EAGER
Equity and Growth through Economic Research

Trade, Growth and Equity in Sub-Saharan Africa. An Interactive Approach to Policy-Making

Proceedings from the Accra EAGER Workshop

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Introduction

The USAID Equity and Growth through Economic Research program conducted a workshop on economic policy issues in Africa in Accra, Ghana, from February 3 through 8, 1997 The Ghanaian Centre for Policy Analysis (CEPA) hosted the event, which was attended by more than one hundred researchers and policy-makers The purpose of the workshop was to bring together policy-makers from public and private sectors with economic policy research teams from throughout Africa, to discuss one another's policy-reform success stories and frustrations

The studies being funded since 1995 under the USAID/EAGER program focus on policies which have successfully facilitated renewed growth in Africa and those which continue to inhibit it One component of EAGER focuses on trade policy issues, including barriers to trade, means of enhancing regional trade, effects on trade of monetary, fiscal and exchange rate policy, and new opportunities for trade and investment The research under this EAGER/Trade cooperative agreement is coordinated by a consortium headed by Associates for International Resources and Development Members of the consortium include the Harvard Institute for International Development, Purdue University, the University of Laval and International Business Initiatives

The second research consortium, headed by the Harvard Institute for International Development, funds and conducts research in the area broadly termed Public Strategies for Growth and Equity Its research is concentrated on the following themes

- Legal, regulatory and judicial reforms and governance
- Macroeconomic stabilization
- Financial market reform
- Labor market reform

To ensure that EAGER research reaches and engages researchers and policy-makers throughout the continent, the EAGER program includes a contract for communications and information dissemination The logistical arrangements for the Accra workshop were handled by the dissemination consortium, led by BHM International, Inc , whose subcontractors include International Science and Technology Institute, Inc (ISTI) and Abt Associates, Inc

The EAGER research agendas are demand-driven, with themes and priorities decided by policy-makers in consultation with researchers, rather than researchers alone Research funded under EAGER must be pertinent to a high priority economic policy issue, and must address its equity implications, be useful to stakeholders, have a reasonable chance that policy-makers will respond with meaningful change, be of interest to USAID missions in the countries concerned, and potentially contribute to sustained, equitable growth

The Accra workshop was the third such semiannual event, following on the inaugural one in Bamako, Mali in November 1995 and its successor in Kampala, Uganda in July 1996 Beginning in Bamako, the organizers were struck by the practical and policy concerns brought out by policy-makers participation These are not ordinary research workshops, nor are they traditional policy seminars With each workshop, policy-makers have taken an increasingly active intellectual role Initially they were providing guidance to research projects not yet underway Now they are reacting to results from initial fieldwork reports, with practical and political concerns raised by the implications of the research They force researchers to test their results, and to find politically acceptable and economically viable avenues for development The researchers, in turn, focus concrete economic analyses and reports on economic actors that policy-makers otherwise rarely encounter

We ask readers of these proceedings to view them as work in progress Unlike traditional proceedings of scholarly gatherings, these are reports of partially completed research at most, and, in many cases, of proposed research Conflicting viewpoints may be reflected in the discussions This is welcomed by the organizers, as it serves to sharpen the focus of research, and sends researchers back to the field to answer the questions raised

The workshop began with two days of preparation, during which teams, most of which comprise African and American researchers, came together to coordinate their presentations and have their papers reproduced On Wednesday through Friday the formal meetings were held, according to the schedule set out below On Saturday the EAGER/Trade Technical Committee reviewed research proposals, one by one The decisions of the committee and the list of participants are found in the annexes to the current report

Wednesday, February 5, 1997

Presentation of Research and Discussion of Policy Implications

8.30-9·00 Registration

9:00-10:00 Opening Session

Chair Joseph Abbey, Executive Director, Centre for Policy Analysis (CEPA), Ghana

Joseph Abbey welcomed the participants

Dirck Stryker, President of AIRD and Chief of Party of the EAGER/Trade component of EAGER, briefly introduced the EAGER project concept He identified two principal objectives of EAGER (1) to demonstrate that policy-targeted research in Africa can have a significant effect on policy decisions, and (2) to enhance dialogue between researchers, government and the private sector

He then described the mechanism by which EAGER has sought to reach these objectives First, EAGER has visited countries where it has been invited to elicit research ideas and priorities by leaders in government and business in these countries Second, teams have been constituted consisting of Africans and expatriate collaborators to undertake research in these areas He gave a brief explanation of the three components of EAGER 1) Trade 2) Public Strategies for Growth and Equity and 3) Dissemination For EAGER/Trade, he explained the role of regional coordinators, and of country level advisory committees in guiding the research and in developing action plans to promote the policy conclusions of the work

Dirck Stryker then gave a brief explanation of the workshop organization and schedule

Clive Gray of HIID, Chief of Party of the PSGE component of EAGER, briefly noted the four themes that have been identified to date for that component 1) Legal, Regulatory and Judicial Reforms and Governance, 2) Macroeconomic Stabilization, 3) Financial Markets, and 4) Labor markets

He noted the appropriateness of Ghana for this workshop given HIID's past relationship with the Ghanaian Government, and the fact that three of the four initial studies of the PSGE component include Ghana in their country focus

Keynote Address

H E Vice President of Ghana, John Evans Atta Mills, gave the Keynote Address After extending a warm welcome to all participants and visitors to Ghana in particular, the Vice President emphasized the importance of the issues the workshop would address He noted the importance of trade in creating new opportunities, and called upon the participants to face the problems which impede trade in order to stimulate it

The Vice President recommended the need to maintain a practical tone in discussions and to avoid simply falling back on academic expertise Underlining the need to undertake useful research, he gave the example of the Council for Scientific and Industrial Research, which was not obtaining the research funding it needed for its members and so has broadened its own mandate to undertake and commercialize research

The Vice President identified one of the principal components of the government's development program as being to create the infrastructure to allow growth to occur He cited electrification and storage infrastructure as examples for rural development

The Vice President also stressed that research must be available at the local level, and that greater use should be made of Ghanaian researchers because they are more economical to use, and by using them they can build up their experience and gain greater recognition He also called for support of regional and sub-regional centers for research through EAGER

Lastly, the Vice President reiterated the government's objective of making Ghana a middle income country by the year 2030

10:30-12:30 Overview of Research on EAGER/Trade Regimes and Growth

Barriers to Cross Border Trade

Effects on Trade of Monetary, Fiscal, and Exchange Rate Policy

New Opportunities for African Trade and Investment, Regional Integration

Challenges to Trade Policy Reform

Chair Joseph Abbey, CEPA, Ghana

Presenter Dirck Stryker (AIRD, USA), Chief of Party, EAGER/Trade

In his presentation, Chief of Party Dirck Stryker summarized three of the five research themes being studied under EAGER/Trade Key preliminary findings of some of the individual research projects included in these themes are highlighted here

Barriers to Cross-Border Trade

In the *Malian rice export potential study,* steady increases in yields have contributed to reduced costs of Malian irrigated rice production, making sales in neighboring countries competitive with imports of rice from outside West Africa The CFAF devaluation has accentuated this profitability However, demand and supply projections for Mali suggest that such a net exportable surplus may not persist over the next ten years If high investment costs, which are considered as "sunk" in the current analyses but which are important to take into account if estimating returns to future investments, are included, the economic competitiveness of these exports is reversed Nonetheless, there may be seasonality in Mali's export comparative advantage profile, which would suggest that alternating status as a net exporter/importer during the course of the year would prove economically most rational

The *Malian livestock sector study* shows that intensification of animal production, i e moving out of the pastoral fringes and into agro-pastoral zones for meat production with feed complementation, is becoming increasingly profitable Fears that animal production would compete for resources with crop production are proving unfounded In fact, the two activities are highly complementary (crop residues used as feed and animal waste used as fertilizer), and production is in fact increasing in these zones As for the question of whether meat exports from Mali to neighboring countries would be more profitable than live animal exports, the study concludes that policy distortions are contributing to an undervaluation of slaughter by-products and that by-products face a higher demand curve in neighboring countries, both of which contribute to rendering slaughter in the Sahel less profitable

The *Tanzania small-scale mining study* presents an image of economic benefits from gem production and trade that offers a more optimistic view from the Government's, which tends to focus on the losses due to smuggling The study finds that deregulation of the activity has led to a surge in employment and income creation The Government's dilemma with regard to taxation of illegal exports, it is suggested, would be lessened if alternative fiscal tools were considered For instance, given that three-quarters of the marketing margin between the mine and the Nairobi wholesale market remains in the hands of Tanzanians, it may be more efficient to consider alternative measures for taxing the domestic income generated by the mining (perhaps by taxing the additional imports which such exports can create), rather than by attempting to tax the exports themselves and setting up a strong disincentive against the activity

Effects of Monetary, Fiscal, and Exchange Rate Policy on Trade

In Ghana, there are several key issues First, there is a crowding out of the private sector by Government because of its mounting fiscal deficit Interest rates are quite high and the Bank of Ghana pursues no clear monetary policy In addition, exchange rate policy is being used to control inflation, i e the cedi is not being allowed to depreciate fully under the weight of the

Government budget deficit-induced inflation out of fear that prices will be pushed much higher This, however, has a negative effect on Ghana's export competitiveness, as the cedi becomes increasingly overvalued Another concern is that a large part of Ghana's foreign exchange earnings (cocoa, gold, and official transactions) go right through the Bank of Ghana, not via the private sector, thus insulating the cedi exchange rate from market forces The research will estimate an equilibrium exchange rate for the cedi, the actual real exchange rate, and the relationship between the two

In Uganda, much more of the country's foreign trade is transacted in the private sector In addition, there is a much higher degree of fiscal stability This means that the central bank can use exchange rate policy more flexibly However, the export and import sectors feel the brunt of exogenous shocks much more directly, and the Bank of Uganda has far less control over the effects of such external shocks An example is the world coffee market boom, the effects of which were hard to sterilize due to inadequacies of monetary policy tools

A further issue to be considered by both studies is the indirect bias against exports which results from relying on heavy taxation of imports for revenue generation This encourages reallocation of resources into import-substitution activities and also overvaluation of the local currency relative to international currencies, both of which bias against exports Governments need advice regarding strategies for minimizing that bias while maintaining public sector revenues These may include improving the efficiency of tax collection and exploring alternatives for giving exporters duty-free access to imported inputs and raw materials The studies will also explore whether sales and excise taxes are neutral with respect to trade

Regional Integration and Industrial Competitiveness

One thesis to be explored in an EAGER/Trade study on regional integration in southern Africa is that regional integration will result in trade diversion rather than real trade creation, and therefore policy makers' attention to the topic is not justified In this hypothesis, South Africa would gain more by focusing on international markets for the products in which it has a comparative advantage, and neighboring countries would gain more by importing more cheaply from lower cost producers of industrial products in which South Africa does *not* have a comparative advantage

Regional *cooperation*, however, makes sense Electrical power sharing is a perfect example of this, and EAGER/Trade will assist policy makers with a model of multi-country gains and losses from alternative generation and distribution schemes

With regard to *garments and textiles*, these sectors have great employment generation potential Madagascar, Ghana, Zimbabwe, and Kenya have all invested heavily in these sectors Can Africa compete? Yes, definitely, according to a recent World Bank study Labor productivity may be a bit behind that of Asia, but labor costs in Sub-Saharan Africa are even lower There are problems of labor relations though, especially in South Africa, where the labor movement historically represented the only form of political expression for non-whites The legacy of this is high union wages -- in a country where 30% of the labor force is unemployed

Welcome Address

Myron Golden, Director of USAID/Ghana welcomed the participants to the conference on behalf of the United States Agency for International Development He stressed USAID's commitment to the twinning of policy-relevant research on critical issues to the equity and growth considerations of policy makers throughout Sub-Saharan Africa

Discussion of Research Overview

In the ensuing discussion, debate focused on technical details (for example, whether Mali could afford to export its negligible rice surplus today, whether storage costs and transport uncertainties were adequately considered by the researchers, and what supply and demand parameters ought to be used in the projections analysis) Others were concerned that EAGER competitiveness research vis-a-vis regional and international markets be conceived dynamically, i e not just looking at primary products being exported today, or South Africa's *de facto* industrial competitiveness, but the competitiveness of more sophisticated, more heavily processed, goods which can be produced *tomorrow* using more modern technologies

Dirck Stryker emphasized that much of the EAGER/Trade research strives to encourage governments to think creatively about policy dilemmas For example, the solution to lost revenues from illegal exports of gemstones may not be in the direct or obvious approach (improved monitoring and taxation of exports) but in something less direct (increased taxation of imports resulting from the increased incomes derived from the gemstone trade)

14:00-15:30 Report on Overview of Research on EAGER/Public Strategies for Growth with Equity:

Legal, Regulatory, and Judicial Reforms and Governance

Macroeconomic Stabilization

Financial Markets

Labor Markets

Chair Joseph Abbey, CEPA, Ghana

Presenter Clive Gray (HIID, USA), Chief of Party, EAGER/PSGE

After explaining that EAGER/PSGE has a lag relative to EAGER/Trade, Clive Gray presented the consortium for the EAGER/PSGE project Harvard Institute for International Development (HIID, prime contractor), four universities (Clark Atlanta University, Howard University, University of Maryland-IRIS and Michigan State University) and three private consulting firms (Associates for International Resources and Development (AIRD), Development Alternatives Inc (DAI) and MayaTech Corporation)

Seven studies have been defined, three in the field of macroeconomics

- Tax Policy in Sub-Saharan Africa The Role of Excise Taxes (Madagascar and Tanzania)
- Enhancing Transparency in Tax Administration (Madagascar and Tanzania)
- Improving the Framework for Monetary Programming (Tanzania and Zambia)

Two on factor markets

- Increasing Labor Demand and Productivity in Ghana and South Africa
- The Impact of Financial Sector Reform on Bank Efficiency and Financial Deepening for Savings Mobilization (Ghana)

One on legal, regulatory and judicial (LRJ) constraints

- The Cost of Doing Business The Legal-Regulatory-Judicial Environment in Ghana, Madagascar and Tanzania

One on financial intermediation for the poor

- Financial Intermediation for the Poor (Ghana and South Africa)

The origins and motivations for these different studies were presented tax studies (to provide fiscal revenues with minimal distortions, reduce government deficits and inflation, and thus provide the macroeconomic stability required for growth), monetary programming (avoid inflationary spikes), labor market (reduce unemployment, improve productivity, allow poor to share in growth), banking sector (increasing efficiency, credit generation), LRJ constraints (reduce inefficiency and provide an adequate business environment), financial intermediation (increase credit availability for poor households and micro-enterprises to allow them to contribute to and participate in growth)

Participants were invited to react to this selection of projects and to provide suggestions as to other topics or country applications to be considered The ensuing discussion concerned three principal issues equity, fiscal policy and growth theory Participants agreed that analysis of equity should deal with enabling the poor to improve their incomes through growth rather than with the redistribution of existing wealth It is hoped that this would avoid the conflict between growth and equity, as enabling the poor would allow both of these objectives to be attained It was pointed out that research has shown that growth reduces poverty, although specific policies could increase poverty alleviation even more On the fiscal front, participants suggested as much effort should be made in exploring ways of reducing expenses as in increasing revenues Finally, a call was made for an identification of the growth theoretical underpinning of research to be made in this project, specifically as concerns the use of foreign debt to finance growth Other issues raised dealt with the need for institutional reform in addition to policy reform and the credibility problem many African governments face

16:00-18.00 Plenary Session

Chair Joseph Abbey, CEPA, Ghana

Policy Maker Address Madame Nafissatou Konare, Deputy Director of Economic Affairs, Ministry of Finance, Mali

Restarting and Sustaining Growth and Development in Africa

Presenters Clive Gray (HIID, USA), Dirck Stryker (AIRD, USA), and Lucie Phillips (IBI, USA)

The proposed study will examine what has to be done in Africa to restart **and** sustain growth and development Over the last two decades, many African governments have attempted to promote reform, but some have been more successful than others For example, why have some countries achieved macroeconomic stability and others not (cases of Uganda and Ghana)? Why have some countries showed sluggish growth responses to economic reform programs?

There is now a large literature and a vast range of country experience on the problems of promoting adjustment in Africa Recent cross-country empirical work shows that many African countries have grown and developed at rates which are markedly lower than other developing countries, particularly those in Asia

Several arguments have been put forth to try to explain why growth has not followed structural adjustment plans

Have the economic reforms been carried out? Sometimes only partially Other constraints such as the lack of infrastructure may explain the lack of results when economic reforms have been implemented In some cases, the reforms have been implemented and reversed because of political power associated with resources (argument that democracy leads to reversal of economic policy reforms) Others argue that the lack of institutions (Mancur Olson) largely explains the sluggish response of Africa economies to economic reforms

The proposed study is to be conducted within the framework of both components of the project and will examine the factors that have influenced the reform process from a political economy perspective in the following countries Ghana, Kenya, Senegal, Tanzania, Uganda, and Zambia The study will analyze the process of reform from both a political and an economic perspective Particular attention will be paid to the timing and sequencing of reform and how this plays a part in the political process When a country embraces economic reforms, more often than not they coincide with a change in political economy systems, which, may at times have had objectives contradictory to the ones mandated by economic reforms Of particular difficulty is the ability of a government to keep in balance a reduced budget deficit and sustain adequate incentives to the private sector

The study will examine this and other issues using cross-country and country cases The cross-country analysis will focus on three themes

- macroeconomic management,
- political and institutional considerations, and
- competitiveness, production and productivity

Individual country studies will draw on this research and country-specific knowledge to help determine the factors which are essential for economic reform, the circumstances under which African governments will remain committed to reform, and the elements which cause reform programs to be abandoned

New Opportunities for Trade and Investment

Presenters Lynn Salinger (AIRD), Lucie Phillips (IBI)

Interest in this study arose from the fact that Africa is marginalized from the new globalization trend The patterns of trade, the trading partners, and the products traded have changed dramatically over the last decade The question is how can Africa reassert itself on the international trade forum

One of the premises of the study is that not much is known about entrepreneurship in Africa

The study has identified that Africa in lagging behind the rest of the world in terms of the products it trades, the markets it seeks, the patterns of investments it favors, and the way in which it does business

Africa has specialized in primary products while the rest of the world increasingly trades labor-intensive, "high tech", and telecommunications products These new products require different manufacturing processes The fastest growing categories include seafood and horticulture products and the service industries Africa has a chance to compete with some of the new products It has to be consumer-oriented, however, and to learn to produce and deliver on time what foreign consumers want to buy

Most of the current international trade occurs between industrialized countries There has been talk about increasing the demand for products from developing countries This would increase the trade opportunities for countries like South Africa and South East Asian countries which have the entrepreneurial class and the necessary infrastructure Also, sub-Saharan African countries could take advantage of investments from Asian countries which are close to exceeding their Multi-Fiber Agreement and other similar quotas

If sub-Saharan African (SSA) countries are to prosper, they have to learn what attracts foreign investment It may very well be that new investment will come from middle income countries such as South Africa or South East Asian countries where investors, more accustomed to the political arenas of developing countries, might tolerate a higher level of risk It is important that SSA countries create a conducive environment for all types of investments (local, foreign, and resident minorities) Each type of investment is important Different types of investment are targeted at different sectors and are characterized by different scales of operations For instance, foreign direct investment usually includes large scale enterprises, e g , power generation, oil extraction, infrastructure development, and information technology projects Resident minorities typically invest small scale and are involved in trade and small industries Indigenous investors typically invest in trade and services The investment market appears segmented with each of the segments complementing or reinforcing the others

Foreign buyers want new, fancy, and high quality products The challenge for African entrepreneurs is to be aware of those niche markets and to be responsive to these new opportunities How responsive entrepreneurs are will depend on the comparative advantage of the society at large and on the competitiveness of the product Comparative advantage addresses the notion of economic profitability Competitiveness includes financial profitability, a host of marketing tools, the ability to learn quickly the latest technology, on-time delivery -- in other words, everything that makes a product better than any other ones

As new products, new markets, new investment opportunities present themselves, it is important to identify who are the entrepreneurs to assess and respond to their needs and constraints It is equally important to help the traders with the aspiration to become entrepreneurs make the transition

Questions

Who is going to make those investments in Africa, given that Eastern Europe is attracting a lot of investment from developed countries and that Africa is considered a lost cause? How can commercial banks assess the risk factors of Africa? How can African governments undertake infrastructure development projects when most are bankrupt and face high debt service costs? Why would anyone invest in Africa since most countries are still bad performers following economic reforms?

Answers

Investment can come from foreign firms that create strategic ventures with local firms The important question is how to connect potential players in industrial countries with the ones in developing countries

Many countries have contradictory incentives schemes, whereby foreign investment is encouraged while domestic investment is curtailed (Madagascar)

Thursday, February 6, 1997

Parallel Sessions on Country Studies

9 00-10 30 Barriers to Cross Border Trade

Chair G Haldane-Lutterodt, Chief Director, Ministry of Trade and Energy, Ghana

Promotion of Mali's Rice Exports Towards the West African Regional Markets

Presenters Abdoul Barry (AIRD, USA) and Daouda Diarra (SIM, Mali)

Discussants Amadou Camara (USAID, Mali)

Low volumes of informal rice exports have been noted Why? Does Mali have comparative advantage locally and in sub-regional markets in rice exports? Is there excess rice production?

Findings

Comparative advantage appears to be related to distance and transport costs e g on the Bamako to Abidjan route Malian rice comparative advantage appears to end at Korhogo,

A deficit in rice production in Mali is forecast until 2005 (this is true for other African countries),

Investment in irrigation in the Office du Niger area of Mali could raise yields to 8 tons/hectare, which would make exports to north of Cote d'Ivoire viable

Constraints to promoting rice exports include

Protectionist policies in food sector,

Taxes,

Quality of Mali rice and fact that different markets demand different quality levels (measured by the percentage of broken rice),

Transport costs are high,

Financial constraints need to be addressed

Discussion

What government policies would stimulate production to create a rice surplus? Land access, finance, access to inputs? Information is needed about the size of the market The tastes and preferences of the market have to be transmitted to help producers decide about producing for export Transportation sector constraint needs to be described more fully

Prospects for Developing Malian Livestock Exports

Presenters Jeffrey Metzel (AIRD, USA) and Abou Doumbia (IER, Mali)

Discussants Cheick Drame (USAID, Mali), Mantala Coulibaly (Prime Minister's Office, Mali)

A previous study of livestock production systems in the central corridor of West Africa (including Mali, Burkina Faso, Cote d' Ivoire, and Ghana) showed a strong comparative advantage in livestock production for most systems in Mali And yet for most of the past 20 years, livestock exports have stagnated This was mainly because the incentives to export were offset by export taxes and an overvalued currency In the 1990s, export tax removal and the CFA devaluation have returned incentives to the sector and so exports have responded However, projections suggest that unless rates of growth in production are increased, domestic demand will displace exports

This study seeks to examine sources of potential growth in livestock production and to determine how to raise value in the export sector

An analysis of supply evaluated trends for six different production systems in Mali Three pastoral systems saw large declines during the drought in the Sahel (1972-74) Production stabilized but never recovered previous levels On the other hand, two of the three agro-pastoral systems show growth from 1965-95 Agro-pastoral systems show the most growth in small ruminant animals There has been a shift in animal numbers toward agro-pastoral systems Average weight, a measure of productivity, shows no significant changes in animal weights However, offtake rates do appear to have improved on a national basis

An analysis of fattening systems based on a survey in the agro-pastoral zones found that fattening enterprises show a strong resurgence in their financial value

An analysis of the potential for adding value in exports by domestic slaughter and export of red meat instead of export on-the-hoof found that profitability is presently greater for on-the-hoof cattle because of cold-chain transport costs associated with red meat, and the demand for on-the-hoof by-products such as rawhide and the "fifth quarter" (entrails and by-products) are much higher on the coast than in the Sahel

Recent government tax policies to tax rawhide exports to encourage domestic tanning have only discouraged domestic slaughter entirely by depressing the domestic value of rawhide Moreover, rawhide offtake from existing domestic slaughter continues to be exported clandestinely

Only under optimistic scenarios of increasing production in agro-pastoral zones do projections indicate stable excess of red meat supply over demand in the future

Comments

The findings of the study are valid as far as they go The study should have considered some other factors, however

Government policies and programs in animal health have aided development of the cattle industry It would be helpful to have production cost data, not just numbers of livestock produced, to help guide policy

Tax on rawhide is provisional/temporary the study should calculate the impact of removing the tax on cattle production

More effort could be devoted to analyzing the implications of so-called fifth quarter production, i e , cattle by-products (offals) What would be the costs of enhancing facilities for slaughtering, cold-chain improvement? Cold-chain investment may be cost-effective for the Malian government in the long run if selected markets can be identified for higher valued cuts of meat

Cross Border Trade in Ghana. An Analysis of Client-Patron Relationships

Presenter Gayle Morris (IBI, USA)

Discussants Dunstan Spencer (Spencer and Associates, Sierra Leone), Lucie Phillips (IBI, USA)

This proposal looks at cross border trade and relationships among actors within this trade The principal issue of this study is to examine how various relationships between actors in cross border trade are used to overcome constraints to trade, including weak infrastructure , poor information, and lack of services

These relationships include vertical relationships between patrons/clients These include buyer/seller, lender /borrower and contracting relationships Horizontal relationships within families, ethnic groups, or associations also exist and will be examined

The importance of cross border trade is underestimated because of the importance of unrecorded intra-African trade Informal trade is thought to be large in volume but of relatively low value in comparison to recorded trade A second objective of the study will be to try to assess magnitudes and characteristics of this informal trade

Policies that will benefit from this research will include exchange regime considerations, procedures for border crossing, transaction documentation, and taxation policies

Data that will be used will include formal data on cross border flows and primary data from a survey questionnaire in border areas Official Ghana statistics in 1996 are improving for formal trade These will be used as bench marks for assessing other trade flows Bayesian statistics, which use prior information to extrapolate from few cases, will be used to get beyond the case study approach The study will also examine trends and estimate transaction costs

Discussion

The proposal was welcomed because it introduces sociological dimensions to trade analysis

The proposal should attempt to distinguish types of commodities to differentiate the impact of policy by type of commodity Three classifications were proposed 1) local produce (cereals horticulture, livestock) 2) re-exports from third countries and 3) money-equivalent commodities (e g gems, gold, etc)

The need to look at other organizational linkages was also noted, including brotherhoods, women's networks, ethnic networks, and family relations

Given limited resources and the difficulty estimating volumes it was suggested that the study try to show percentages of different commodities being traded in different routes rather than absolute volumes and values

Geographic mapping was suggested as a way to present the information

The proposal was commended for building on past research, and for it's importance for policy

The intention of the study to examine the extent to which patron-client relations marginalize certain groups was questioned as being peripheral to the proposal

9 00-10 30 Effects of Monetary and Exchange Rate Policies on Trade

Chair Kwabwena Duffuor, Deputy Governor, Bank of Ghana, Ghana

Monetary, Fiscal, and Exchange Rate Policy

Presenters Charles Jebuni (CEPA, Accra, Ghana), and Dirck Stryker (AIRD, USA)

Discussants Fritz Gockel (Department of Economics, Legon, Accra, Ghana), Clive Gray, Chief of Party, EAGER/PSGE (HIID, USA)

The first presenter was Charles Jebuni of CEPA He discussed the main objectives of their paper as follows (1) to examine the various monetary policy tools that the Bank of Ghana (BOG) uses to stabilize foreign exchange rates and other macroeconomic variables using the portfolio balance model, (2) to examine the two components of the equilibrium real exchange rates (transitory and permanent real exchange rates) He provided some background information on Ghana's economic policy reform under the 1983 economic recovery program (ERP) He indicated that the reform program was aimed at trade and foreign exchange liberalization with reliance on monetary policy reform and fiscal discipline

He traced Ghana's history of fiscal deficits accompanied by monetary expansion that has fueled inflation and depreciation of the Ghana local currency He indicated that during the adjustment period in Ghana before 1990, the monetary authorities pursued direct credit controls as a means of stabilizing the macroeconomic aggregates of foreign exchange rates and inflation However, after 1990, there has been a policy shift from direct to indirect controls of relying on the financial markets by applying appropriate monetary policy tools such as open market operations, etc

He indicated that the initial success of controlling fiscal deficits had resulted in fiscal budget surplus However this initial success was met by euphoria and complacency by the government, that has given rise to the relaxation of government controls of expenditure The consequence has been the sharp increases in monetary aggregates which have fueled inflation and resulted in the devaluation of the foreign exchange rate

He traced the various foreign exchange market regimes in Ghana from the early period of controls to the reform of the foreign exchange market by unifying the parallel and official exchange rates and encouraging the proliferation of forex bureaus to operate in the foreign exchange market He discussed the effectiveness of the Bank of Ghana's monetary policy to stabilize the exchange rates through policy intervention and sterilization strategies as additional monetary policy tools

In order to trace the linkage between money supply and the foreign exchange rate in the determination of the real exchange rate, various methodologies have been reviewed by Dirck Stryker, who presented the second part of the study He discussed the various methodologies and their limitations and indicated the justification for estimating three notions of exchange rates (1) the nominal exchange rates, (2) the real exchange rate, and (3) the equilibrium real exchange rate His basic approach is to examine how monetary policy influences the three indicators of foreign exchange rates in Ghana using the portfolio balance approach

The Discussants' Comments

The first discussant drew the attention of the researchers to the linkage between real exchange rates and inflation and the direction of causality He added that the researchers should examine whether there is a reverse causality as well as a direct causality between foreign exchange rates, monetary expansion, and inflation

He also indicated that in view of the underdevelopment of the financial market in Ghana, the researchers should examine the capacity of the BOG to conduct an effective monetary policy in order to influence or stabilize foreign exchange rates or the value of the local currency He also raised the issue of the operational definition of monetary aggregates - M1 versus M2 in Ghana Another issue of concern, as raised by the discussant, is the lack of government fiscal discipline and budget deficits accommodated by expansionary monetary aggregates He indicated that the government's error in forecasting government revenue and expenses resulted in government budget deficits which were usually off the budgetary targets for fiscal revenue and expenses

The second discussant stressed the need to make policy recommendations useful to policy makers in Ghana He indicated that the ability of the Bank of Ghana (BOG) to intervene in the foreign exchange market to stabilize the foreign exchange rate may be a function of the BOG's foreign assets or foreign exchange reserves He also indicated that the expectation of market participants and capital flows may also affect the ability of the BOG to successfully use monetary policy to stabilize foreign exchange rates He suggested that additional analysis is needed here

Monetary and Exchange Rate Policy in Uganda

Presenters Marios B Obwona (Economic Policy Research Center, Makerere University, Uganda), Polycarp Musingezi (Bank of Uganda, Uganda)

Discussants John Cockburn (CREFA, Canada), Dieri Seck (IDRC, Senegal)

The first part of the study was presented by Marios B Obwona of EPRC He stated that the basic objective of the study is to assess the impact of changes in monetary policy on foreign exchange rates He stated the main research questions as follows (1) Do monetary shocks have any effect on the real exchange rate? (2) Is there a long-run relationship between nominal money supply and the nominal exchange rate? (3) Do shifts in the exchange rate regime have any effect on the above relationships? (4) Has monetary policy in Uganda been consistent with the target of achieving international competitiveness?

He laid down the foundation for answering these research questions by tracing the history of financial sector reform in Uganda and other East African countries He noted that in recent times, the Bank of Uganda's attention has been diverted to the control of inflation in order to improve the export competitiveness He indicated that the Bank of Uganda's attention has also been focused on using monetary policy to control foreign exchange rates and interest rates, in addition to the control of inflation in the domestic economy

Unlike the Ghanaian situation, the researcher showed that there has been harmony between monetary restraint and fiscal policy discipline which has resulted in the reduction of the inflationary rate from over 250% to a single digit in the 1990s He also mentioned that an unintended effect of the monetary restraint has been the accompanying appreciation of the Ugandan Shilling (local currency) which has affected the export competitiveness in the international market In order to counter that effect, the Bank of Uganda initiated trade and foreign exchange reform in 1987 which was aimed at eliminating the overvaluation of the Ugandan Shilling This reform measure, which permitted the establishment of forex bureaux to undertake transactions in the foreign exchange market, resulted in the reduction of the premium between the official exchange rate and the parallel foreign exchange rate from 45% in July 1990 to 5% in December 1990

The second part of the presentation was undertaken by Polycarp Musinguzi of the Bank of Uganda He reviewed various methodologies that have been used in the academic literature to answer the above research questions He utilized the Purchasing Power Parity (PPP) approach in modeling the relationship between permanent and temporary real exchange rates and other policy and exogenous variables including (1) effective nominal exchange rates, (2) foreign price of tradable goods, and (3) the domestic price of non-tradable goods He also discussed the various derivations of money demand and supply in the domestic economy He discussed the vector autoregressive (VAR) approach for estimating the regression model

The Discussants' Comments

The first discussant suggested alternative methods of measuring competitiveness in the export sector by computing comparative costs of producing selected tradable goods in the domestic economy versus the cost of producing similar tradables in the foreign export market The second discussant raised some concerns about the econometric and regression modeling of the relationships He indicated that there is no need to use the vector autoregressive (VAR) technique in estimating the regression equations He suggested that the structural model will be quite adequate for the model being developed by the researchers

11:00-12:30 Barriers to Cross Border Trade

Chair G Haldane-Lutterodt, Chief Director, Ministry of Trade and Industry, Ghana

Maize and Bean Trade in Uganda

Presenter Marios Obwona (EPRC, Uganda)

Discussants Albert Yeboah (USAID, Uganda), Kwaku Owusu Baah (University of Ghana at Legon, Ghana)

This study proposes to look at comparative advantage for maize and beans exports to neighboring countries The study is proposed in the context of a widening gap between imports and exports and the need to diversify exported commodities from Uganda to bridge the gap

Maize and bean exports have become an opportunity since recent liberalization has caused a boom in food commodity production Moreover, purchases by the World Food Program to deliver to refugees in Rwanda and Burundi have added to the export demand There also appears to be potential to export to Kenya, Tanzania, Zaire, and Sudan, and even further south during droughts

The volatility of the market due to drought and civil crisis raises the issue of how to stabilize trade One focus of the study, therefore, will be to look at food security dimensions and the impact of volatility on profitability in production and trade

The study will attempt to evaluate incentives and costs in marketing and assess comparative advantage using standard effective protection and domestic resource cost methodologies An important component of the analysis will be to evaluate opportunity costs for domestic factors

Discussion

Discussants raised the following questions

Why focus on maize and beans instead of higher value commodities, especially given very high transport costs in the region?

Is the analysis biased or made less relevant by the dependence of trade in maize and beans on crises which hopefully will not be a long-term phenomenon?

Is there a food security risk to Uganda of exporting the food staples?

Tanzanian Small Scale Mining, Cross-border Trade, and Marketing

Presenters Lucie Phillips (IBI, USA), R Sezinga (Tan Discovery, Tanzania), Godius Kahyarara (ESRF, Tanzania)

Discussant Gayle Morris (IBI, USA)

Artisanal Tanzanian mining for gold, diamonds, and colored stones is growing rapidly resulting in a rapid increase in cross border trade It has also added 50 % more middle income jobs to the national economy This boom has allowed for accumulation of capital in local hands

Most of this activity is still exploratory, may be characterized as small scale, and is conducted by private operators Reasons for this rapid expansion include the current easy recovery of these gems, the social and political stability of the larger economy, the presence of comprehensive economic reform that has encouraged investment, and the government's liberal policy which allows small scale, private sector actors to be involved

Government objectives remain to maximize fiscal and export earnings, as well as to raise the contribution of the sector to GDP Other concerns include addressing environmental and regulatory frameworks to encourage the sector

Mineral markets include both formal and informal components, and trade crosses over between the two The study disaggregates markets into local, primary, regional, and export levels and attempts to identify participants, functions and constraints at each level

Rapid increases in the mining of precious stones has caused the prices of some precious stones to decline Loose cartels are attempting to limit export supplies in order to stabilize prices As a result, power in the market is on the buyer's side One resulting hypothesis is that government intervention would be desirable to protect the interests of small miners

The quality of social services in a region helps to settle miners Settlement has a big effect on the local economy, helps to distribute income to surrounding communities, and creates a potential indirect tax base

One set of concerns with the sector's growth is that the government is not capturing revenue and that economic value is being lost through smuggling The tradeoffs between tax collection, growth and equity are therefore important in how government handles the sector The analysis suggests that smuggling does not result in a total loss of value added to the local economy Moreover, export taxes are likely to encourage more smuggling, unless a light touch is used The desire to insure export shipments is one incentive for dealers to formalize trade and pay taxes

Another concern is that large scale mining could squeeze out the artisanal sector Large enterprises might increase government revenues, but with an economic loss in socio-economic equity, since they would reduce jobs in the sector and the multiplier effect from these jobs Technical compromises may be available to delineate mining operations between large and small enterprises

Other policy questions concern whether foreign traders should be allowed to operate in Tanzania After the opening in 1994/95, cartels formed by Thai and Kenyan traders appeared to be cutting out local traders, so the government instituted more restrictive conditions for them to operate A related issue is whether joint venture mining companies should be allowed to buy and sell miners' goods These give another market outlet, and increase investment fund sources, but may squeeze Tanzanian dealers' participation in the market

Other areas where policies could improve the market are in the provision of training and market information, which are very important in the trade of precious stones Administrative bureaucracy also remains very complicated and cumbersome

Discussion

The study should distinguish types of private sector investment Indigenous, foreign or joint investment categories were suggested

The issue of how the permitting system or economies of scale affect the location and size of firms in processing was raised

The study should evaluate benefits of linkages between workers and owners, brokers and dealers, and large firms and local communities

11:00-12:30 Industrial Competitiveness and Labor Markets

Chair John K Richardson, former Chief Executive, Pioneer Tobacco Company, Ghana

Study of the Structure of Incentives and Manufacturing Competitiveness in Mali

Presenters John Cockburn, (CREFA, Canada), Massa Coulibaly (ENA, Mali)

Discussant Catherine Hill (HIID, Zambia)

The manufacturing sector is very underdeveloped in sub-Saharan Africa in general In the case of Mali, it contributes 1 6% to GDP The question is can the manufacturing sector perform? Can Mali's manufacturing sector compete with those of neighboring countries?

The methodology involves analyzing the cost structures of foreign firms manufacturing similar goods In this case, the research team compared the cost structure of one plastic manufacturing firm in Mali with those of two plastic manufacturing firms in Ivory Coast (IC), its major competitor

At present Mali can not compete with IC plastic goods in IC and IC can compete in Mali The questions is why? And can that be reversed?

It is anticipated that a wider range of products will be considered at a later stage

A preliminary analysis of the results shows that it costs 35% less in Mali to produce 1 CFA of plastic than it costs to produce the equivalent in Ivory Coast However, Mali can not sell its plastic in Ivory Coast The cost function includes unit labor, capital, tradable input, and non-tradable input costs Each unit cost is compared with its shadow price and the distortion between the shadow price and the market price is analyzed For instance, in the case of labor, the unit labor cost was evaluated at 0 069 while the shadow price of labor (informal market wage) is evaluated at 0 044 The distortion 0 025 can be traced back to a wage rate distortion and the overvaluation of the exchange rate Similar analyses show that costs of inputs are much greater for Mali than for Ivory Coast

The research team went through the exercise of interpreting the preliminary results for the sake of discussion This decomposition is a illustration of the methodology that still needs to be refined

Questions

What is the difference between comparative advantage and competitiveness?

What would be the usefulness of this methodology for policy makers? Are we running the risk of warranting government intervention to favor one sector versus another if one sector is found to be non-competitive? (same as pick the winners)

The study is very bilateral in nature If one has to look at the competitiveness of an industry why not broaden the scope of countries?

Answers

The idea is not to pick the winner but, rather, to establish whether a particular industry is competitive in its local and foreign markets If not, then the economy should be expected to restructure itself to take advantage of what it can do best

The manufacturing sector has to develop itself, the contribution of this kind of study is to identify the promising industries

Mali's advantage may be in activities that are labor intensive instead of those that are inputs intensive

The distinction between comparative advantage and competitiveness is increasingly difficult as some people equate financial profitability to competitiveness Comparative advantage is based on the economy profitability of an activity (shadow prices, and no interventions) Competitiveness includes financial profitability, market savvy, in-time delivery, competitive packaging and transporting methods

South Africa: Potential Constraints and Comparative Advantage of the Cotton/Textile/Garment sub-Sectors

Presenters Lynn Salinger (AIRD, USA), Haroon Bhorat (UCT, South Africa)

Discussants George Gyan-Baffour (Howard University, USA), Abdoul Barry (AIRD, USA)

The South African cloth and textile industry, which has performed under a very protective environment emphasizing import substitution for many years, is gearing up for increased international competition In a few years, South Africa has to transform its industry and compete for local and international markets

Numerous constraints are preventing South Africa's cotton/textile/clothing chain from realizing comparative advantage in the international marketplace

- the labor is expensive compared to competitors (Madagascar, Mauritius),
- the labor productivity is low compared to competitors,
- the retail sector is extremely powerful within that chain and determines the pace of orders,
- the currency is overvalued

The study will assess the wage/employment flexibility of the cotton/textile/clothing chain If one segment is more inflexible than another, the industry may move up the chain and specialize where the wage is more flexible The study will also determine what level of training/education is required for each level of the chain

The study is faced with a tremendous challenge Each level of the chain - cotton, yarns (synthetic, wool), textiles (weaving and household textile), clothing, retail - is characterized by different markets, input requirements (imports or local), employment levels, and skills requirements

The collection of information is another challenge A survey instrument may be difficult to administer because the chain includes modern large firms subject to union regulations, Asian firms out of the union regulations, and African firms scattered over a very large geographic area Furthermore many are reportedly reluctant to give out information

Past studies on the textile industry have been conducted and these may be a valuable source of information

Comments

The usefulness of the study was noted Participants stressed the importance for an industry to assess its relative comparative advantage along the chain An important question for South Africa is should the industry integrate its products before exports (vertical integration) or should it specialize in the products where it has a comparative advantage Where is the comparative advantage the strongest? Also firms may be regionally competitive but not internationally competitive

Increasing Labor Demand and Productivity in Ghana and South Africa

Presenters George Gyan-Bafour (Howard University, USA), Dirck Stryker (AIRD, USA), and Charles Betsey (Howard University, USA)

Discussants Haroon Bhorat (UCT, South Africa), Emilliene Raparson (SOATEG, Madagascar)

Ghana has had an outward-oriented policy for the last 14 years with increasing foreign investment However, employment has not increased While the restructuring of the public sector led to a loss of jobs, no employment increase has been reported in the private formal sector A leading assumption of the study is that labor segmentation is at the heart of the problem The identified constraints are labor market regulations and low labor productivity How can one increase the level of employment? What are the supply and demand constraints? How can these be addressed?

In South Africa, according to a recent study, a third of the labor force is unemployed The question is why there is not more employment in the informal sector? The study hypothesized that low return and the requirements for capital acquisition were deterrents to entering the informal economy This study, proposed by Howard University and AIRD, will focus on the segmentation of the market (gender, race, age, location) and on the non-unionized formal sector where wages are lower than the union wages but higher than the informal sector One hypothesis to support the higher wages in non-unionized firms is the efficiency wage argument, where a premium is paid for continuity to minimize transactions and supervisory costs The study will focus on medium to large enterprises (generators of more employment) Other hypotheses include (1) that industries were capital intensive under apartheid and (2) that management is not very good Results of the study will aim at reforming relevant industrial, macroeconomic, and trade policies

Comments

The study should also address the question of the heterogeneity of labor as a factor of production The embrace of new technology (everything else being constant) implies availability of resources leadership and managerial skills

The specification of the model needs to be revised

The underlying hypotheses of the study imply that wages are too high Shouldn't one argue for increase productivity rather than pound on wage levels?

14:00 -15:30 Motivating Private Sector Participation and Measuring Competitiveness

Chair George Gyan-Baffour, Howard University, USA

Presenters Lynn Salinger (AIRD, USA) and John Cockburn (CREFA, Canada)

The main focus of this session was, on one hand, to shed light on the concepts of comparative advantage and competitiveness, and, on the other, to find incentives for increased private sector participation in EAGER studies

I Methodological Approach to Comparative Advantage and Competitiveness
(Lynn Salinger)

The purpose of the methodological sub-session was to enable the EAGER teams to convey a coherent message to policy makers and researchers As a result, it was necessary to define and measure comparative advantage and competitiveness

The underlying measure for comparative advantage is based on costs of production which can be collected informally or formally, using survey techniques These costs, which are what producers face in the market, can be termed financial costs They can be decomposed into two major components, namely distortions introduced by government interventions or market failure and the opportunity cost of resources The opportunity cost gives rise to economic values

At AIRD, both financial and economic costs are decomposed into tradable inputs and nontradable inputs, and it is the comparison between tradables and nontradables measured in economic terms that lends itself to the measurement of comparative advantage Comparative advantage is measured through the point of view of society, while competitiveness is based on the individual economic agent Competitiveness is based on the financial prices faced by the producer in the market

	Financial Value	Economic Value
Output	P_f	P_e
Tradable Inputs	P_{tf}	P_{te}
Nontradable Inputs	P_{nt}	P_{nt}

VA_f =Value added in financial terms
$VA_f = P_f - P_{tf}$

VA_e = Value added in economic terms

$VA_e = P_e - P_{te}$

NFP = Net financial profitability
$NFP = P_f - P_{tf} - P_{nt}$

NEP = Net economic profitability
$NEP = P_e - P_{te} - P_{nt}$

If the NFP is positive, the firm is competitive Meanwhile, if NEP is positive, the country has a comparative advantage However, we may have cases when the NFP is positive and the NEP negative In this case, there are distortions in prices

A problem that arises from NEP is that it is in unit terms, while the goal of a policy maker is to promote an activity in the face of limited resources that need to be allocated between activities (large or small scale, capital or labor intensive, etc)

A more neutral measure of comparative advantage is the domestic resource cost (DRC) ratio, which is a restatement of the NEP The DRC ratio is $P_{nt}/(P_e - P_{te})$ If the DRC is less than unity, the country has a comparative advantage If the DRC is more than unity, the country does not have a comparative advantage in the activity This means that the country spends more of its local resources to produce the good than to export or import it

John Cockburn added that a good start to understand the notion of competitiveness is to go back to Ricardo's two-goods, two-country model Even though England may have an absolute advantage in producing both wine and cotton, it is more competitive in producing and exporting cotton because this country's labor productivity is relatively higher in cotton production than in wine production, despite higher wages Thus, the thrust of competitiveness is productivity, not just unit cost This is why firms are interested in competitiveness In contrast, policy makers' interest is comparative advantage

A question raised by Lucie Phillips was how to deal with distortions in telecommunication costs, especially in mining Should these distortions be dealt with using shadow pricing? In the type of analysis mentioned above, the gap between telecommunications rates in two different countries should be treated as a tax in the high-cost country Meanwhile, a second approach does not treat it as a tax, but it performs sensitivity analysis to assess the different impacts on the competitive position of a firm

II Enhancing Private Sector Participation in EAGER

Several approaches were proposed to enhance private sector participation in EAGER studies

1) Confidentiality it is important to inform firms at the onset that their confidentiality will be kept As a result, the researcher should make sure that s/he does not build a model for each firm The trick may be to build a model for a group of firms and perform sensitivity analyses for

different scenarios

2) Convincing approach show firms that it is in their best interest to compare them to other firms in order to provide them with meaningful information on their competitive position in markets

3) Involve firm leader or association at the onset of research design, such was the case in South Africa where Lynn Salinger contacted textile associations

4) Identify research issues aimed at solving private business problems The key to this is to involve business people in identifying research questions An example is Malian horticultural and vegetable exporters who approached USAID to help them address litigation they had with Air Afrique over air transport to European markets In this matter, exporters were more than ready to provide information ro researchers on this burning issue

Thanks to research undertaken to address problems faced by the business community, the business climate has changed substantially in Mali A case in point is the creation of the one-stop-shop (guichet unique) designed to make it faster to create a firm

5) Provide useful information to create business opportunities One example is the attempt of USAID/Bamako personnel to pair young Malian entrepreneurs with foreign investors

14:00-15 30 Time series versus Cross Sectional Approaches to Econometric Modeling

Chair Marios Obwona (EPRC, Uganda)

Presenters Dirck Stryker (AIRD, USA), Anatolie Amvouna (CERDI, France), Charles Jebuni (CEPA, Ghana)

This session was an open discussion of problems faced by researchers in their econometric treatment of data

One approach presented to overcoming the problem of incomplete time series data was to average variables over discrete time intervals and then treat the data set as cross sectional Dummies can then be used to capture differences between time intervals

Problems with this approach pointed out in the discussion were

Information is lost within intervals averaged In the use of averages it was suggested to use as short a time interval as possible to avoid information loss If policy variables are evaluated, then averaged variables needs to be narrow enough to detect the policy Thus keep averages over a short, homogeneous time interval Another point raised was that the definition of variables differs across countries Researchers need to pay attention to these differences

Cross section analysis ignores certain mechanisms by which economic growth takes place For example, the impact of reforms which allow a reallocation of resources and therefore an increase in the efficiency of use of resource over time will not be captured by cross sectional analysis Illustrating this, one discussant noted that with individual country time series, one finds that trade or exchange rate policy do not affect accumulation of factors or investments, but they do affect the efficiency of use of resources Thus, it was suggested that cross sectional analysis is not appropriate for evaluations of growth On this score, much of the IMF analyses, which are cross sectional, were deemed suspect Moreover, the treatment of Africa as a homogeneous unit in many analyses was questioned

Other discussants stressed the need to worry about theoretical underpinnings of econometric work Techniques should be developed to respond to the theoretical questions being asked Cross sectional analysis is meaningful in evaluating long term effects but time series is about short-term relationships

Use of dummy variables was deemed to weaken analyses because these are typically used to capture effects for which no theories exist They therefore reflect a failure of theory

14:00-15:30 Qualitative versus Quantitative Dimensions to Data Collection and Analysis

Chair Dunstan Spencer, Spencer Associates, Sierra Leone

Presenters Fred Boadu (Mayatech, USA), Ndaya Beltchika (AIRD, USA)

The LRJ study "The Cost of Doing Business The Legal, Regulatory and Judicial Environment" will involve qualitative and quantitative analyses The research will involve the following steps

Preliminary interviews with stakeholders to identify and assess the importance of the problems posed by the LRJ environment for the business community with regards to labor and term financing alternatives for small and medium exporting firms (qualitative),

Evaluation of past survey results to assess to what extent certain of these problems have been studied before (qualitative),

Examination of existing laws and regulations pertaining to labor and term finance to assess the extent to which they form a coherent body of written text and jurisprudence (qualitative), Assessment of how this body of written text and jurisprudence is applied in practice (qualitative and quantitative),

Evaluation of how the business community reacts to this environment (activity, size, age, location, type of financial transactions, sources of finances, etc) (qualitative and quantitative),

Measure of the costs (1 - with full compliance, 2 - in practice, and 3 - vis-B-vis an internationally accepted baseline) (quantitative),

Sensitivity analysis, and measure of the reforms that will contribute most to economic growth (quantitative)

In any kind of data collection, reliability of data is extremely important The data need to be well collected and well interpreted For this particular study, the source of data will vary depending on its qualitative or quantitative nature Qualitative data will be collected from governmental sources, legal texts, and informal interviews They will complement the quantitative information that will be supplied by the surveys Based on the survey results, the costs of compliance, current practices, and practices with an international accepted baseline will be compared

The quantitative analysis will involve defining a statistical sample of firms and conducting a survey to collect information of the costs of identified laws and regulations The cost function will include a measure of direct costs and a measure of indirect costs (imputed costs) Neither the sample size nor the questions have been decided This will largely depend on the issues addressed by past studies and surveys and the type of firms surveyed in the past

Because resources are limited, it is important to ensure the collaboration of everyone involved in the process This includes the people we talk to, the people collecting information for us, the people involved in the study in the various ministries, the firms participating in the study and so on It is thus important we know well what has been done in the past in order to build on that instead of repeating previous work It is equally important to sell the potential benefits of the study It is also important to create incentives for the people involved in the collection process Incentives may vary from financial compensation to feedback or recognition

Furthermore, to insure validity, availability, and quality of any data collection, it is important to have a process by which the information is valued (public or private valorization) This is sorely lacking in most developing countries

Friday, February 7, 1997

9:00-10:30 Political Economy of Trade and Policy Reforms

Chair Dunstan Spencer (Spencer Associates, Sierra Leone)

Bringing Down Barriers to Trade. The Experience of Trade Policy Reform

Presenter Jeffrey Metzel (AIRD USA)

Metzel's presentation summarized a paper he had prepared for the workshop on trade policy reform in Africa Though African countries compare favourably with other countries in the adoption of trade policy reforms, only 8 of 39 Sub-Saharan African countries showed healthy export growth (>5 %) during 1990-1995 The principal problem appears to be that trade policy reforms are adopted but not implemented Other problems include lack of required complementary measures (i e , one reform may not be sufficient), political reactions to economic reforms which have undermined those reforms, and ill-conceived or poorly sequenced reforms

The Political Economy of Trade Liberalization for Vanilla in Madagascar

Presenters Jeffrey Metzel (AIRD USA) and Emilhienne Raparson (CEDES Madagascar)

Discussants Nafissatou Konare (Ministry of Finance, Mali), Siphiwe Cele (DBSA, South Africa)

Metzel and Raparson presented a study proposal which would develop an econometric model of the vanilla sector in Madagascar In May 1997, the vanilla sector will be liberalized, which will reduce vanilla prices and curtail current vanilla stocks Political opponents of the current president, who supports the liberalization of vanilla production, have charged that he has become a pawn of international donors Discussants stressed that the private sector needs to be sensitized to both the opportunities and problem areas that will result from liberalization The divergence between economic and political objectives often results in weak development efforts Thus the economic effects of vanilla sector liberalization can not be viewed in isolation, political and social parameters must be factored into the economic equations Efforts to incorporate all three parameters would strengthen the model and increase the likelihood of policy makers utilizing the model to better comprehend the linkage of economic, political, and social parameters in the production and export of vanilla

9 00-10 30 Econometric Analysis of Trade, Growth, and Poverty

Chair Ernest Aryeetey, ISSER, Ghana

The Impact of Trade Policy on Trade, Growth, and Poverty in Sub-Saharan Africa

Presenter Dirck Stryker (AIRD, USA)

Discussants Charles Jebuni (CEPA, Ghana), Marios Obwona (EPRC, Uganda)

Dirck Stryker has used World-Bank and IMF data on 80 less developed countries from 1974 to 1993 to study the determinants of openness, the growth rate of GDP per capita, the investment/GDP ratio and poverty alleviation Explanatory variables were separated into three categories structural (population, size, GDP per capita, terms of trade, inflation), developmental (road density representing infrastructure, M2/GDP representing institutional development and schooling representing human capital), and policy (trade taxes, exchange rate premium, and degree of openness) This exercise aims to obtain some generalizable results as to these four important phenomena, to measure the magnitude of the importance of their determinant, and to provide some insights when results are counter-intuitive By subdividing the data into four separate time periods, it is possible to increase the variability in the principal variables thus overcoming in part problems of multi-collinearity

Among the principal preliminary results, it was found that

institutions and infrastructure have a positive effect on trade, but less so in Africa,

market liberalization encourages trade, particularly in Africa,

trade is favorable to growth, investment and poverty alleviation

Some surprises were that landlocked countries have no growth advantage from trade liberalization, ceteris paribus, and infrastructure has a negative effect on investment Some interesting interpretations were offered for these results

The ensuing discussions dealt with the relative merits of different estimation techniques and the problem of multi-collinearity Questions were also raised as to the underlying theoretical framework and the suggestion was made that policy variables be used to explain factor productivity which, in turn, explains growth

Determinants of Trade and Growth: A Cross-Country Analysis of Fixed versus

Floating Exchange Rates

Presenter Anatolie Amvouna (CERDI, France)

Discussants Dominique Njinkeu (Network of Industrial Policy, Senegal), Polycarp Musinguzi (BOU, Uganda)

Anatolie Amvouna compares the trade and growth performance of countries according to their adoption of fixed versus floating exchange rate regimes in the current context of the increasing adoption of floating rates Three explanations for the poor trade and growth performance of African countries were contrasted neoclassical (poor policies), structuralist (poor initial conditions), and external environment (terms of trade deterioration)

She constructs two models controlling for variables identified in these three explanations (1) policies (average rate of taxes on trade), (2) initial conditions (population, GNP per capita and adult literacy), and (3) external environment (terms of trade) In the first model, a dummy variable representing the exchange rate regime is used to test for a differential impact on trade and growth In the second model, a subsample of countries having a fixed rate in 1980 is studied with a dummy indicating whether the country adopted a floating rate subsequently Both models indicate that there is no statistically significant impact of the exchange rate regime on trade and growth

Participants suggested that it would be easier to use a Chow test rather than dummy variables and that this would also remove the constraint that the coefficients on the other variables of the model be the same for the two groups of countries Commentators also raised questions as to the theoretical foundations of the models and the hypothesis to be tested, specifically to identify the advantages and disadvantages of each exchange rate regime and the relationships between the monetary, fiscal, external and real sectors of the model Questions were raised as to the regression diagnostics, notably serial correlation, normality and multi-collinearity

9:00-10:30 Legal, Regulatory, and Judicial Reforms and Governance

Chair Charles Betsey, Howard University, USA

The Cost of Doing Business The LRJ Environment in Ghana, Madagascar, and Tanzania

Presenters Ndaya Beltchika, (AIRD, USA), Fred Boadu (Texas A&M, USA), and Emillienne Raparson (CEDES, Madagascar)

Discussants Samuel Ziorklui (Howard University, USA), Massa Coulibaly (ENA, Mali)

This is a research proposal for a multi-country study of the costs of doing business It is interested in why market oriented reforms to encourage the private sector have not had the expected effects on growth in Africa The purpose of the paper is to look at the effects of the LRJ environment in three countries on the costs of the private sector, ultimately to see if it can help explain the lack of response to economic reforms in other areas The study will focus on contract enforcement and labor and capital market laws and regulations The Tanzania study will focus mostly on contract enforcement and the effects on small and medium scale enterprises The Madagascar and Ghana studies will look mainly at laws and regulations affecting labor and capital markets Each study will cover all areas, so that comparative results can be obtained

The policy conclusions of the study would relate to questions such as

(1) Are there changes in laws required?

(2) Can dispute settlement be changed to improve the operation of laws?

(3) Are there other institutional changes that would reduce costs for the private sector?

The study will rely on information gathered from a new survey of firms The methodology for calculating the costs of LRJ constraints is based on previous work done in Madagascar and compares costs relative to best international practices

The following issues were raised in the discussion

(1) Concern was raised about the cross-country comparisons, with different issues receiving more or less attention in the three countries In the study proposal, the authors saw a need to balance the different concerns raised by policy makers in the three countries with the desire to have a cross-country study It was felt that the benefits of the cross country comparisons needed to be clarified, stressing that the work was not meant to be three independent studies

(2) In looking at the legal framework, the distinction (and the importance or lack there of) between formal and customary law needs to be addressed Was or wasn't this distinction going to be important? Could the study justify focusing on just formal laws?

(3) Some concern was expressed about overlap with other EAGER work on labor markets Duplication should be avoided, both in terms of the issues addressed and the survey work There needs to be communication and coordination between the projects

(4) The project needs to look at why the LRJ environment is the way it is Was it the result of vested interests, historical factors, other? Were there implications for the possibility of making changes?

(5) The question was raised about the emphasis on export firms The authors of the proposal suggested that this was the area where benefits of other reforms were expected and hadn't been forthcoming

(6) It was suggested that the study distinguish private versus social costs

(7) In the labor market, the issue of what is best practice was raised Lifetime employment was given as an example The paper suggests this is a cost Korea's experience may suggest that it might have efficiency benefits rather than costs The study would in fact shed light on the answer in Africa

11:00-12:30 Financial Markets and Foreign Investment in Sub-Saharan Africa

Chair Yaboah Amwah, Managing Director, Ghana Stock Exchange

The Impact of Financial Sector Reform on Bank Efficiency and Financial Deepening for Savings Mobilization

Presenter Samuel Ziorklui (Howard University, USA)

Discussants Clive Gray (HIID, USA), Polycarp Musinguzi (BOU, Uganda)

The presenter's proposal has just been approved, and he is beginning research The proposal was inspired partly by a World Bank Financial Sector review in 1988, which stressed the inefficiency of Ghanaian banks in mobilizing savings, their high operating costs, huge non-performing loan portfolios, and the insolvency of many among them It concluded that the deterioration in the banking system reflected weaknesses in the whole economy Ziorklui also noted a lack of confidence in the banking sector (people refuse to put their money there), lack of prudent regulation and enforcement by the Bank of Ghana, institutional rigidities, lack of competition, inefficiency of information technology in use (everything is manual), and the narrow scope of the payment systems (everything is cash-based, checks are not accepted, credit/debit cards are not allowed, so there is no financial deepening)

The World Bank financial sector study was followed by two phases of a financial sector adjustment plan Phase I had the following goals

to promote savings and credit allocation to the private sector,

to reform the insolvent banks (seven were restructured), to deregulate interest rates and lift sectoral ceilings

Background research for the study shows what is missing in the reforms They have been only partially implemented Interest rates are not really free A managed interest rate policy prevails The payment system is still cash-based, although there is now one 24-hour teller machine There is an unhealthy moral expectation "bail me out once, bail me out forever" Bank managers still expect government bailouts There is no depositor insurance The autonomy of the Central Bank is questionable, whereas a truly independent Central Bank is needed Monetary stabilization has not been effective Budget deficits persist Inflation has been 50-60 percent Devaluation continues

The second phase of the financial sector reform (FINSAP II) calls for divestiture of state owned banks and non-traditional fiscal functions

Ziorklui hypothesizes that savings exist but go into real goods, such as bricks and livestock, as a hedge against inflation He proposes to develop an index of efficiency and performance to compare banks It will combine an econometric analysis of the banking sector with measures of operational efficiency, credit allocation and information efficiency

Comments

It is novel, and yet long overdue to do research in the banking sector It will be a challenge to collect the necessary data It may be necessary to prioritize Of the 14 hypotheses listed, most are testable and relevant, but a few exceptions were noted

Members of the group raised additional questions, notably

> what implications does the study have for socio-economic equity?
>
> how is the researcher dealing with risk factors and the very risk-averse lending strategy of banks?

Comparative information from Uganda was provided by the Director of the Research Department of the Bank of Uganda There banks also face high operating costs, and a huge wage increase awarded the trade unions by the courts made many banks non-viable Aggressive competition introduced by new banks reduces margins Clearing a check can take 2 months up-country, but only 3 days in the city He considered that IFI pressure is not needed to speed up reforms, as it is in the national interest Management style still leaves a lot to be desired, however Uganda brought in expatriates, which escalated costs The expatriates left, but local managers showed no sense of ownership of the reforms He concludes that we have to get locals to own the reform process

Additional comments included the following

Low repayment rates are a universal problem Loans are given with a political understanding The loan culture has to be changed, as it rests on a moral hazard that destroys the whole credit system

Among the information technology innovations that should be introduced is independent credit rating systems There are two mainstays of a viable credit system, collateral and past performance records of borrowers Given the widespread lack of collateral, more effort should be devoted to improving true, complete and readily available credit records

Central Banks are also inefficient They rely still on cash reserve ratios, and are not yet managing through indirect monetary control They insist on high provisions for bad loans--because of the moral hazard discussed above

11:00-12:30 Effects of Fiscal Policies on Trade

Chair Dieri Seck, IDRC, Senegal

Enhancing Transparencies of Tax Administration

Presenter Clive Gray (HIID, USA)

Discussants Charles Jebuni (CEPA, Ghana), Fred Boadu (Mayatech, USA)

The paper emphasized the political problem of tax administration The issue raised is whether enhancing tax transparency could improve on this situation (reduce the distortionary effects, close the fiscal deficit) The main purpose of the paper is raising compliance and efficiency

1) Exemption on import taxes sources of loopholes, will greater transparency reduce abuses in exemptions? The aim is here is to tabulate and classify exemptions so that they are public and easily accessible

2) Land/real estate taxation estimate the value of real property

3) Income taxation does it have a future in Africa? The aim is to describe classes or tax payers with respect to what they pay or are supposed to pay This may increase the pressure to pay

Discussants then highlighted the following points

1) The problem of corruption remains unsolved

2) Better use of tax revenue could raise compliance

3) The paper is an important contribution to the theory, it introduces a cooperative game theory approach

4) What type of institutions (private or reform the Ministry of Finance)?

Trade Tax Regimes and Producers' Incentives in Ghana

Presenters Dirck Stryker (AIRD, USA), Samuel Ashong CEPA, Ghana), Franklin Sackey (CEPS, Ghana), Kassim Yahaya (MTI, Ghana)

Discussants Marios Obwona (EPRC, Uganda), Komi Dougna (IDRC, Senegal)

The purpose of the proposal is both to improve producers' incentives and to increase government revenue The paper focuses on indirect taxes with the greatest effect on production incentives Five objectives are pursued

1) look at effective rates of taxation, which may differ from normal rates because of exemptions,

2) increase the tax base in relation to national income,

3) look at the extent to which non-tariff barriers related to indirect taxation exist,

4) compute effective rates of protection on manufactured good production,

5) examine tax rates on inputs used in production process and see who benefits from temporary exemptions and duty drawback for production of exports

The discussants proposed

1) the need for more precision on the goal and coefficients to be estimated,

2) putting more attention on small scale firms,

3) looking at previous studies in this area,

4) putting more emphasis on macro analysis and international prices for specific goods,

5) looking at the experience of value-added taxes in Africa

Domestic Resource Cost Approach to South Africa's Industrial Comparative Advantage

Presenter Siphiwe Cele (DBSA, South Africa)

Discussants Daniel Ndlela (Zimconsult, Zimbabwe), Dominique Njinkeu (Network on Industrial Policy, Senegal)

The study aims to contribute to the determination of trade and industrial policy for South Africa in the context of the new trade regime that is compatible with South Africa's negotiation with the World Trade Organization, a possible free trade zone with the European Union, and regional integration in Southern Africa

The main objective is to calculate DRCs based upon an input-output table This table is to be updated using the RAS method and recent national accounting features It is expected that later or other researchers may use chain analysis to improve on the results of DRC calculation

The discussion addressed four issues

1) what are the specific objectives, given that the overall objectives seem too broad?

2) what is the intended use of the results, given that the reform is already undertaken?

3) some questions on the feasibility or usefulness of DRC calculation,

4) will the analysis be at too aggregate a level?

11 00-12 30 Regional and Global Integration

Chair Dunstan Spencer (Spencer Associates Sierra Leone)

Regional Economic Integration in Southern Africa

Presenter Daniel Ndlela (Zimconsult, Zimbabwe)

Discussants Catherine Hill (HIID, Zambia), Abdoul Barry (AIRD, USA)

Daniel Ndlela's presentation questioned whether the current emphasis on regional economic integration would result in more rapid economic development To date the studies and statistics do not demonstrate a positive linkage between regional economic integration and economic development Specific research issues that would address this divergence between theory and actual results are (1) the economic management capacity at the national level which would, in turn, affect regional economic integration, and (2) comparative advantage studies which focus on specific industrial sectors (e g , garments) which could impact regional trading networks Though regional integration has been increasing between South Africa and its neighbors, what will happen when South Africa adjusts its tariff schedule to comply with World Trade Organization requirements? Currently South Africa exports the majority of its industrial goods to southern Africa and the majority of its agricultural goods to Europe What are the implications for trade flows within the region as South Africa pursues closer economic ties with the European Union? Discussant comments focused on the constraints to trade liberalization, the issue of trade diversion as South Africa continues to negotiate with the European Union, and exchange rate issues

Modeling Electricity Trade in Southern Africa

Presenter Brian Bowen (Purdue University USA)

Discussants Jeffrey Metzel (AIRD, USA), Siphewe Cele (DBSA, South Africa)

This presentation was a most interesting application of regional trade and its implications for policy makers The objective of the study proposal is the development of a model which would quantify the efficiency and equity gains from trade in electricity between 12 countries in southern Africa (including Zaire) In an attempt to resolve frequency differences and interruptions in the provision of electricity experienced in many southern African countries, the benefits of centralized control of electrical generation facilities will be modeled The benefits of centralized power pool in the region would mean greater use of the region's hydropower and more efficient employment of the thermal stations by providing quick start-up capability, peak demand savings, less spinning reserve, and reduced pollution The costs of a centralized utility would be loss of independence and bargaining power by the other national utilities, and environmental damage

Discussant issues concerned the necessity of ensuring the model not become a "black box" that is incomprehensible to policy makers, making sure all countries are involved in the decision-making, and taking into account changes in technology and socio-economic projections in urbanization and population growth Political resistance based upon sovereignty and security concerns was also noted as a potential obstacle to countries taking advantage of potential savings in this area

Sahelian West Africa· Impact of Adjustment on Agricultural Competitiveness and Regional Trade

Presenter Lynn Salinger (AIRD USA)

Discussants Mantala Coulibaly (Prime Minister's Office, Mali), Dunstan Spencer (Spencer Associates, Sierra Leone)

This short study resulted from policy makers requesting research that would be used to determine further changes at the macro level that would have micro level implications Comparative advantages in production and the resultant trade implications are being researched for 6 African countries These countries include 3 Sahelian countries (Senegal, Mali, Burkina Faso) and 3 coastal countries (Guinea, Cote d'Ivoire, Ghana) Inventories of current policy reforms will be constructed and analyzed, ascertaining which trade reforms have been passed on paper but never implemented, and which trade reforms have actually been passed and implemented What has been the effect on investment before and after these policy reforms? Aggregate trade data is available from AIRD work from African countries for the last 20 years and will be used in the research Discussant topics focused on the problem of trade in agricultural inputs, on competitiveness, on regional market integration, and on different exchange rate regimes

Summary and Closing

14:00-15:30 Summary of Workshop and Conclusion

Chair Charles Jebuni, CEPA, Ghana

Presenters Rapporteurs from each session presented the above summaries orally

16:00-17:30 Closing Session

Chair Joseph Abbey, CEPA, Ghana

Remarks Dr G K Agama, Governor, Bank of Ghana

Annex I.
List of Participants

TRADE GROWTH AND EQUITY IN SUB-SAHARAN AFRICA
AN INTERACTIVE APPROACH TO POLICY-MAKING

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Annex II.
Technical Committee Decisions

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH (EAGER)
TRADE REGIMES AND GROWTH

ACCRA WORKSHOP
JUNE 19-22, 1996

Decisions and Comments on Proposals by Technical Committee

February 8, 1997

Codes and meanings

A1 Approved by Technical Committee Researchers to submit final version and budget to AIRD, Attn Dirck Stryker for submission to AID approval process

A2 Approved with minor revisions, incorporate the comments of the committee and resubmit to AIRD, attn Dirck Stryker With his approval it will go into the AID approval process

A3 Approved with some substantive revisions Take account of the comments of the committee, and resubmit the proposal to the full Technical Committee

B1 Not acceptable in its present form, but the PI is encouraged to draft a revised approach that will be sent to AIRD for circulation to the Technical Committee

B2 Not fundable by EAGER

In case of any ranking other than A1, a summary of the committee's substantive comments will follow in writing

Members of the Technical Committee

J Dirck Stryker, Chief of Party, AIRD, USA
Lucie Phillips, Senior Advisor, AMEX Intl, USA
Daniel Ndlela, Regional Coordinator for East and Southern Africa, Zimconsult, Zimbabwe
Dunstan Spencer, Regional Coordinator for West and Central Africa, Dunstan Spencer Associates, Sierra Leone (no longer present)
Dominique Njinkeu, Benin

Decisions

Ghana Cross-border Trade, Morris and Dadson, Approved A1

Uganda Monetary and Exchange Rate proposal, Musinguzi and Obwona, A3

Uganda Low-Value Maize and Beans Exports, Obwona and Opio, A3, with a funded proposal development trip to Nairobi
Competitivity Study in Kenyan and Ugandan Manufacturing Sectors, Committee to send comments to Dirck , proposal is incomplete

Vanilla Liberalization in Madagascar Proposal, Metzel and Raparson, A1

Trade Taxes in Ghana, Stryker and Ashong, A1

Brian Bowen, Trading Electricity in Southern Africa, A1

Impact of Adjustment on Agricultural Competitiveness in Sahelian West Africa, Salinger, A2

Phillips, McMillan and Obwona, Relationship between Foreign Direct Investment and Local Investment, Uganda, Kenya and Mauritius, A3

Determinants of DRCs in South Africa, Siphiwe Cele, A1