in a free market environment?

The process produced significant agreements from governments in Cameroon, Kenya, Madagascar and Togo to liberalize the enabling environment to facilitate the establishment of export processing zones including provisions of energy and communications, liberalized labor codes, taxes and tariffs, and the use of foreign exchange and foreign exchange retention schemes.. In all eleven countries where a MAPS was undertaken, experience showed MAPS to be an important initial step in creating a dialogue not only between the mission and the private sector but also among elements of the private sector itself and between the private sector and the government. In Niger, where there was little private sector development activity, the MAPS exercise created a basis for active dialogue between business and government. Reports were translated into French and the government carried out follow-up activities. MAPS exercise in Cameroon led to a subsequent training conference with the Chamber of Commerce and the Ministries on how to develop and use data.

MAPS works best in countries where the private sector was not well developed (Niger or Cameroon), or where the mission lacked sufficient private sector experience to develop a long-range program (e.g. Ghana). In Kenya, where the mission had been active in private sector activity for many years, the work was considered to be less valuable because of an already existing understanding of the private sector. It also provides an invaluable tool for missions that lack the resources to carry out such an ambitious private sector activity but that has such a need.

After MAPS, missions in Cameroon, Kenya, Ghana, Guinea, Swaziland, Tanzania and Uganda are working with business associations and groupings to strengthen their ability to participate in policy dialogue through studies, publications and the promotion of fora where such exchange can occur (see below, business associations)

Developing Investments: Basic Lessons

Seven basic lessons have come out of donor experience in developing foreign and domestic investment:

1) A business climate exists in most every African nation. It can be discerned among Arab, Greek and Lebanese traders who prosper in a poor regulatory environment, in marketwomen who trade goods and food throughout the countryside or in stores that sell local and international hardgoods. However, this enterprise is minimal, to be built upon. These businessmen have learned to take advantage of the small areas for productivity and profit. To create wealth, jobs and individual well-being a much greater amount of investment must develop in Africa.

2) Investment promotion in nations that have basic flaws in the Enabling Environment is useless, even if some partial reforms have been undertaken. Mission efforts throughout the 1980s at sponsoring trade & investment

centers confirm this lesson in areas where there is minimal infrastructure (Cape Verde), where the business environment is inefficiently corrupt (Kenya), where repatriation of capital and profits is difficult (Cameroon), or in case of other major risks or impediments to operating and profit potential(Uganda).

3) However, once the political atmosphere is ripe for reform, investment promotion can work, as in the case of the Uganda Investment Authority after 1990.

4) Investments must have a clear competitive advantage, especially because their locale is in Africa. International and local investors prefer to keep their money in safer havens, in Europe or the United States. However, they will invest if the risk/reward ratio is beneficial. Petroleum and mining extraction investments, and related sectors, represent the greatest potential. Industrial services, transport and equipment firms but few nations have this natural advantage. But resources need not be so great. Recent investment trends in spices favor African nations. New investments are taking place to develop oleoresin plants for ginger in Nigeria, cardaman in Tanzania, cloves in Zanzibar, Vanilla in Uganda and ginger, cloves, cinnamon out of the Seychelles. Africa's advantage is local sourcing, low labor rates, and reduced transport costs (by processing into oleoresin).

5) Accurate information must be provided to facilitate outside investment interest and follow through.

6) Extreme patience and persistence are required to see investments to fruition.

7) Investment in export industries is far more likely to succeed than those for the domestic market because the business will be able to earn hard currency to finance its enterprise.

By and large, donor agencies cannot work to develop specific investments. The market determines its investment interest, not a local government or donor official. But donors can facilitate communication. They can come to understand local competitive advantages and make suggestions either to international firms or nations. Through this participation, donors themselves can come to learn what are the constraints facing investors, be it high taxation, currency difficulties or lack of market.

Developing Investments: Changing the Operating Environment

The Africa Bureau has undertaken a broad range of efforts to promote investment, including revision of investment codes, sponsorship of US investment missions and support for new investments through financial intermediaries.

Revision of investment regulations and procedures has been a key prerequisite for any growth in the 1980s. With competition for capital increasing from Latin America, Eastern Europe and Asia, government obstructionism was a wall obstructing even passing interest in African investment. The African Bureau sponsored technical support directly to mission for investment reform in Burundi, Cameroon, Ethiopia, Equatorial Guinea, Togo and Mozambique, among others. It works in close cooperation with the Foreign Investment Advisory Service (FIAS) of the World Bank Group, a strategy that allows A.I.D. to leverage World Bank funds to work with African government officials to liberalize foreign investment codes. Since 1986, FIAS has assisted more than 45 countries in the developing world to strengthen their investment environment. Due to FIAS efforts, investment codes have been modified in Burkina-Faso, Cameroon, Congo, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mozambique, Senegal, Togo, and Uganda.

Revision of foreign investment codes frequently leads to revision of domestic investment codes, because local entrepreneurs complain, rightly, that they are working at a competitive disadvantage. Furthermore, as the benefits of new capital are discerned in the form of job creation and technological replenishment, countries are more willing to relax restrictive requirements. New foreign investment in Mozambique was able to restore abandoned farms and mines and develop sufficient security to render them productive as well as safe, in time of civil war. The Africa Bureau has used its influence and Board involvement in FIAS to capitalize on this lesson, to persuade the service to promote domestic investment and to work with local private sector groups in Africa to involve them in policy reforms.

Developing Investment: Facilitating Contacts

The Africa Bureau serves as a conduit for African and global market conditions and current business attitudes towards Africa. Its constant communication with US investors and traders and its sponsorship of investment missions provides the Bureau with a font of information shared with Missions, and African government and businessmen alike. This data on African competitiveness is used to shape government and entrepreneurial policies. Among the ad hoc efforts of the African Bureau for new investment have been:

- In Uganda, the Bureau determined the profitability of vanilla cultivation and linked producers with McCormick Spice Company that had been expelled from Uganda in the 1970s.

- In Gambia, the Bureau linked local business to US firms T. Masry Co. (sesame) and Vinaport (fish processing), promoting exports

- In Botswana, linkages were made with an American tannery company.

- The Pioneer Seed was assisted in its efforts to develop production in Lesotho, Cameroon and Lesotho.

- Interkiln was assisted in investments in Botswana, Zimbabwe and Ghana.

- In Kenya, the Bureau assisted Cargill to begin field tests on producing Vernoma, a non-toxic oil seed for use in the paint industry. The results of these trials have yet to be determined.

- In Ethiopia technical assistance analyzed the flour milling, soap manufacture and textile industries to determine their capacities to receive and process PL480 commodities, their abilities to compete on the free market and, in the case of parastatals, their potential for privatization. The assistance led to a mission request for the shipment of PL480 commodities to capable processors.

By itself and with OPIC, the Africa Bureau has developed investment missions for US firms in western, southern and eastern Africa, with substantial beneficial results for US sales and investment. As part of the effort, the Bureau developed current and accurate information on each nation in its series "Critical Issues for American Investors"

OPIC missions have both short and long-term results. By exposing US businessmen to the potential in African nations, the missions create a climate of acceptance among the US business community. Furthermore, discussions between US businessmen and African officials illustrate to local governments where Enabling Environments are not workings. OPIC missions have yielded some impressive results. Cargill has invested in Cameroon, Pelican Fish in the Gambia, and Interkiln in Botswana. A mission to Zambia in September 1992 yielded 3 deals that are currently under negotiation in petroleum, in pharmaceuticals, ecotourism. A June 1992 Uganda mission produced solid projects in spices, 2 hotels, ethanol and phosphate. A 1991 OPIC mission to Ghana yielded investment successes in gold mining, hotels and agro-industry.

In the eighteen months since OPIC and AID entered into a joint program of investment missions, more than 91 US firms visited ten African countries; of the 91 companies that participated on the missions 35 have notified OPIC of plans to pursue investments, with potential US investment estimated at $476 million and the creation of 2,900 jobs in Africa.

Not all the information that OPIC missions develops yields postive results. Indeed, the OPIC experience has shown the great value that monitoring, information dissemination and networking for investment projects. OPIC and the Bureau has discerned strong investor interest in Zimbabwe who are awaiting more reforms before making commitments. On the other hand, investors ready to make commitments in Tanzania have had poor experiences. Despite regulatory reforms, corruption and unfulfilled promises, on the part of local business and government officials caused Cargill to withdraw and Schelle to end its bid to establish a cellular telephone network. One American hotel chain has made a solid commitment, but its investment is being delayed because a local basketball team lays claim to the lot where the hotel is to be built.

OPIC has found that the dirigisme in Francophone Africa makes US investments there difficult at best. Namibia has the competitive advantage of location between South Africa and Angola, two of the wealthiest nations in SSA, with the potential for serving as an entrepot. But despite strong US business interest, local and southern African businessmen control most enterprises and are working to obstruct any new investment from outside.

Developing Domestic Investment: Supporting Entrepreneurs

Even existing African business require a large amount of assistance to maintain strong management and modern technology. The isolation of the entrepreneur is great; access to technical assistance is distant and expensive. A.I.D. supports business through two key approaches, its H.R.D.A. training program and through support from the International Executive Service Corps (IESC) which provides trained and experienced businessmen at relatively low cost. IESC advisers perform considerable market studies to link African with global markets, with significant impact on small farmers and women. IESC work to assist local business to develop new methods of management. Local firms pay for this service; it is not charity. The group also now assists investment and joint venture brokering, such as the Kenilworth Truck assembly plant and Cummins Engine facility in Zimbabwe and are involved in export buyer matchmaking.

Reform Through Trade

A liberal trade policy is key to structural adjustment and the creation of an Enabling Environment. If African nations are grow, it must be through exports; and exports are not possible until the nations become globally competitive. To become competitive, African enterprises must lose their traditional tariff and legal protection from imports. Ultimately, government should abandon its role as guardian of some industries over others, a policy that citizens pay for through higher prices and low productivity. In other words, increased imports as well as exports is a significant sign of economic progress even though the near-term result is likely to be more domestic bankruptcies.

But creating a liberal trade regime is one of the most difficult reforms nations can undertake. As current GATT negotiations show, even developed nations try to protect local industry. In Africa, trade restrictions are no longer functional. Large scale smuggling and corruption avoids legal restrictions. Local production has become so outmoded that imported commodities, travelling through expensive, corrupt channels can still outcompete local manufactured goods. Ironically, Africa's agricultural production has the potential to compete in world markets. But government price controls have restricted the incentive to produce and therefore, food exports have dried up.

The Africa Bureau experience has been that the major constraints to trade growth are government policies and regulations, bureaucratic inefficiency and corruption, transport (infrastructure, cartels, costs), and banking - not supply and demand. In fact, unquantified informal trade (contraband) often thrives across many borders to circumvent controls and inefficiencies.

Traders are the backbone of African entrepreneurship, both in local and regional marketplaces and in regional trade. It is they who understand the rules of the game and the best manner to survive within them. For many African rulers, support for these "smugglers" and "profiteers" is anathema. But it is these businessmen that government must accept and establish a dialogue to develop a strong business environment.

The Africa Bureau has achieved its greatest success in nations that have not welcomed general liberalization through the introduction and promotion of Export Processing Zones. The process is not without precedent. In Mexico, a high degree of protection and nationalism was slowly whittled away as export zones (called Maquiladoras) were established first along the border and then throughout the country until most Mexican workers came to understand the benefits of free trade.

In Togo, the government was not interested in an across-the-board liberalization and structural reform. It did however accept Africa Bureau assistance to draw up an export processing code. EPZ's are discrete zones or points which is less threatening to African governments when talking about reform. Within the limited context of the zones, it was possible to engage the government in a dialogue concerning trade reform, use of foreign exchange, private provision of services including energy and communications and liberalization of labor codes, taxes and tariffs. Legislation was enacted which applied not only to zones but to individual points anywhere in the nation where the facility can be de notated as a standalone zone. In some two years twelve firms have gone into operation, that represent $16 in investment with nearly 40 more approved - and this during an epoch of political turmoil and general disinvestment. The 900 employees of the nine operating firms represents one-eighth of the small, private formal industrial sector. Sales are backward linked to local suppliers who receive tax rebates on inputs included in export products. One-third of the workers are women. The long-term affects are likely to be more beneficial, when political peace develops. The benefits of this "encapsulated liberalization" are now being recognized as applicable for countrywide application. Local businessmen are pressuring for less onerous regulations and taxes.

The experience has been replicated in Cameroon and Kenya. In Cameroon, one of the initial four enterprises is an agribusiness enterprise that employs 50 and sources its raw materials from more than 2,000 Cameroonians farmers. In Kenya, the first such zone is now full with 14 enterprises including an agribusiness business to produce pet food. In the cases of both nations, poor domestic operating environments are isolated, allowing businessmen to function under a near-liberal economic regime. A 1991 conference of government officials on EPZs, held in Mauritius with Africa Bureau support, led to new initiatives in Nigeria and Namibia. As a result of the meeting, the Namibian delegation drew up a White Paper on the zones and legislation was introduced to Parliament.

In other more liberal countries, the Africa Bureau has assisted in trade liberalization efforts. Technical assistance was provided the governments of Uganda, Burundi and Swaziland to alter trade legislation. Exports were assisted as well in the form of market information - buyer, quality, pricing, packaging data. In Burundi, however, an African Bureau study concluded that an EPZ was not an appropriate strategy because the private entrepot regime that already existed in that nation functioned well and the level of activity likely to be generated was not adequate to justify the costs of the program.

Networking and Organizations

The African business community needs to develop the organizational infrastructure and networks to provide support, information and representation in public fora. In the developed world, business associations represent individual industrial and agricultural sectors, provide up-to-date information on current business trends and opportunity and represent their sector to government and international associations. In Africa, the small and medium entrepreneur community works in isolation from other businessmen, neighboring countries and from the world economy. Because of hostile operating conditions, most businessmen work in secrecy, too insecure to cooperate with their compatriots. Furthermore, the high cost and practical problems of maintaining communication networks further complicates the problem. To be sure, African associations exist in major cities and among groups linked to multinational firms and government, but the small and medium-sized entrepreneur -- the basis for growth in a modern Africa -- lacks this basic business resource.

The basic need for African entrepreneurs is to break out of the isolation in which they worked by establishing a strong network: a broad band of contacts within nations, in regions and internationally that businessmen can call upon for information as well as commercial possibilities. Today, most African farmers are at a competitive disadvantage in the world today work where there counterparts in other regions have near-current pricing information on which to base the type and quantity of crops. African businessmen suffer from the same problem, lacking an understanding of daily global market fluctuations or recent technological or financial trends

Furthermore, African business must be kept aware of the impact of the rapidly changing African environment. Markets and sources will radically shift as government subsidies and protectionist policies are abolished and liberal import regimens are established with low or no tariffs. New products and technologies will become available and new markets will open up on a regional and global basis. Opportunities will open up for domestic investors and in joint venture with foreign firms. Businessmen, used to working in a climate of high inflation, over-valued currencies and irregular economic patterns must learn how to function under more normal conditions.

Above all, the entrepreneur sub-culture must develop confidence in its operating environment. By investing in building the capabilities of institutions such as business associations, regional conferences and cross-border business networks, the African Bureau can improve the infrastructure necessary to allow the private sector to grow using its own resources. Beyond this, effective business associations can be used as an effective conduit of information to donors as to the impact of policy reform as well as a conduit for donor assistance to the business community, thereby bypassing public agencies.

In an effective African business environment, a broad band of associations, representing competing sectors and interest groups, would address obstacles to private sector development by representing the interests of its membership to government and other industries with regard to the substance of policy and the process of regulation, providing members with information on policy, regulatory and market environments, facilitating access to credit, supplying technical assistance and training and establishing industry standards.

A successful association becomes self-sufficient by serving a variety of purposes for their members, including representation, education and services. Membership increases as the association becomes more useful. A strong membership base becomes a mandate to lobby on government policy. However, membership fees are usually a small part of an association's revenues. Other sources of revenue must develop from services, trade shows, meetings, sale of directory information on members, grants and contracts. an institution's viability thus hinges on its ability to generate revenue.

A.I.D. has a long history of supporting associations. In the 1980s, the Agency worked in Niger to develop herder associations, in Mali the Agency supported training in development promotion for rural women through the National Union of Malian Women. A.I.D. assisted the Botswana Chamber of Commerce to organize regional branches and provided funds to the Association pour le Developpement du Marketing (ADMCI)in Cote d'Ivoire to finance conferences and publications.

The African Bureau devotes considerable efforts to networking key African business leaders. Most of its officials spend considerable time talking with African businessmen, spreading networks and establishing new contacts. The Bureau coordinates meetings and contacts between US trade, credit and industrial associations and Chambers of Commerce and their African counterparts. MAPS is, itself, an exercise in supporting increased communication among business groups. OPIC investment and Africa Fund missions try to link African businessmen with their American counterparts.

The Bureau works closely with Missions to provide technical expertise to specific business associations, such as AEPRIMO in Mozambique and ADMCI in Cote d'Ivoire. Since 1987, it has provided considerable assistance to informal and formal sector black business associations in South Africa, advancing economic empowerment through specific projects to enhance entrepreneurship. It is working in Zimbabwe to implement a small business training program through the National Chamber of Commerce and is providing funding to the Chamber of Commerce to implement a program to advise and encourage entrepreneurs. Other assistance is being provided business associations in Botswana, Guinea-Bissau, Kenya, Lesotho, and Zaire.

Beyond this effort, the Bureau supports regional and international conferences and meetings. Since 1989, the Africa Bureau has been collaborating with the Club du Sahel and OECD to assist the Club's effort to study and diagnose the constraints to private sector growth in West Africa. A three day seminar held in Dakar in November 1991 was attended by 125 participants from 14 countries, two-thirds of whom were from the private sector. Out of that meeting came an organization, the "Enterprise Network of West Africa," devoted to establishing national networks and to conduct studies to identify private sector problems at national and regional levels and to initiate policy dialogues with governments. In August 1992, an eight man team of West African businessmen visited Washington and New York to develop contacts with business, investment banking and international aid officials.

In Guinea-Bissau, the Africa Bureau provided technical assistance, together with Brazilian experts, to transform a weak Chamber of 50 businessmen in the capital city into an important national private sector promotion organization with 6 regional delegations and 600 members. However, great care must be taken to insure that associations are not monopolistic or linked to a specific political or ethnic grouping.

In Mauritius, the Africa Bureau organized a meeting of African government and business leaders on Export Processing Zones which led to legislation and moves to establish zones in Nigeria and Namibia. Community Economics Corporation (CEC), working for the Africa Bureuau, recently completed extensive field interviews with top African NGOS providing credit to small and microenterprises. The purpose of these interviews is to facilitate formation of an African "best practices" information and experience sharing network among small and microenterprise credit providers.

Privatization

The Africa Bureau works to promote privatization, understanding that the measure has been the keystone of liberal reform efforts throughout the world. Privatization symbolizes a political will to take strong steps and end monopolies and favored treatment to elite groups and workers in bureaucracy, to reduce government spending and fiscal deficits, improve services to the general population, reduce patronage and burdensome taxation of the populace, free-up resources for more productive, social and infrastructure uses, and to improve the overall competitiveness of national bureaucracies in the face of global competition. Privatization is more than the sale of government-owned enterprises; it is also the opening up to competition of areas that heretofore were government monopolies, therefore exposing government bureaucracies to competitive forces. In addition, the "privatization" concept is not merely the privatizing of several thousand African parastatal firms, but to extend the principles underlying privatization to the informal sector and the domestic business sector which have grown under a diet of regulation and statism.

Experience shows that privatization policy is taken by nations with the most confidence vis-a-vis the world community because it requires technical assistance in the most sensitive political areas of national life (owning of national resources) to the most critical (redundancies and providing of social services). Privatization is also a basic repudiation of the last thirty years of most African governments and ruling political elites.

Privatization takes many forms -- be it the sale of state-owned enterprises, lending agreements, joint ventures or the contracting out of activities. Financial considerations are the prime mover, as some 3,000 SSA parastatals continue to build up massive losses and as governments find themselves incapable of supporting loss-ladened firms. The developmental issue is thus becoming how to develop adequate financial mechanisms for a capital-poor private sector without having inflationary implications

The Africa Bureau has been conscious of the difficulty in achieving privatization goals. Even in countries with more advanced economies, such as Mexico, Malaysia and Argentina, it took seven to ten years of political maneuvering and false starts before the political will formed sufficiently to allow for serious privatization efforts. In Africa, privatization faces the legacy of 30 years of statist rule; its implementation is a shock to governments that assume their role as dominant economic player as well as to citizens that have been bombarded with anti-business rhetoric.

The privatization problem is particularly difficult in Africa because of the paucity of strong parastatal enterprises. In some nations, like Senegal and Zaire, where the Africa Bureau carried out studies, government refused to carry out recommendations. But elsewhere in the Bureau activities, in Zambia and Mozambique, a dearth of purchasers willing to spend hard currency in frail and unsettled economies works against the effort. Lacking strong financial markets or regional stock markets, African nations cannot easily turn to stock offerings to sell most of their holdings, a strategy that had profound success in Chile.

The 1988 privatization program in Nigeria was the most successful in Africa in terms of total firms divested and the paring of state intervention in the economy. In three years, 78 enterprises were wholly or partially privatized out of the 92 listed, yielding substantial revenue for the government and a growth in the Nigerian capital market, stock market, Securities and Exchange Commission and local merchant banks. Many remaining parastatals have been commercialized. A large part of the success of the program is due to the total political support given it by the military government.

Nowhere in Africa has privatization been as successful as in Sri Lanka where the government is firmly committed to liberal reforms. Some 19 firms have been divested in the last 18 months, involving 35,000 workers. A.I.D./PRE bureau has assisted in developing a successful medium-term instrument to finance leverage buyouts by workers and managers. A.I.D. provides a guarantee of $2 million while private, local banks guarantee $5 million. The instruments have been fully subscribed. Such an approach has not worked in Africa because it lacked the needed financial prerequisites (see below).

The privatization of public agencies is a critical leg of a general liberalization strategy. Governments that are reluctant to eliminate regulatory bodies may be convinced to place businessmen in a majority position on governing boards. In Uganda, the Africa Bureau assisted in the creation of the Uganda Investment Authority, an independent corporate entity with 10 private sector and four ministry representatives. In Togo, Cameroon and Mauritius, business leaders comprise the majority on the administrative board for the Export Processing Zone.

The Africa Bureau has nurtured policies that are prerequisites for privatization in some African nations while providing direct privatization support in others:

Cameroon — The Africa Bureau in cooperation with PRE and the USAID mission developed a private sector strategy which contributed to a subsequent PRE initiative to assist privatization of the Cameroon fertilizer industry in 1990. Political unrest has delayed privatization moves although the government remains committed to the program.

Gambia — The Africa Bureau provided direct technical support to the AID mission in Gambia to assist the privatization of the Gambia Commercial and Development Bank, thereby eliminating the influence of parastatals (the Cooperative Union and the Gambia produce marketing Board) on the bank's lending decisions and improving lending practices. The Gambia Produce Marketing Board has divested operations in trading, hotels and manufacturing, as well as some agricultural activities.

Kenya — While the government of Kenya has for some years indicated an interest in divestment, ethnic considerations stand in the way. In 1991, the government created a new Capital Markets Authority (see below, financial markets), with the Africa Bureau and mission support. The CMA announced, in July 1991, that the government would withdraw its interest in 138 companies. A list of companies was formulated, the most important of which was Kenya Airways which would be divested via sale of stock. The political unrest which Kenya suffered in late 1991 and 1992 has been a deterrent to the divestiture program as well as to interest among foreign investors.

Tanzania — The Africa Bureau provided support to a World Bank team to Tanzania in 1991 to assist and encourage the government of Tanzania in its privatization policy . It participated at a conference of the Tanzanian Association of Parastatal Organizations (TAPO) in which the government's new policy was announced and discussed, provided direct guidance to the Tanzanian Ministers on appropriate legal steps to implement the process and an organization established to pursue the process.

Uganda — The Africa Bureau provided assistance to the mission in the creation of its Public Enterprise Project in 1989. A full-term private sector adviser was installed, with Africa Bureau assistance. A major conference in privatization was put on to illustrate the strategies and benefits of privatization. These efforts led to a Cabinet Paper the next year that proposed a national privatization strategy and, eventually the Expropriated Properties Act (returning to former owners 1,200 properties nationalized in 1972 with value in excess of $100 million) and a new Investment Code. The initiative yielded some major successes (see discussion of McCormick reinvestment elsewhere), however a lack of confidence on the part of foreign investors, a thin domestic capital market, and public enterprise debt continues to restrict sales. Technically, there have been problems in agreeing on valuation methods and on sales techniques. Transparency has been lacking.

Among the key lessons learned from AID and other donor's privatization experience over the past four years are:

1) The decision to embark on a privatization program is in the first instance political, regardless of the economic and financial pressures that may have promoted consideration of it. Virtually every facet of the privatizing process has its political overtones, ranging from deciding what to privatize, determining how to privatize it, choosing the buyer and, in some cases, finding financing for the deal. In Tanzania and Zambia, the problem of ethnicity looms in implementing privatization strategies. African peoples of both nations fear that privatizing will mean that control of important sections of the economy will be transferred to the hands of minority Indian groups. (In Malawi, Indians were forbidden from bidding on privatization)

2) The handling of opposition to privatization is of central importance to any privatization program. It is essential that an estimate be made of the sources and strengths of the opposing groups in preparing the privatization strategy and that plans be made for meeting and overcoming their objections;

3. The financial and social environment in which privatization is to take place is of crucial importance. Successful privatization is not necessarily dependent on a developed capital market, but the more sophisticated the financial system, the easier it is.

4) Privatization of useless firms implies closure, which means that some assistance is required to assist in redundancies ("privatization funds") until the effects of restructuring and economic growth take hold. Implicit in this is a strong coordination among the donor community is required.

5) No amount of strategic planning or technical assistance will help a program work unless there is full, consistent and continuing commitment to privatization at the highest levels of government. In Tanzania and Zambia, the government clearly made up its mind to pursue a vigorous policy of restructuring and privatization which was a profound repudiation of previous regime's strategies, those of Julius Nyerere and of Kenneth Kaunda.

6) Privatization is a long, slow and complicated process Expectation of immediate results by those involved is likely to end up in frustration and disappointment.

7) Privatization must not be a process of converting public sector monopolies to private sector monopolies. The successful privatization program in Malawi was, in reality, the transfer of central control from public hands to private, those linked with ruling groups. In those areas of "natural" monopolies, governments must develop rationale regulatory structures.

8) Firms to be privatized must be carefully selected. Unprofitable or bankrupt parastatals are unlikely to be sold. The most profitable firms should be offered first, to spur the process.

9) The method of privatization is critical. Should parastatals be sold outright or should the state retain an interest? The latter strategy gives government a greater sense of confidence while reducing the contribution of private capital. Leveraged buy-outs is an alternative that will promote management's cooperation in the privatization scheme.

10) Careful consideration must be given to the availability of working capital by purchasers of parastatals. Nothing can harm the privatization more than to have massive bankruptcies of ex-parastatals because their owners have not foreseen operating costs.

11) Once firms are privatized, government institutions and international donor agencies should remove themselves as far as possible from their operations. Finance,

training, and operational questions must be answered solely by the owners as in any market situation. Bankruptcies should be permitted as well as increased competition from new firms.

Finance

Finance is at the crux of the developmental problems facing Africa's private sector. Without an access to credit at reasonable rates, growth is difficult. However, most financial markets in SSA are artificial, supported by government agencies and multilateral donor groups. The reason for this is clear: fundamentally, most of the region lacks the prime conditions that usually attracts and maintains capital: a sufficient rate of return and predictability. Inflation and high taxation erodes the value of money. Financial markets are very small and the size of their potential business does not merit investment of resources.

But even with a suitable environment, private capital needs to understand what are and will be the general rules of the game in both government regulation and implementation as well as in markets. Capital abhors political and economic uncertainty and a climate of unpredictable corruption. Trust is critical, both with government officials and local entrepreneurs. Only after this basis is established will capital markets begin to look at Africa seriously and invest in both production and markets. This is why in Nigeria and Ghana there has been a broad pattern of disinvestment and capital flight while in Zambia and Uganda a pattern is growing interest towards investment and some capital returns.

Beyond this, the competition for capital through the developed and underdeveloped world leaves Africa in last place: an investment in American or European stock, bond or other financial instrument will yield a higher rate of return with a greater sense of predictability than in SSA. Capital flight from Nigeria or Zimbabwe is a market mechanism that reflects the perception of local businessmen that they can achieve higher rates of return on their money at reduced risk elsewhere in the world.

Most African financial institutions that are completely private are informal, at the microenterprise level, between families, small merchants, West Africa tontines and La Financiere movements. In West Africa, donors are beginning to look at ways to expand these African institutions for larger economic use.

In all African nations, institutions and facilities are needed to mobilize domestic savings and provide equity capital and other financing needs to allow business to grow and use its competitive advantage. Commercial banks in Africa usually do not provide these services, limiting their functions to short-term and trade-related debt; relatively advanced market structures such as stock exchanges are not yet necessary in most nations. A.I.D./PRE through its Loan Portfolio Guarantee (LPG) Program and other donor efforts have worked to free up financial markets for small and medium-sized business by providing partial guarantees and start-up costs for financial mechanisms. While these efforts have succeeded in Asia, African banks cannot or do not participate. The banks are reluctant to lend to small business and take local currency risk. The loans on their books weakens their credit worthiness. In many countries, the World Bank and the I.M.F. impose stiff credit and liquidity ceilings, limiting loans to 3%-10% of asset capitalization; Banks prefer to use their scarce resources for established, less-risky and favored clients. Beyond this, high interest rates and closing fees are too high for small and medium-sized entrepreneurs to support, especially in areas with small markets. These businessmen also lack collateral for many loans.

With such high difficulty, the Africa Bureau has learned that it must use a broad variety of approaches to stimulate financial mechanisms from pressuring governments to establish an attractive environment for financial instruments to creating investment funds for equity development. Among its strategies is to:

1. Continue to inform and pressure SSA countries to establish an attractive environment for financial instruments through continue dialogue, networking and cooperation with the IMF, in particular. A debt conversion workshop was held in Abidjan in 1989 under Africa Bureau auspices (see below) led to a number of substantial debt conversion deals.

2. Continue to develop networks between African private and government financial experts and international markets to explore creative financial mechanisms as well as to understand current global market conditions.

3. Develop financial skills. In the financial sector, unlike anywhere else, the depth of adequate and skilled management is key to the long-term success of financial reform. Currently, most major financial measures supported by donors are implemented with expensive experts from foreign lands. Local financial skills must be developed if institutions are to become efficient on a global scale. In Ghana, technical assistance was provided for the establishment of a stock market. In Malawi, assistance was given to create unit trusts.

4. Provide support for financial instruments to serve as an underpinning for financing of the growing entrepreneurial class as well as to provide experience in financial management to African institutions and businessmen;

5. Strengthen existing capital markets and to restructure banking systems into modern financial institutions. Africa Bureau, together with other donors, restructured the Senegalese banking system, in bankruptcy at the time. The African Bureau provided assistance to the Gambia mission to privatize the Gambia Commercial and Development Bank; The Meridian Bank bought all performing assets and assumed control in June 1992. This move is expected to increase competition in the banking sector and to eliminate government influence over lending, especially for financially unviable purposes. Assistance was also provided to draft new legislation to strengthen banking supervision and improve debt recovery. With Africa Bureau support, the Kenya Capital Development Authority was established in 1988 to oversee and administer stock offerings, solidifying investor and financial confidence. A former American chairman of the SEC worked in Kenya to draft legislation and regulatory procedures. The authority facilitated the process by which public and private firms made stock offerings and the Kenya Stock Exchange expanded

6. Attempt to expand micro-African financial institutions (such as tontines, La Financiere movement) into larger activity. For example, in Kenya, the African Bureau sponsored with PRE and WID, a study of micro-enterprise credit assistance in September 1991. It determined that overall improvement in the financial performance of assisted enterprises was impressive; that loans typically had a greater impact in the urban area rather than in the rural; and that regulatory constraints had a negative impact on clients' business operations.

Because of the high costs and risks of operating in the financial sector, most Africa Bureau assistance should be accomplished with other donor institutions. The up-front costs of arranging financing for Africa is far more expensive than in developed markets because of distance and the lack of other supportive mechanism in Africa. Most important, the size of financial deals is far smaller, in most cases, than anywhere else in the world, causing up-front costs to be relatively higher.

To accomplish these goals, the African Bureau has undertaken a number of efforts, in joint-venture with other donor and financial agencies. The results of these ventures have been to develop new private sector opportunities. The key question is whether the cost of supporting these multilateral efforts is worth the results shown. A corollary issue is, given the weak position of SSA, a high cost is implicit in any attempt to develop financial institutions.

Among the major institutions to which the Africa Bureau contributes are:

The Africa Project Development Facility (APDF), an arm of the UNDP, works to develop the capability of medium-sized investments of $500,000 to $5.0 million in Africa. The Africa Bureau is the largest of 15 bilateral participating donors. With offices in three African nations, the project assists entrepreneurs in the preparation of viable projects; it helps them secure financing from banks and appropriate sources of capital. APDF takes in, analyzes, and packages investment proposals on behalf of clients. APDF confidence in projects is, alone, the greatest facilitator of loan procurement. But equally as important is its access to capital, through other donor agencies and development banks. Indeed, a lesson coming out of the APDF experience is, lacking in-country financial institutions, entrepreneurs face great difficulty in developing all but the smallest projects.

Since its inception in 1986, the APDF has assisted 114 projects in 23 African countries for a total investment of $216 million of which the Facility raised $156 million. Some 12,000 jobs emerged from these efforts of which 52% are in agro-industries. 20% of the successful projects are women-owned. Three Missions are exploring the possibility of buying into the facility, in Uganda, Ghana and Gambia. Among the business assisted are:

Egg production in Ghana;
Flower production in Kenya
Ostrich farming in Swaziland
Crocodile farming in Malawi
Brick foundry in Botswana
Fish processing in Benin

A key issue to come out of the APDF process is how much support donor agencies should provide business. In nations without any financial support, the only possible startup financing can come from donors. But here a danger arises that donors take the place of local governments in subsidizing commerce. The lesson is key: donors must insure that their assistance of private enterprise serves as a basis for additional growth rather than the complete support. Furthermore. donors must also make sure that they do not support some private businesses in competition with other local firms that lack donor subsidies.

The Africa Growth Fund (AGF) The Africa Bureau contributed $1.4 million in start-up costs to the AGF which is a privately owned, and managed firm that takes equity and debt positions in prospectively profitable enterprises with the aim to liquidate their investment positions at a profit. The businesses must have high projected returns and medium-term project development cycles (typically, less than 7 years from start-up to full operating profitability). The AGF has committed some $7 million of the capital contributed by American corporate investors including Citicorp, Coca Cola Kellogg, Rockefeller and Lummus. It is managed by Equator Investment Service, an affiliate of Equator Bank. It has provided financing for 7 projects including to a Sheraton Hotel in Botswana, a merchant bank and an equipment distribution firm in Ghana, a manufacturing project in Cameroon and a gold mine in Cote d'Ivoire, worth $7 million in investment.

In addition A.I.D./PRE has developed a creative guarantee program with Economic Development for Equatorial and Southern Africa (EDESA) to support the United Leasing Co. (ULC) in Botswana. In this unsophisticated financial market, there is little interbank lending and companies have great difficulty raising medium-term credit. Most local depositors prefer short-term loans. To take advantage of local capital, EDESA developed a transferable certificate of deposit that is good for 36 months but which can be redeemed at any time. The depositors is thus secure of access to money. Edesa and A.I.D. provide a guarantee of up to 50% of the $4.5 million funds for ULC.

Debt-Swaps

Another area for creative financial strategy is the use of debt-swaps for public benefit. Unlike Latin America, African possibilities for debt-swaps are limited due to the low level of commercial bank debt; most foreign debt is public. In addition, debt-swaps are implicitly inflationary because they create local money without creating immediate wealth. The Africa Bureau achieved some success in Tanzania with debt swaps for development of the cut-flower and tourism industry. But the major areas of success has been in debt for development. The Debt-for-Development Coalition, Inc. (DDC) with support from the African Bureau has done at least twenty-five transaction in Sub-Sahara Africa -- principally in Ghana, Kenya and Zambia -- which have generated a net benefit to NGO's of slightly over $1.5 million and reduced African debt or foreign exchange claims by more than $4.1 million. These transactions have been done in support of a wide range of developmental activities, particularly agricultural research, ecotourism, environmental conservation, health and family planning. Whereas Debt-for-Development transactions have little impact on overall debt reduction, there is some positive result because of the burden of debt-servicing for the debtor country as well as the services that come out of these deals.

A debt conversion workshop was held in Abidjan in 1989 under Africa Bureau auspices brought together 31 senior Central Bank and Finance Ministry officials from eleven countries. Coming out of this conference was a debt conversion deal for environmental protection was signed in Madagascar, regulations were put in place to allow debt conversions in Tanzania. the Government of Senegal decided to allow debt conversions and Niger completed a debt conversion valued at $2 million to finance a local research entity. The Malagasy Governor of the Central Bank and the Minister of Finance attended the conference and reviewed a draft World Wildlife Fund (WWF) debt for nature proposal with Africa Bureau and ADB officials. Upon their return to Madagascar a debt for development model protocol was developed. This led, in turn to an Africa Bureau sponsored assistance which led to a debt swap for $2.1 million with local currency received to be used by WWF to support training and protected area management activities in Madagascar.

Tanzanian officials from the Ministry of Finance and the Central Bank attended the conference and initiated discussions with the Africa Bureau officials concerning technical assistance to Tanzania in debt conversion. In early 1989, legislation was enacted authorizing a formal debt conversion program and the Bank of Tanzania asked AID for assistance. The mission financed TA and developed a program to use $800 million in debt proceeds for export oriented projects. In the second phases the government was assisted in developing its computer data bank to identify and verify debt conversion.

Also coming out of the conference was a $2 million debt conversion plan to finance a local research entity in Ghana. A debt conversion in Sierra Leone is being discussed for a mining activity.

Venture Investing

Venture investing is yet another creative financial mechanism to develop entrepreneurship through equity holdings. The African Venture Capital Project (AVCP), an African Bureau project, encourages American investment in privately owned African businesses by mobilizing long-term debt and equity capital. It supports medium-sized enterprises to serve both as a model for other financial institutions as well as to support budding enterprises. During the short period of its development, the AVCP has developed initiatives and services (including feasibility studies) for projects in Senegal, Cote d'Ivoire, Togo, Cameroon, Tanzania and Malawi. In Ghana, the AVCP together with the Mission is collaborating with the Commonwealth Development Corporation CDC to develop a local venture capital activity. The CDC plans to contribute 2-5 million in venture capital. AID/Ghana which is precluded from equity participation, will pay for start up and administrative costs, over a three year period. In Zimbabwe, the AVCP is working with EDESA to establish a private venture capital fund. It is also assisting a local venture capital project comprised of 35 entrepreneurs who have just successfully purchased five small firms, rationalized them and sold them for a profit. They are now looking for other enterprises. AVCP is also working with Black South African businessmen to develop franchising capabilities in that nation. US firms would franchise operations that would be supported by South African and US private equity.

Microenterprise Development

(This section from Fred O'Regan, with some editing to avoid repetition with other parts)

Decades of centrally controlled economies and state capitalism have dissipated scarce resources in pursuit of a fatally flawed development strategy. This has been exacerbated by the negative affects of a colonial and post-colonial ambience which frustrates private sector potential.

The combination of these negative factors proved to be antithetical to achieving significant, sustained broad-based private sector economic growth leading to job creation. African micro and small scale entrepreneurs were forced to adopt a "no growth" survival strategy designed to avoid and evade unwanted intervention from the state.

Rather than expand the income and employment generation capability of a successful micro or small enterprise, African entrepreneurs start a succession of "invisible" new businesses. Their investment strategy is "horizontal" rather than vertical and is often diversified in livestock, real estate and other appreciable goods.

African private sector firms purposefully restricting the growth potential of their enterprises because if they were allowed to grow they would become vulnerable to arbitrary over-regulation of the market place and crippling taxation. In essence, these informal sector enterprises went underground. Therefore, their essential contribution to GNP is therefore minimized or overlooked completely.

The Africa Bureau's approach to establishing an enabling environment is to promote and sustain a range of synergistic initiatives to support the emergence of a pro-active, broad based private sector. The approach responds to the needs of small/micro enterprises operating within the dynamic informal and semi-formal sector, the so called "missing middle" and opportunities to forge backward and forward linkages with larger firms.

Credit is an easily identified problem constraining the growth of African small/microenterprises, but it is not sufficient in itself to promote sustainable growth. The problems constraining growth include, but are not limited to, the following:

- o inadequate market research and outlets;
- o access to adequate supplies;
- o inappropriate production technologies;
- o inadequate working capital;
- o insufficient inventory size and controls;
- o inadequate production volume and quality controls; and,

o inadequate financial management systems and skills.

The Africa Bureau recognizes the need for additional research to increase understanding linkages between for formal and informal sectors and existing financial mechanisms. The source of funds and their institutional sources have been conceptualized in the following three categories: formal, semi-formal and informal.

Formal mechanisms serving small and microenterprises are:

- o Development Banks;
- o Commercial Banks;
- o Non-bank Financial Institutions;
- o Parastatal Small Business Organizations;
- o NGOs (some).

Semi-formal institutional mechanisms providing funds are:

- o Credit Cooperatives;
- o Supplier Credit Schemes;
- o Second Level Rotating Credit and Savings Associations;
- o Grass Roots Organizations and Federations;
- o People's Banks;
- o NGOs (some);

Informal sector mechanisms providing funds are:

- o Extended family members;
- o Money lenders;
- o Money guards;
- o Rotating Credit and Savings Associations (ROSCAS);
- o Group Savings groups.

The increase in small/microenterprise support from donors has resulted in a directed credit approach operated through formal institutions including commercial and development banks and parastatals. Most conventional credit programs operated through development banks and parastatals have relatively high costs, low recovery rates and have difficulty meeting internal operating costs.

Most of these programs offer integrated training and technical assistance services which are costly and generally lack data on cost-benefit impacts. These mechanisms are criticized for being top-down, supply driven and non-participatory.

For these reasons, increasing emphasis is being placed on the "minimalist" approach which makes these services demand-driven with an emphasis on maximizing cost recovery. Management styles are also more participatory and generally rely on community peer group pressure for loan collection. Recovery rates are been significantly better and community outreach is greatly expanded.

The Africa Bureau recognizes the advantages that micro and small enterprises have over "top down" macro scale interventions which have frequently not been a cost-effective means of reaching poor people. The following key factors explain the Africa Bureau's development rationale for assisting this sector:

- The S/ME informal sector contains the largest number of enterprises and employers with the potential to generate earnings and employment.

- The S/ME informal sector is a highly efficient user of both capital and labor. It is a resilient "people's economy" which grows when the overall economy expands and also grows when the informal sector contracts. This resiliency contributes to broad-based economic growth objectives.

- The S/ME informal sector is highly productive and not limited to traders and retailers. An estimated 75% of all African manufacturers are micro and small enterprises.

- The S/ME informal sector has served as an incubator for an emerging class of new entrepreneurs in Africa. This is particularly true for women who have traditionally been more disadvantaged in their access to credit and opportunities. Small and microenterprises provide a viable point of entry to fulfill poverty alleviation objectives.

The Africa Bureau's private sector approach recognizes that most jobs exist at the micro and small scale enterprise level within the dynamic informal sector. These small firms actually comprise Africa's private sector, with the exception of noncompetitive parastatals and "stranger" enterprises controlled by Greeks, Lebanese and/or Asians. It recognizes the importance of foreign investments, provided they are labor intensive such as agribusiness ventures in which backward linkages benefit farmers. Particular attention should be paid to women who are financially comparatively more disenfrancised and have demonstrated an ability to utilize credit in a responsible and productive manner.

One clear lesson which has emerged from implementation of the Africa Bureau's approach is that micro and small enterprise promotion can not be treated in isolation from the larger more formal market place to which it relates. Without a policy and regulatory environment characterized by good governance, micro/ small enterprises and the larger private enterprise dynamic of which they are a vibrant part can't experience sustained growth.

A dysfunctional regulatory environment is the most significant constraint retarding full development of small and microenterprise growth potential. These constraints include the following:

- o Archaic business registration and licensing procedures;
- o Over-regulation of the market place, which restricts free market trade and investment;
- o Excessive taxation which decreases profits and capital for reinvestment in business growth and productive diversification;
- o Lack of access to a fair judicial process to provide businesses the protection provided under contracts law through the use of torts and other means of legal redress.
- o Harassment by "rent-seeking" police and local authorities; and,
- o Lack of enforceable property rights to get real estate deeds and/or use personal property for collateral as loans.

LAST PAGE