Economic Analysis for Policy Reform in Africa Workshop
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Final Report

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Executive Summary

EAGER Country Workshop#4: Dar Es Salaam

The fourth semi-annual EAGER Country Workshop was convened in Dar es Salaam, Tanzania on August 13th, 1997. This three day conference provided EAGER researchers, USAID staff, and African researchers and stakeholders an opportunity to share research results, discuss on-going research, and react to proposals for new research. Additionally, the Workshop gave EAGER participants a forum for discussing the project's dissemination and policy impact objectives. This report summarizes the addresses, presentations, and discussions that transpired during the course of the workshop.

The workshop was staged by BHM International in collaboration with the host organization, The Economic and Social Research Foundation of Tanzania. Recipients of EAGER's research cooperative agreements, Associates for International Resources and Development (AIRD) and the Harvard Institute for International Development (HIID), were also integral to the organization of the conference.

Layout of the Report

This Report documents the proceedings of the workshop, based on summaries written by *rapporteurs* for each session. In the body of the report, the summaries are ordered chronologically, except in the case of concurrent sessions, which are listed randomly within each time slot. Presenters, *rapporteurs* and discussants are noted for each session.

As noted above, the workshop provided a forum for EAGER researchers to present their results and discuss their proposals with colleagues and stakeholders. Stakeholders included both government officials who must ratify and implement economic reforms and private sector agents who will produce goods, supply services, and earn money, depending upon how reform proceeds.

The dialogue that EAGER seeks to engender between government officials, economic researchers and private sector actors was very much in evidence during the conference. The Keynote Address, delivered by the Honourable Minister of Finance of Tanzania, Mr. Daniel Yona, set the tone by focusing on practical aspects of reform and on the role both economic researchers and the private sector in furthering reform efforts. The Minister evinced an awareness that the private choices of investors cannot be directly controlled by the State and that investors will only come forward if the policy environment appears to allow them to make a return on their investments. This represents a significant shift in thinking and might be taken as evidence that reform is taking hold in Tanzania. The role of the private sector in the reform process was a recurring theme throughout the conference.

A second recurring theme of the Workshop was that of slippage - wherein countries agree to reform programs but then reverse themselves and/or fail to fully implement the reforms. This theme was most comprehensively addressed during the discussion of EAGER/PSGE's newly approved research agenda; "Restarting and Sustaining Growth and Development in Africa". A major goal of that research theme will be to determine why some countries do better in implementing reforms that others. The proposition that there may generalizable (as opposed to country-specific) reasons why some countries fully implement reforms, while others merely adopt them and then abandon them is attractive for many reasons; not least because better understanding of those reasons might suggest strategies for ensuring the implementation of adopted reforms.

As the EAGER project proceeds, the research agenda is broadening and deepening. In addition, the store of research results and the scope for disseminating them is increasing. In the remainder of this Executive Summary, the plenary sessions are reported, with particular regard to the existing and newly proposed research discussed at the Workshop. The presentations that focused on the dissemination of research results and broadening the impact of EAGER research on policy decisions is also discussed.

Highlights of the Workshop Sessions

Following introductory remarks by Sam Wangwe, Executive Director of the Economic and Social Research Foundation, Clive Grey, HIID's Director for the Public Strategies for Growth and Equity (PSGE) Cooperative Agreement, and Dirck Stryker, AIRD's Director for the Trade Cooperative Agreement, the USAID/Tanzania Mission Director, Ms. Lucretia Taylor, provided welcoming remarks. These focused on USAID's expectations for the EAGER project which include, supporting economic growth by better informing decision makers, and ensuring that economic growth does not leave large segments of countries' populations behind. She cited complimentarities between these goals and the current USAID/Tanzania Country Program.

The Keynote Address was delivered by the Honourable Minister of Finance of Tanzania, Mr Daniel Yona. Mr. Yona focused on practical aspects of the reform process and identified ways in which researchers might more narrowly focus on strategic concerns facing governments who try to undertake reform. In particular, he asked researchers to consider political feasibility in their policy prescriptions because policy makers have only limited scope for implementing reforms that cause disruptions or do not show early results. He was, moreover, enthusiastic about the EAGER goal of expanding economic research capacity among African institutions.

EAGER Stocktaking

Following the Keynote Address, the respective Directors of the two EAGER Cooperative Agreements briefly outlined existing and proposed research under each of the two research themes. Dr. Gray (HIID - EAGER/PSGE)gave synopses of six projects initiated under PSGE Round 1 and four new proposals approved under Round 2. They are:

i. *Increasing Labor Demand and Productivity in Ghana and South Africa*.
ii. *The Cost of Doing Business: The Legal, Regulatory and Judicial Environment in Ghana, Madagascar and Tanzania*.
iii. *Enhancing Transparency in Tax Administration*.
iv. *Tax Policy in Sub-Saharan Africa: The Role of Excise Taxes*.
v. *Financial Intermediation for the Poor*.
vi. *The Impact of Financial Sector Reform on Bank Efficiency and Financial Deepening for Savings Mobilization in Ghana*.

The four studies approved in Round 2 are as follows:

i. *Restarting and Sustaining Growth and Development in Africa*.
ii *The Contribution of Business Linkages to the Growth of Productive Employment Among Micro and Small Enterprises in South Africa*.
iii. *The Development of Capital Markets and Growth in Sub-Saharan Africa*.
iv *Competition Policies for Growth: the Legal and Regulatory Framework for Sub-Saharan African Countries*.

Following Dr. Gray's summary, Dr. Dirck Stryker provided an overview of the EAGER/TRADE component. Work under the TRADE component has been underway for some time and some preliminary conclusions are available. Dr. Stryker summarized these for the Workshop.

<u>Barriers to Cross-Border Trade</u> has included the study of livestock exports in Mali; marketing of vanilla in Madagascar; trade in precious minerals in Tanzania; and cross-border trade in Ghana. These studies provide evidence of practical obstacles to trade such as informal blockades on transshipment, problems in executing payment; and tax-induced disincentives.

<u>The Effects on Trade of Monetary, Fiscal and Exchange Rate Policy</u> has examined exchange rate issues in Ghana, cross-country research comparing fixed and flexible exchange rates, and trade tax impacts on producer incentives. Preliminary results of this research indicate that overvalued exchange rates do undermine trade competitiveness as do direct taxes on traded goods.

<u>New Opportunities for African Trade and Investment</u> has focused on the textile and garment industries in South Africa with specific reference to adjustment, niche marketing and other aspects crucial to the industries' survival. Under this topic, attention is being paid to the progress of quota exceptions for African textiles in the US market. Other studies under this theme look at industrial competitiveness and the likely impact of the WTO system on expansion of international financial services and, consequently, investment in Africa.

<u>Regional Integration in East and Southern Africa</u> has looked at such issues as the promotion of exports to Asia, electrical power sharing in Southern Africa, and advantages of fixed as opposed to floating exchange rates within the CFA zone. In addition, research has examined factors that

affect local and foreign investment decisions, particularly with regard to domestic trade and investment policies and to existing opportunities for trade.

Hindrances to the Use of Research in Policy Making and Ways of Overcoming Them

Following the EAGER stocktaking, four panelists including: Madame Nafissatou Konare, Ministry of Finance, Mali; Mr. Rashad Cassim, Trade and Industrial Policy Secretariat, South Africa; Mr. Enos Bukuku, Advisor to the Prime Minister, Tanzania; Mr. Bede Lyimo, Ministry of Industry and Trade, Tanzania, discussed obstacles to better application of economic research to reform questions in Africa.

Dr. Bukuku noted the following hindrances to better research effectiveness:

1) A lack of fora for disseminating research results.
2) The plethora of obfuscating specialists who over-explain and obscure policy implications.
3) The dearth are effective research monitoring groups seeking research results.
4) The absence of government departments with libraries, books and journals.
5) The absence of a core group of technocrats who could integrate results of research.
6) The absence of an information system by which to disseminate information.
7) The failure of people in key positions to properly interpret research results.

Mr. Cassim described the Trade and Industrial Policy Secretariat (TIPS) of South Africa, which serves as a clearing house for government research, bringing together policy makers and researchers on key issues. The TIPS experience has shown the benefit of demand driven - as opposed to supply driven - research. TIPS is a demand driven unit whose objective is to meet the demands of government on daily policy issues.

On the down-side, however, demand driven research is short term and applied. It is difficult to get policy makers involved in longer-term, more forward-looking research. Economists need to convince the policy makers to look at long-term research on transitions in trade policy as well as responding to the manufacturers' demand for research into the growth of import penetration in their industry.

Dissemination of research results is also critical. Policy makers are pressed for time and they need good summaries of research findings. TIPS has established a newsletter called the Trade Monitor that synthesizes research in a format that interests policy makers. This approach is eminently replicable.

Mme Konare cited as hindrances:

- Choice of themes.
- Monitoring of research.
- Evaluation of the results.

Academic researchers tend to choose themes that interest themselves, and do not worry about whether they interest policy makers until they present the results. Policy makers and researchers operate in different environments and do not think of the same research themes. Because of this, the research is often not very useful to policy makers.

Policy makers have different constraints. Sometimes there is political interference that hinders them from dealing with a researchable issue appropriately. Often they are preoccupied responding to crises. Also, they often find it difficult to obtain synthesis reports.

Policy makers and researchers should decide together what themes need research. Every research program should pay attention to dissemination of the results in a language that policy makers understand and that civil society understands. Reinforcing this collaboration would facilitate more effective production and use of research results.

Mr. Lyimo noted that use of research results has sometimes been a problem. There are potential conflicts of interest as when staff researchers are told to obtain specified results. In such cases some research findings that could have contributed to economic revival have ended up on the shelf. During Tanzania's 1990 reform effort, the consultants who produced the final implementation report had to redo the first 7-8 reports dealing with the problems of the labor sector. This is an example of what happens when everything is in the same basket and when there are conflicts of interest.

Also, in the past, quality of information has been a problem. The government controlled the information that it made available to itself, and to researchers. This may have affected the quality of research.

Restarting and Sustaining Growth and Development in Africa

Following the discussion of obstacles to better application of economic research in policy reform in Africa, Dr. Malcolm McPherson of HIID discussed his recently accepted proposal for addressing the question: "Why doesn't Africa do better after so many years of structural adjustment programs?"

Three themes make up this research effort.

i. Politics, institutions and bureaucracy.
ii. Macroeconomic management.
iii. Enhancing productivity.

The effort will entail country studies: (potential countries include: Tanzania, Senegal, Zambia, Uganda, Zimbabwe, Ghana and Mali) and will involve local institutions and representatives of the identified stakeholders. Local groups will be engaged to conduct this research effort. Staff and consultants brought to bear through the PSGE Cooperative Agreement will act as facilitators for this process. Consultants will be engaged as needed.

Examples of null hypotheses that might be pursued were given as an introduction to the research hypotheses that will be addressed through this effort. These include:

1) That the rate and sustainability of economic growth is unaffected by overvaluation in the real exchange rate.
2) That macroeconomic instability does not materially influence achievement of sustained economic growth.
3) That achievement of sustained growth and development is unaffected by legal limits on foreign ownership, special protection for state-owned enterprises and public sector deficits.
4) That African countries who earn most of their export revenue from natural resource exploitation will not necessarily experience declines in agriculture, de-industrialization, higher levels of external debt, and a decline in real per capita income.
5) That the stock and quality of human capital is irrelevant to sustained growth and development in African countries
6) That sustained growth and development do not require removal of restrictive labor legislation or barriers to the movement of labor.
7) That the physical infrastructure or a country's geographic location does not affect its rate or sustainability of economic growth.
8) Sustained growth and development can be achieved without the rationalization of export and import procedures, customs administration, and the complete removal of exchange controls.
9) That sustained growth and development can be achieved without a large expansion of foreign direct investment.
10) That the expansion of non-traditional exports is not essential for sustained growth and development.
11) And, that extraordinary donor inflows make possible sustained growth and development.

In undertaking research to confirm or rebut these hypotheses it will be important to have the participation of national stakeholders in defining the impediments to implementation in the reform process. Identification of the right problems will require an understanding of the political economy ramifications of implementing reforms. This will be a large research effort.

Enhancing the Role of the Private Sector in Policy Making

Following the Plenary presentation of the foregoing research theme, parallel sessions on topics including: **Barriers to Cross-Border Trade**; **Improving Monetary and Exchange Rate Policies**; **Industrial Competitiveness**; **International Trade and Investment**; and **Legal-Regulatory-Judicial Reforms and Governance** were proffered. Those sessions are summarized in the body of the report but summaries of them are excluded from the executive summary for the practical reason that they cannot be further distilled without losing the bulk of the message contained within each.

The next plenary session assessed the role of the private sector in policy making and the reform process. Discussant **Dr. Lucie Phillips**, representing a private sector consulting firm in the U.S.A. (IBI), focused in her remarks on trends in the private sector/government relationship within the U.S., with emphasis on trade and investment with Africa. These included the congressional initiative "Trade, not Aid" associated with the McDermott bill, the White House policies focusing on trade and investment with Africa and The First Lady's trip to Africa. Private to private initiatives were also described, including: the Corporate Council on Africa and the Council on International Business Understanding in New York. New relationships such as joint ventures with private African entrepreneurs,and the use of franchises by large corporations to expand their business opportunities were also discussed.

Discussant **Tawia Akyea**, representing the Ghana Export Promotion Council, noted that since 1983 the policy position of government has changed and the private sector is now regarded as the essential engine of growth. While most policies continue to be designed by the public sector there is feedback from the private sector. The latter, however, tends to be disorganized and the government can help it to organize, for instance by way of roundtables. The private sector is also encouraged to organize itself, which it has done recently, for instance by creating the Private Enterprise Foundation, which is an umbrella organization, as well as the Chamber of Commerce and associations of employers and of industries. One example of the new role of the private sector in government policy is the recent removal of impediments to non-traditional exports.

Dr. Hamadou Sylla (Malian entrepreneur) described the role of the private sector in policy making in Mali as weak. This has historical reasons as most private sector business men in Mali used to be illiterate and could not participate actively in the policy making process. The public sector absorbed most of the intellectuals and it was normal in the past that the political leaders were rarely challenged by business interests. This situation has changed since about 1991 when democratization came along with the development of interest group organizations such as business associations. The new and younger business leaders are now aware of their ability to have an effect on policy development and they are starting to play a more active role.

Plenary Discussion on Research Dissemination and Monitoring

Three panelists including Dr. Lucie Phillips, Ms. Annette Sheckler, and Dr Malcolm McPherson discussed methodological issues and the dissemination of research results under EAGER. In terms of qualitative benchmarks for monitoring achievements under the project, Dr. Phillips focused on two issues. Namely, have researchers deepened and broadened their own and others' understanding of the research topic and, have policy makers incorporated this new understanding into their policy decisions? She also provided an outline of the project objectives, vis-a-vis research dissemination and monitoring.

To date, a system of advisory committees has been established who have provided guidance and feedback on this research. An expanding base of African researchers have joined with researchers from the firms and organizations who make up the cooperative agreements to undertake policy-related economic research and this collaboration has generated useful reports which are now being processed for policy papers and policy briefs.

Dr. McPherson focused his comments on the distinction between the EAGER Project's process and its outputs. Posing the objectives of the EAGER process as questions, he asked of EAGER research:

> Is it collaborative?
> Is there substantial involvement by local researchers?
> Does it contribute to the store of knowledge and understanding about economic policy issues?

In terms of the EAGER project outputs, he asked:

> Do they contain new information?
> Do they provide clear recommendations?
> Are we monitoring research activities properly?
> Does the work provide insights into equity and sensitivity issues?
> Is it well written?
> Has additional capacity been created?

Ms. Sheckler opened her presentation with an introduction to BHM International, who holds the Communications Logistics Contract for the EAGER project. The role of BHM under this contract is to coordinate and manage the EAGER workshops and to ensure that research generated under the project is disseminated among policy-makers, stakeholders, and other researchers.

Given the arcane nature of much economic research and, given the need to extend this research among audiences who may not have taken the three semester sequence, the CLC contract is charged with finding mechanisms by which research results can be made more accessible in all aspects of the word. Under this objective, it is necessary to use dissemination formats that are appropriate for non-economists, while still adhering to the fundamental implications of and limitations to this research.

In addition to these written formats, the EAGER CLC provides resources for the use of electronic and other innovative communication media. In pursuit of this objective, BHM has initiated work on several internet initiatives. First, an electronic mailing list is being developed which will allow EAGER participants to post messages at a central site and to have these messages circulated among the other participants who are registered at the site. This "listserver" will create a forum which will allow researchers to discuss issues and facilitate the exchange of news and information about EAGER research. It would not be limited to EAGER researchers and so could have a broader impact as well.

A second electronic format that will be used to disseminate EAGER project outputs is an EAGER website, which will serve as an easily accessed repository for documents, research summaries, and other project information. It will also provide access to a search engine, chat rooms, and avenues for multi-user conferencing. The website will have a bi-lingual interface and will provide a text-only version for broader outreach. Ms. Sheckler anticipated that the website would be up and registered within three to four weeks.

Links may be developed between the EAGER website and other USAID websites, including the Agency's own. Other links may include universities, business sites, and other relevant institutions. The Leyland Initiative was discussed as a potential source of additional resources for extending the links between EAGER's electronic community and other relevant communities.

First Draft of the EAGER Tanzania Report

I. Opening Session

A. Opening Remarks: Sam Wangwe, Clive Gray, and Dirck Stryker

Opening the fourth semi-annual EAGER Country Workshop, Sam Wangwe, executive director of the Economic and Social Research Foundation (ESRF) of Tanzania, welcomed participants and observers to the workshop and introduced EAGER's first two chiefs of party: Clive Gray of the Harvard Institute for International Development's (HIID), chief of party for the Public Strategies for Growth and Equity cooperative agreement; and Dirck Stryker of Associates for International Resources and Development's (AIRD), chief of party for the Trade Regimes and Growth cooperative agreement. Following brief introductory comments by Drs. Gray and Stryker, Dr. Wangwe introduced Lucretia Taylor, USAID/Tanzania Mission Director.

B. Welcome: Lucretia Taylor

In her welcoming remarks to participants, observers, and speakers, Lucretia Taylor noted that researchers from 11 different African countries and the United States and Canada were present at the conference. Ms. Taylor described the EAGER project as a six-year activity aiming to increase the availability and use of economic research and to broaden African researchers' participation in the policy-reform process. Placing the project within the wider context of USAID's support for economic development in Africa, she noted the complementarity between the program goals of both EAGER and USAID/Tanzania: sustainable growth and improved human welfare.

Summary of Ms. Taylor's further remarks. As evidenced by its project support in Tanzania, the Mission recognizes the relationship between economic growth and social welfare goals. Indeed, the success of the latter depends upon the achievement of the former through market reforms. The Mission also recognizes, however, that without equitable distribution of the gains from economic reform, public support for democratic governance and a liberalized market economy will be hard to maintain.

USAID activities in Tanzania support private provision of advisory services to new and existing enterprises and emphasize rebuilding of the financial sector. Through its newly established Business Center (TBC) and its Advisory Council, USAID/Tanzania has introduced practical approaches to resolving technical and marketing problems inhibiting private-sector growth, on a fee-for-services basis. Assistance to the financial sector has targeted technical and managerial capacity at the Central Bank of Tanzania, seeking to increase the Bank's independence of all but its underlying mandate. Other financial-sector assistance has aimed at laying the groundwork for a private insurance industry, introducing a completely market-based foreign exchange system, and paving the way for more-efficient private banking. USAID has also aided the establishment of Tanzania's first venture capital fund and a micro-enterprise lending facility.

Tanzania presents a significant opportunity to achieve sustainable and equitable development, an opportunity that also exists for many African countries undergoing political and economic reform. In closing, Ms. Taylor expressed her confidence that these representatives from the government, business, and research communities, engaging in a policy dialogue, could help such countries convert opportunity into reality.

C. Keynote Address: The Honorable Daniel Yona

Daniel Yona, Tanzania's minister of finance, opened his address by affirming his agreement with EAGER objectives generally, and with the conference objectives particularly. The next few paragraphs capture the essence of Mr. Yona's remarks.

Although economic research is a great aid to policy reform and policy reform to greater trade, investment, and growth, countries such as Tanzania are short on resources for government funding of such research. And, in the absence of public funding, the bulk of research undertaken is often applied mainly to commercial purposes and fails to serve the needs of the people. Within the Ministry itself, competing demands for resources and the limitations imposed by both income constraints and existing debt service constrain funding for research.

At 4 percent, Tanzania's current growth rate is too low for a poor country, and it should be possible to raise the current rate to around 8 to 10 percent with spending for infrastructure and with successful implementation of policy reforms. In regard to the latter, good policies require appropriate research. Participants can most usefully (a) undertake practical research that relates to policy reforms currently under consideration and (b) develop policy proposals that are politically feasible to implement. One must bear in mind the difference between the politician, who stands or falls on the basis of the results of his policy proposals, and the researcher, who can always approach another client if policy outcomes fail to meet expectations. Researchers should be pragmatic in their selection of research topics and should make their results accessible to the targeted recipients of economic research.

Given the importance of improved capability among African researchers, EAGER's projected use of local individuals and organizations is very apt. Using such researchers costs less and also facilitates the sharing of results with people at the local level. The Ministry supports the creation of a pool of competent African researchers and notes the need for national, regional, and sub-regional research centers.

Trade and investment are very relevant issues to Tanzania's current reform and growth prospects. Given the renewed interest in an East African trading bloc and the competition for private investment from the newly reformed Eastern European countries, participants are encouraged to pursue a research agenda that supports appropriate trade/investment reforms not only in Tanzania but also in Africa generally. One topic of particular use is that of comparability in reform across countries: why have some countries been more successful in their reform efforts than others?

In conclusion the Minister noted the linkages between public policies and choices made by private investors. He thanked the workshop sponsors for providing an opportunity for Tanzanian researchers and policy-makers to work together with their colleagues from overseas and expressed his high expectations for the conference.

II. Overview of Eager Research

Chair: Enos Bukuku, Advisor to the Prime Minister of Tanzania
Rapporteur: Malcolm McPherson, HIID

Panelists: Clive Gray (EAGER/PSGE)
Dirck Stryker (EAGER/TRADE)

A. Clive Gray

Summary of Dr. Gray's remarks with regard to the EAGER/PSGE component. EAGER's Public Strategies for Growth and Equity (PSGE) component encompasses a wide range of economic policy issues, excluding trade, agriculture, health, education, and the environment—sectors which are the focus of separate research activities financed by USAID's Africa Bureau. (Trade is included, through a separate cooperative agreement, under this same project.) While PSGE research will take into account impacts on and of these sectors, they will not be the focus of PSGE studies.

All PSGE studies involve collaborative efforts with local researchers and institutions, who are managing local field work. In round one are six ongoing studies; four studies have been approved for round two.

Round One

Increasing Labor Demand and Productivity in Ghana and South Africa. Consortium members: Howard University in Ghana and AIRD in South Africa. The study seeks to identify potential areas of employment creation and productivity improvement in light of current policies and to note, as well, potential reforms.

The Cost of Doing Business: The Legal, Regulatory and Judicial Environment in Ghana, Madagascar, and Tanzania. Consortium members: AIRD, MayaTech, and the Institutional Reform and the Informal Sector (IRIS) center at the University of Maryland. In Madagascar, the study centers on legal and regulatory constraints upon the development of efficient and equitable labor and capital markets. In Tanzania, the study focuses on ways contract design and enforcement affect commercial transactions, seeking to assess the economic costs arising from alternative arrangements to ensure that agreements are honored. In Ghana researchers are examining the interface between government and business in formulating and implementing regulatory policy.

Enhancing Transparency in Tax Administration. Consortium members: HIID and Howard University, together with collaborators in Madagascar and Tanzania. This study seeks ways to improve tax administration, with the expectation that greater transparency will improve tax compliance and thereby ease budget deficits and enhance equity.

Tax Policy in Sub-Saharan Africa: The Role of Excise Taxes. Consortium members: HIID (coordination), with field researchers in Madagascar and Tanzania and desk studies by local researchers in Ghana, Kenya, and Zambia. The study will compare the varying role of excise taxes in different countries and consider ways of optimizing that role.

***Financial Intermediation for the Poor*.** Consortium members: Development Alternatives, Inc. (DAI) and MayaTech, in collaboration with researchers in Senegal and South Africa. This study is examining ways of expanding financial services generally and increasing access to microcredit in low-income areas.

***Impact of Financial-Sector Reform on Bank Efficiency and Financial Deepening for Savings Mobilization in Ghana*.** Coordination: Howard University. The study focuses on financial-sector reform as a means of encouraging greater use of financial services in order to accelerate growth and improve equity.

Round Two

Restarting and Sustaining Growth and Development in Africa. Collaboration: HIID, with several consortium researchers and numerous African economists. The study will examine the political economy of policy reform in Africa, considering why reform programs are not sustained and how the situation might be changed. Potential countries of focus include Zambia, Kenya, Uganda, Tanzania, Ghana, and Senegal.

***Contribution of Business Linkages to the Growth of Productive Employment Among Micro and Small Enterprises in South Africa*.** Coordination: Michigan State University. Researchers will examine the role of small and microenterprises as suppliers to larger firms and the potential contribution to employment creation in South Africa from expanding these linkages.

***Development of Capital Markets and Growth in Sub-Saharan Africa*.** Leadership: Howard University. This study will assess linkages between capital market development and sustained growth in Ghana, Zambia, and Tanzania.

Competition Policies for Growth: The Legal and Regulatory Framework for Sub-Saharan African Countries. Consortium members: IRIS and Howard University. Researchers will examine competition policies in several West African countries and at least one East African country.

B. Dirck Stryker

Summary of Dr. Stryker's overview of the EAGER/TRADE component. As work under the Trade Regimes and Growth (TRADE) component has been underway for some time, certain preliminary conclusions are available. For example, global trade expansion has been a factor in increased trade and investment in Africa, increases that not only include traditional forms of trade but also entail the greater integration of economies. Examples of factors in this integration include just-in-time delivery; increasing demand for quality; larger and quicker capital transfers; and widespread technology transfers. These factors pose significant challenges for African economies requiring flexibility, openness, responsiveness, quality consciousness, and innovation. Policy issues revolve around ensuring that countries take advantage of opportunities by responding to these challenges.

The basic themes of EAGER/Trade include "Barriers to Cross-Border Trade"; "Effects on Trade of Monetary, Fiscal, and Exchange-Rate Policy"; "New Opportunities for African Trade and Investment"; and "Regional Integration in East and Southern Africa."

Barriers to Cross-Border Trade. Study areas: livestock exports in Mali; marketing of vanilla in Madagascar; trade in precious minerals in Tanzania; and cross-border trade in Ghana. These studies provide evidence of practical obstacles to trade, such as informal blockades on transshipment, problems in executing payment, and tax-induced disincentives. In the Tanzania work, it appears that gains in economic activity generated by trade in precious minerals are indirectly increasing tax revenues to a greater extent than would direct taxes on exports, due to the incentives and potential for evasion of direct taxes.

Effects on Trade of Monetary, Fiscal and Exchange-Rate Policy. Study areas: exchange-rate issues in Ghana, cross-country research comparing fixed and flexible exchange rates, and trade tax impacts on producer incentives. Preliminary results indicate that overvalued exchange rates do undermine trade competitiveness, as do direct taxes on traded goods. However, because of perceived benefits to "strong exchange rates" and because other types of taxes are less easy to collect, these policies remain significant constraints to expanded trade in Africa. The challenge for reformers is to find ways to minimize distortions imposed by exchange rate and tax policies without reducing government income.

New Opportunities for African Trade and Investment. Study areas: textile and garment industries in South Africa, with specific reference to adjustment, niche marketing, and other aspects crucial to the industries' survival. There, attention is focusing on the progress of quota exceptions for African textiles in the U.S. market. Other studies under this theme look at industrial competitiveness and the likely impact of the World Trade Organization (WTO) system on expansion of international financial services and, consequently, investment in Africa.

Regional Integration in East and Southern Africa. Study areas: promotion of exports to Asia, electrical power sharing in Southern Africa, and advantages of fixed as opposed to floating exchange rates within the CFA zone. In addition, research has examined factors that affect local and foreign investment decisions, particularly with regard to domestic trade and investment policies and to existing opportunities for trade.

The following conclusions have emerged from work under these four themes:

- In Africa opening up has had a much broader effect on trade growth and foreign investment than in other parts of the globe, deriving from the fact that African countries in general suffered precipitous declines during the period when governments intervened so obtrusively in economic activity.

- In Africa, there is a strong role for institutional development in promoting growth. Such development is taken to include closer adherence to the rule of law, broader and more-equal access to information, and expanded human capacity. To date, research indicates that these factors are more important for trade, investment, and growth than are investments in infrastructure.

It is important for African countries to expand nontraditional exports (for example, in manufactures, services, and nontraditional agricultural products). Continued specialization in primary commodities exposes exporters to trade shocks and cuts off access to learning, competition, and technical advances—all of which stimulate rapid export growth.

Finally, TRADE research confirms that growth is essential for poverty alleviation. Significant reductions in the incidence and depth of poverty in Africa will be possible only within the context of rapid and consistent growth.

C. Comments by the Chair: Enos Bukuku.

Placing the EAGER project in context, Dr. Bukuku noted the scale of the task of rapid economic growth in Africa. A doubling of Tanzania's current growth rate (from 4 to 8 percent) would take 15 years to generate a per-capita annual income of $400, given the country's population growth rate. In the face of these sobering figures, one sees that massive efforts are necessary for survival, let alone for poverty alleviation.

Questions and Comments from the Floor

During the 1996 EAGER Workshop at Howard University, several participants noted the need for attention to questions of political economy and the problems that politicians face when they recognize the need for reform but encounter political pressure from beneficiaries of the old policies. Is either side of the EAGER project addressing these issues? This did not come through in the discussion of research.

The discussion of trade promotion focused heavily on the demand side. What about the supply side? What is being done to address supply-side issues in trade promotion?

One of the main constraints on growth in Africa is the massive debt burden that must be serviced with current government income. How do African countries get this debt "off our backs"? Real economic growth now goes to paying debt and not to expanding capacity and reducing poverty. How do we link work on trade and growth to the problem of meeting debt obligations?

The United Nations is in the process of creating a network to deal with coverage of nontraditional exports. In what way will EAGER share in this network?

Response: Dr. Stryker

Political economy is incorporated in two ways. First, each principal investigator is encouraged to frame research questions within a political economy context. Since a principal goal of EAGER is to influence policy reform, we need to understand who wins and who loses from the process of policy change and who are the players in the process of policy reformulation and implementation. Second, promoting and sustaining policy reform is a key issue in political economy; a requirement for this is that we fully understand and appreciate the political dynamics within which policies are made.

With respect to supply of exports and export promotion, it is true that the focus has rested upon demand issues. Key issues yet to be addressed would include expansion of capital and, in particular, the supply of working capital. Banks may be constrained by the pace of financial sector reform, and legal and regulatory constraints may inhibit supply. Certainly, supply-side issues deserve more attention.

On the external debt, one outcome of the workshop may be to emphasize the fact that debt is currently driving the system. One requirement of structural adjustment is that external debt be paid, and frequently this occurs at the expense of local suppliers. Often, foreign debt service can generate internal arrears. This issue has to be addressed.

The nontraditional exports issue and the U.N. network are important. We should participate in this process, although there are as yet no specific plans to do so.

Response: Dr. Gray

Considerations of political economy are very much a part of EAGER/PSGE; for example, "The Cost of Doing Business" is preeminently a study of political economy. A key issue is the reform of basic institutions that could play a more constructive role in development. "Competition policy" is a highly political issue that often entails trade-offs with losers and winners, all of which must be taken into consideration in developing policy proposals. "Transparency in tax administration" has political implications of the most direct sort; a major thesis in that work is that countries cannot achieve macroeconomic stability unless greater tax compliance by the political elite increases compliance generally. Equity implications are likewise obvious. Moreover, the new study on restarting and sustaining economic growth in Africa will have a major focus on political economy issues.

In regard to debt and debt service, the question of debt burden is an empirical one. Many Asian countries started out with heavy debt burdens but successfully grew their way out of the debt trap. The key is getting a positive return on investments that are financed by external debt.

Concluding Comments: Dr. Bukuku

First, rapid and sustained growth will require sound, consistent, transparent, and predictable policies. To ensure this sort of policy development, it may be necessary to create institutions that can help government to "do the right thing." This may entail alliances between government and private-sector interests, alliances that would promote dialogue and help reveal the true roadblocks to the reform process.

Second, investor "roadmap" exercises are vital for getting at barriers to increased investment and trade. In examinations of the actual conditions facing entrepreneurs, differences such as that between customs clearing in Singapore (15 minutes) and Tanzania (one week to three months) become clear and compelling motivations for change.

Third, enforcement of contracts and, in particular, product-quality standards are essential innovations that must be applied more broadly in Africa.

Fourth, part of the debt problem—especially internal debt—can be handled by better budgeting. Payments are not so problematic when revenue is collected before commitments are made.

Fifth, whatever type of growth occurs must generate broad-based social welfare improvements and must be economically, environmentally, and politically sustainable.

Finally, regarding barriers to trade, transshipment is an area of concern that needs to be examined, particularly in African countries—which tend to border many others. Given the benefits of infrastructure, transshippers have an obligation to pay their share and must help to ensure that leakage and diversion of shipments does not happen. There is a need here for greater control by the proper authorities.

III. Hindrances to the Use of Research in Policy Making and Ways of Overcoming Them

Chair: William Lyakurwa (AERC)
Rapporteur: Lucie Phillips (IBI)

Panelists: Nafissatou Konare, Ministry of Finance, Mali; Rashad Cassim, Trade and Industrial Policy Secretariat, South Africa; Enos Bukuku, Advisor to the Prime Minister, Tanzania; Bede Lyimo, Ministry of Industry and Trade, Tanzania.

Dr. Lyakurwa began by commenting on the idea that illegal exports can generate legal imports, which might be easier to tax. The chair noted that this was not true until governments lifted currency controls to allow imports for which no foreign exchange was allocated. After making introductions, the chair yielded the floor to the first panelist, Enos Bukuku.

A. Enos Bukuku

Dr. Bukuku noted that his comments were founded on the following assumptions: *(that)*—

- There ought to be a forum for disseminating research results.
- Policy-makers can read and understand research results without the aid of an army of specialists to explain, justify, and work through the policy implications.
- There are effective research-monitoring groups in the government seeking research results.
- Government departments have libraries, books, and journals, and policy-makers do read and try to stay abreast.
- There is a core group of technocrats who can coordinate and integrate research results.
- There is an information system through which one can disseminate information to interact with a wider network outside of one's own town; for example, the Ministry of Agriculture can communicate research results to Nyangere or some other agricultural research station.
- People in key positions can both interpret research results and design and fine-tune policies.

If these assumptions were true, one would have eliminated most of the hindrances to the use of research by policy-makers. If, however, these assumptions do not obtain, then the factors they represent are serious hindrances to effective policy reform. To the extent that they in fact do not obtain, training is a critical ingredient: it is needed in management, public administration, and statistics. Lack of infrastructure and equipment are also constraints (telephone lines to rural areas, for example).

B. Rashad Cassim

Mr. Cassim's unit, the Trade and Industrial Policy Secretariat (TIPS) in South Africa, serves as a clearinghouse for government research, bringing together policy-makers and researchers on key issues. His experience at TIPS has taught him the benefit of demand-driven, as opposed to supply-driven, research. TIPS is a demand-driven unit whose objective is to meet the demands of government on daily policy issues.

This setup is, however, rare, and due both to the unusual history and to the transitional moment at which South Africa finds itself, TIPS staff have unprecedented access to high-level policy-makers. This access is due in part to the new democratic ethos under which policy-makers are reaching out to different constituencies, including researchers. New bureaucrats are often from an academic environment, themselves. At this unique historical moment, credibility is driven by direct personal relationships—exemplified by Mr. Cassim's own experience in coordinating research with ex-colleagues at the University of Cape Town.

Having painted this optimistic picture, what are the challenges?

Demand-driven research is short term and applied: for example, the current research on rules of origin for the Southern Africa Development Community (SADC) agreement now being negotiated. It can be difficult to get policy-makers involved in longer-term, more forward-looking research. How can we do that?

"Scenario-type" research is important, but to be approved it must have credible applications for policy formulation. In this, policy-makers' intelligence should not be underestimated. South Africa has three different computerized general equilibrium models in which policy-makers are very interested, but they find that different models produce different results. This is a significant problem, but the economist's job is to do research well and then educate policy-makers in economic concepts they need in order to make use of the research.

There are tensions between short-term and long-term research needs. Manufacturers, for example, complain that their case is critical and that protection must be maintained a bit longer. Economists need to convince policy-makers to look at long-term research on transitions in trade policy, besides responding to manufacturers' demands for research into the growth of import penetration in their industries. It is difficult to convince bureaucrats of the need and benefits of curiosity-driven research.

Also critical is dissemination of research results. Because policy-makers are pressed for time, they need good summaries of research findings. TIPS has established a newsletter, called the *Trade Monitor*, which synthesizes research in a format interesting to policy-makers. This approach is eminently replicable.

C. Nafissatou Konare

Mme Konare noted that, in Mali, obstacles hindering policy-makers' use of research results are many and varied:

- Choice of themes
- Monitoring of research
- Evaluation of results

University, as well as donor-financed researchers, generally choose themes of interest to themselves; consequently, they rarely worry whether these themes interest policy-makers until they present the results. Because policy-makers and researchers operate in different environments, they tend not to think of the same research themes. It follows, then, that research is often of very little use to policy-makers.

Policy-makers have different constraints. Sometimes there is political interference hindering them from dealing with a researchable issue appropriately...or, they are preoccupied with responding to crises...or, they may find it difficult to obtain synthesis reports. Part of the problem is research financing: when donors finance research, they keep the results and choose the themes; research done in our universities is often too abstract, useless to policy-makers and generally a waste of time.

The one field in which this is not true is agriculture: there research is used by policy-makers. When agricultural research is undertaken, policy-makers sit on the research agenda committees, decide on the themes, and use the results.

> The fact that EAGER works with policy advisory committees immediately attracted Mali's Ministry of Finance to this project. The Ministry sees how difficult it is to create sustained, effective linkages between researchers and policy-makers; policy-makers and researchers should decide together what themes need research. And every research program should pay attention to dissemination of the results in a language that both policy-makers and civil society understand.
>
> Reinforcing the collaboration between researchers and policy-makers would facilitate more-effective production and use of research results.

D. Bede Lyimo

On behalf of public-sector institutions, Mr. Lyimo addressed issues of sustainable growth with equity: specifically, those policies that bear upon industrialization and trade as stimulants of economic growth and development.

Summary of Mr. Lyimo's remarks. For as long as it has been in existence, Tanzania has had researchers and policy-makers working together—although both sides have at times perceived a lack of effectiveness in these two groups working together. Over the past thirty years, the research function has been discrete, principally used for identifying a problem. Policy-makers call in researchers to diagnose a problem and to provide recommendations about what is needed to put things right. In the 1960s and 1970s, for example, when Tanzania undertook the establishment of state-owned enterprises, this effort was supported by massive research. After the funding for this dried up, research gradually dwindled in influence and stayed largely at the universities.

The picture changed in 1986-87, when a new and massive research program began for each sector of the economy targeted for adjustment and reform. This effort has served the larger goal of allowing an expanded role for the private sector in Tanzania and has been largely donor funded.

Use of research results has sometimes been a problem. Occasionally, for example, there are potential conflicts of interest. A person in the bureaucracy might be told that unless specified results obtain, his career may be negatively affected. In such cases some research findings that could have contributed to economic revival have ended up on the shelf. In 1990, Tanzania implemented a reform process in the industrial sector. The consultants who produced the final report that was implemented had to redo the first seven or eight reports dealing with the problems of the labor sector. This is but one example of what happens when everything is in the same basket and when there are conflicts of interest. Now, however, the process is smoother. Now, the private sector, government officials, and researchers act as partners in the research process.

In the past, informational quality has been a problem as well. Because the government controlled the information that it made available both to itself and to researchers, the quality of research could easily become affected.

Working environments, too, have posed problems for economic research. No one really knows Tanzania's economic strengths and weaknesses. To a certain extent, researchers probe in the dark, and data are still unreliable. Thus, when research findings are implemented and after a couple of years things go wrong, researchers are able—justifiably—to point their fingers at poor data.

Today, Tanzania is in the process of change, building new relationships between policy-makers and researchers. In the future, we should see a diminution of past problems and a clearing of the path toward rapid economic growth and development under a free-market economic system.

Mr. Lyimo concluded by noting that the comments of his South African colleague highlight an environment in which researchers and policy-makers really work well together. He attributed this in part to the fact that South Africa had in the past an economic system in which such collaboration worked. He believes Tanzania should seek to emulate the South African experience.

E. Comments and Questions from the Floor

- A bilateral decision-making model is implicit in the presentations; we should expand the model to include the public at large and also interest groups, parliament, and other government bodies. Research has to be presented in a form that is understandable both to colleagues and to the general public and interest groups. In the interest of broad-based access, researchers should address the general public in dissemination of research results.

- Ways of overcoming hindrances need to be identified. We have identified the key constraints, and one way of addressing these is to create a topology of research needs by country and by research category. What Mme Konare said regarding agricultural research and policy making is true for most countries. Agricultural research really does affect policy.

- Another need is to distinguish between research competencies, namely short and long term. We need to know who is best indicated to do long-term research; otherwise, the partnership between government and research institutions will mean that only short-term issues get addressed. We have university research institutes, government agencies, and consulting firms. Universities are probably best suited for long-term research. Funding should not be limited to the short term, but should also be available for long-term research.

- Are we sure that governments understand their role as economic managers? For two decades economies have been falling apart. Lots of research was done here in Tanzania in the sixties and seventies. It seems there is a need for enhanced capacity to appreciate research geared to development.

- One should distinguish between long-term and short-term research: short- and medium-term research have more impact on policy-makers. Researchers are preoccupied by their research programs and policy-makers by immediate problems. Discussion is needed to arrive at themes that interest both.

- How should this dialogue be assured? The current system of policy advisory committees can do so, especially if there is a careful choice of policy-maker members. It helps if they have a scientific orientation. Dialogue *can* work.

- Businessmen encounter the same problems with hiring research. Information for the private sector is limited, and good researchers are sometimes poor communicators and even worse salesmen. In the necessary interface between researchers and policy-makers, we should look at ourselves first. Do we talk turkey when we talk to government?

- Other stakeholders, especially those in the private sector, need to be brought into policy dialogue. But business colleagues are not versed in policy analysis; they are interested in making money. They will view policy dialogue as a waste of time. I saw this as SADC Business Council head.

- It is proper to involve business communities, for they are the players and the payers. If business people are left out, they go underground or go around to politicians and sabotage research findings.

- One needs a core group of technocrats able to digest policy implications. Experience has shown that research with clear policy implications is usually followed. Implementation strategy is paramount.

- Where revenue is a consideration, it is better to work on scenarios. Government wants to know whether it is going to gain or lose revenue by changes in policy.

- Vested interests are not such a problem. If policy-makers have already agreed to a research program, they should be ready to accept the results. But interministerial reconciliation can be problematic. A line ministry, for example, can propose policy changes, but the minister of finance and the rest of the cabinet have to agree to these changes.

- The idea that all policy change needs to be informed by specialized researchers begs the question of what kind of researchers and what type of research. Is it not still possible for governments or other research funders to pursue the results they desire or those which are politically more popular? Where is the capability of the economic-research community to ensure that science and not politics is the motivation of reputable research?

- (to Mme. Konare) Is the EAGER dialogue having any successes in Mali, with particular reference to the livestock study undertaken during a period when an export tax was imposed on skins and hides and then lifted. Did the EAGER study influence that decision at all? If so, how did it happen. If not, why not?

- (from an engineer) My profession has learned that locking ourselves in a lab is not a successful strategy; it little matters how good the product may be if it does not speak to potential users. But putting researchers and policy-makers together seems to cover only part of the need. To capture a truly credible picture of the policy landscape (and to add value there), we must bring policy-makers into the research methodology and into the way that research is conducted.

- As an example, in mining here (in Tanzania) there is a big problem of mercury use. And, although a new method was developed to reduce mercury use, no one in the field was using this method—even after a big promotional program. Research showed that miners thought they would lose their gold with that process. The point is, we should have brought them in during the research phase.

F. Responses

Mr. Lyimo agreed with extending the model to interest groups in the society. Focusing on researchers and policy-makers is overly simplistic, but it does represent a reasonable starting place for our efforts. Politicians are put in office by election to represent and make policy for the public. If they fail, they are out of office in a few years.

Mme Konare recounted the history of the skins-and-hides tax. Although the EAGER study had some impact, livestock exporters themselves had hired private consultants to do a study showing the government how the tax was hurting the whole economy. When the government took all this into account, it lifted the tax.

There is a saying that researchers search and search but never find. Research has a bad reputation that needs to be changed by doing better, more-adaptive research. For example, a Netherlands research program took place, and then policy-makers and private-sector operators were invited to dialogue about it. When they found that none of the themes were relevant to the whole subregion, they decided to plan the next program of research together.

In the EAGER project the policy-makers were interested in the themes. And now that policy advisory committees have been created, business people and policy-makers can both take part. Malian industrialists will be interested in the study on industrial competitiveness; although they believe that opening the Malian economy will lead to their collapse, the study shows that Ivoirien industries are no more competitive than Malian industries.

Dr. Bukuku commented that he disagreed with any notion that only short-term research is needed. In addition to long-term research, we need visionaries, strategic thinkers. Dr. Bukuku supports the involvement of the general public, noting that policy-dialogue forums encompassing trade unions, bar associations, and NGO and women’s groups could all contribute. If one went right now to the real grassroots, one might hear a list of needs, demands, and challenges, but not necessarily policy prescriptions. We must listen to people’s concerns and also bring them into the calculations that generate policy. Still, we need to maintain coherence in our policy-formulation efforts, and it is clear that certain concerns of different groups will conflict. Our job is to weave the demands into policy issues and then to ensure that there is some coherence.

For each country, we need to agree upon a system for resolving conflicts by identifying the trade-offs and using these to build consensus for choosing among the options. It is important to insulate technocrats from the reach of special interests, but also to make them accountable for the quality of their proposals. Not only the executive branch, but also the legislative, needs competent research secretariats.

G. Summary by the Chair.

William Lyakurwa considered the principal hindrances to be these:

- Undercapacity for policy-relevant research
- Inadequate fora for policy dialogue
- Inappropriate packaging and dissemination of research results.

His summary of the recommendations highlighted four:

- Encourage more joint efforts by researchers and policy-makers.
- Target all stakeholders in the society.
- Distinguish between short- and long-term research; target research at appropriate policy angles.
- Channel financing to areas in which research is relevant for policy-makers.

IV. Plenary Discussion: Restarting and Sustaining Growth and Development in Africa

Chair: Daniel Ndlela (Zimconsult)
Rapporteur: Ndaya Beltchika (AIRD)

Panelists: Malcolm McPherson and Dick Stryker

A. Malcolm McPherson: "Restarting and Sustaining Growth in Sub-Saharan Africa" (Proposal)

The PSGE advisory committee has received and approved a proposal to research the question of why Africa isn't doing better after so many years of structural-adjustment programs (SAPs), over two hundred in fewer than forty countries. A corollary question to this was, if structural adjustment programs proposed by the World Bank and the International Monetary Fund (IMF) are so good, why do African countries so frequently abandon them ? In presenting his research idea to the Workshop, Dr. McPherson identified three categories of answers to his principal question:

Reforms were fully implemented, but programs were ill designed. An example is the CFA zone's fixed exchange-rate system. There, countries maintained a fixed nominal exchange rate but did little to prevent their real exchange rate from appreciating.

Reforms were not fully carried out. Governments made commitments and signed agreements, but some reforms proved easier than others to carry out. In regard to reforms that are politically difficult, such as privatization and reducing public-sector employment, there is too little understanding of the complex process needed to implement such reforms. Furthermore, some policy reforms have conflicting objectives. Raising government revenue without penalizing the formal sector is an example of the trade-offs that designers of adjustment programs face. Another is a lack of complementary factors: human resources, infrastructure, institutions.

Reforms were carried out but later reversed. In some instances technocrats have aligned themselves with others in government to influence policy for personal gain. In others, reversal is an attempt to find a solution: "it's not working; let's do something else." Thus, policy reversals may be good in some cases. In Mali, for instance, private operators successfully opposed a detrimental tax on livestock products.

For all of this, African entrepreneurs are increasingly taking advantage of new opportunities that become possible through reform and adjustment. These entrepreneurs are becoming better organized and more vocal, and are testing their lobbying efforts. The question is, are these efforts strong enough to generate and sustain the policy changes needed to restore growth and development? Related to this and of direct relevance to the EAGER Project is whether the research community (foreign and domestic), the business community, and policy-makers are linking up as well as possible and what will foster such linkages.

Zambia, whose government either could not or would not make policy decisions that plainly needed to be made, was presented as a strong example of policy reversal by Dr. McPherson. His description of that government's failure to continue implementing agreed-upon reforms provided a background to the three themes that make up this research effort.

Politics, institutions, and bureaucracy. Representing policies and actions which lead to effective institutions, improve the competence of public administration, promote effective implementation, maintain accountability, and contribute to good governance.

Macroeconomic management. Promoting broad-based improvements in fiscal, monetary, exchange-rate, and debt management.

Enhancing productivity. Including elements of incentives for investment, factor and labor productivity, competitiveness, and employment growth.

Potential countries include Tanzania, Senegal, Zambia, Uganda, Zimbabwe, Ghana, and Mali. Studies will involve local institutions and representatives of the identified stakeholders. Local groups will conduct this research effort, with staff and consultants (brought to bear through the PSGE Cooperative Agreement) acting as facilitators for this process. Consultants will be engaged as needed.

Cross-country comparative analyses will be undertaken by a team in the U.S. Within each study country the research process will include an economist; a secretariat with a direct link to policy-makers; research groups; universities; chambers of commerce; and an advisory committee. Local participation is essential to the overall effort.

Some examples of null hypotheses that might be pursued in various study countries serve as an introduction to the research hypotheses that will be addressed through this effort.

1. The rate and sustainability of economic growth is unaffected by overvaluation in the real exchange rate.
2. Macroeconomic instability does not materially influence achievement of sustained economic growth.
3. Achievement of sustained growth and development is unaffected by legal limits on foreign ownership, special protection for state-owned enterprises, and public-sector deficits.
4. African countries that earn most of their export revenue from natural-resource exploitation will not necessarily experience deindustrialization, higher levels of external debt, or declines in agriculture and real per-capita income.
5. The stock and quality of human capital is irrelevant to sustained growth and development in African countries.
6. Sustained growth and development do not require removal of restrictive labor legislation or of barriers to the movement of labor.
7. Physical infrastructure or a country's geographic location affects its rate or sustainability of economic growth very little.
8. Sustained growth and development can be achieved without the rationalization of export and import procedures; customs administration; and the complete removal of exchange controls.
9. Sustained growth and development can be achieved without a large expansion of foreign direct investment.

10. Expansion of nontraditional exports is not essential for sustained growth and development.
11. Extraordinary donor inflows make possible sustained growth and development.

In undertaking research to confirm or rebut these hypotheses, it will be important to have the participation of national stakeholders in defining the impediments to implementation in the reform process. Identification of the right problems will require an understanding of the political economy ramifications of implementing reforms.

Discussion

Abdoulaye Diagne; Fidelis Mtatifikolo. While underscoring the relevance and timeliness of the proposed theme, the discussants had some suggestions with respect to the methodology; certain hypotheses; country selection; and scope of the study.

! In terms of methodology, the proposal appears to be a blanket proposal without any concrete methodology outlined.
! Hypotheses #7 and #8 could use further elaboration.
! Include several other important dimensions, if the emphasis rests on sustained economic growth and avoidance of policy reversals: namely—

  (a) Study the role of civil society and how can it be fostered.
  (b) Include other countries of the CFA zone, and add a regional or sub-regional dimension to the study.
  (c) Explicitly outline how this proposal will make use of or integrate the other ongoing EAGER research projects.
  (d) Reduce the project scope, and probe further into a few selected issues so as to include other dimensions such as political economy, gender, and equity issues.

! The study seems biased toward macroeconomic criteria, with little attention given to the political-economy dimension of policy reforms.

Open Discussion

! Many of the reforms African countries have undertaken were decided upon from outside the system. Thus, there has been little scope for integrating research and the end-users of that research. Policy reforms settled upon outside the system may be less likely to be implemented.

! What of the impact of structural adjustment programs and the burden of external debt on government's ability to carry out reforms? In addition to the problem of reforms originating outside the system, reforms in general can exacerbate inequities in the distribution of wealth and income. There is no doubt that without growth there is no equity; however, growth alone will not ensure equity. Because inequity can lead to policy reversal, the study should explicitly separate the aspects of growth and distribution.

! The proposal does not explicitly reference gender dimensions in regard to education and health.

! Policy reversal may be influenced by dimensions not taken into consideration. The case of Uganda was mentioned (where a policy has no legitimacy and no constituency, it is bound to be reversed).

! Another issue that needs to be considered is civil society in Africa, which has already generated some research and analysis. Also, make the sample of countries more representative of Africa, so that the work can be used comparatively with the study done by IDRC. As regards the CFA zones, the issues are more at the international than national level. Address exchange-rate issues at the regional and sub-regional levels.

Responses

Dr. Stryker. The project could be more explicitly linked to other eager projects. Various comments deserving attention have been raised: while it may be true that there are too many hypotheses in the proposal, these will be winnowed in each country study through the involvement of stakeholders in the process. It may also be feasible to change the approach and have multiple stages of implementation: country, hypotheses, and at the same time cross-cutting themes (use survey papers so that there will be no duplication).

Dr. McPherson. This is an approved proposal and an ongoing research activity. Up to now there are no answers as to why reversal is so common in Africa, and this is what justifies the project. The reason for the make-up of the country sample is that other countries have not expressed interest. If countries want to get onboard they need to say so. There is no need for a more-representative sample of Africa (including CFA countries) because the issues are likely to be similar. Other issues such as gender or poverty don't need to be explicitly stated, since development embraces them. By pushing rapid growth, we are addressing the issue of gender and poverty.

V. Parallel Sessions on the Research Themes

A. Barriers to Cross-Border Trade

Chair: Walid Kabarou (MP, Chadema, Tanzania)
Rapporteur: Charles Betsey

1. Jeffery Metzel: "Prospects for Developing Malian Livestock Exports" (Final Report)

Previous studies have shown that Mali has a comparative advantage in livestock production in the central corridor (including Ghana). However, due to an overvalued exchange rate and high export taxes, livestock exports stagnated. With CFA devaluation and the liberalization of Mali's exports regime, this has changed.

The objective of the presented study was to examine long-term prospects for increasing net economic returns to Mali's livestock trade. The report addresses three areas of investigation:

What will be the most important sources of ruminant livestock-production growth in Mali? The greatest scope for livestock-production growth exists in the agropastoral zones, through raising both herd numbers and productivity in these regions. This implies that public efforts to support livestock (including research or services associated with animal health, nutrition, market development, etc.) should concentrate in these zones. A further basis for a shift in emphasis in public services to the livestock sector is the increasing importance of small ruminants in all systems except where dry-season water control is available.

What are the trends in red-meat supply and demand in Mali, and what are the prospects for continuing exports to the regional market? Analyses confirm that, if past trends in domestic consumption and production of red meat continue, total consumption will overtake production in the next ten years, and Mali will lose earnings from livestock exports. Only raw or tanned hide and skin exports would likely increase under this scenario, as local slaughter increases. On the other hand, analysis also illustrates two important sets of assumptions, each of which provides feasible scenarios for sustaining the export market. First, on the supply side, the sensitivity of production growth to biological productivity parameters and the current low level of some of these parameters in comparison with norms in more-developed livestock systems suggest ample room to raise productivity above levels of the past thirty years. Second, price changes are likely to depress demand for red meat. Whether supply or demand changes occur as projected in the domestic red-meat market could depend largely upon domestic economic policy.

What is the potential to add value in the livestock chain for export? The study evaluates the benefit of increasing animal value through small-scale seasonal fattening, moving the locus of slaughter to Mali as a way of increasing value-added in animal production and processing. The prospects for expansion of fattening appear attractive both in financial and in economic terms. Economically, farm-based enterprises and sheep enterprises are the most competitive because these typically draw upon surplus by-products of the farm and a low opportunity cost of labor. However, the prospects for expanding this activity are limited by the availability of these cheap resources.

The analysis of prospects for increasing value through domestic slaughter suggests that, under current market conditions, livestock exports remain more profitable to the regional market than either carcass or boxed-meat exports. However, due to projections of rapid growth in domestic red-meat demand, the slaughter industry and the by-product industries that depend on it are assured steady growth. Also, policy changes such as reducing transportation taxes among coastal countries can make this activity much more attractive for the development of export markets as well.

Discussion

H. Amani and Mr. Mgodo (Ministry of Agriculture, Tanzania). Illicit taxation is difficult to reduce, especially where supply and demand conditions differ across borders. To be successful would require quantifying the numbers of live cattle crossing the border, but to do this is not as simple as it seems. In addition, production constraints exist, as do transportation inefficiencies. Choosing the appropriate policies from among the various alternatives available requires great care.

Response

Attempts to reduce illicit taxation can be made through building interest groups committed to this end; regularizing a system with authorities in advance, as in Burkina Faso. While it is difficult to quantify the amount of livestock exports, there is clearly a great deal more being exported officially because of recent declines in official tax rates. A clear need exists for an efficient livestock-marketing system.

2. Gayle Morris and John Dadson: "Cross-Border Trade in Ghana: An Analysis of Client-Patron Relationships" (Interim report)

This study proposes to combine official statistical data on cross-border trade flows with expert interview data on unrecorded trade flows and observation data. Bayesian statistical analysis will be used to estimate the total amount of cross-border trade in Ghana. An additional aim of the study is to interview selected formal and informal traders regarding the relationships they have established with such people as middlemen, foreign-exchange brokers, and so on to facilitate trade.

Researchers will identify experts in various border-crossing areas. Tentative sites for the focus of interviews are Kulungugu (northern), Aflao (eastern), and Elubo (western). Experts will include local Ministry of Trade personnel, customs agents, and others. At each border crossing, approximately five to ten experts will be identified and asked to provide information concerning various scenarios for the amount of trade that headloaders, truck drivers, and facilitators are conducting.

Interviews with 100 to 120 formal and informal traders will gather data on the volume and value of goods traded, the processes by which goods cross the border, business linkages (e.g., drivers, moneychangers, and suppliers), and constraints to cross-border trade. Fieldwork should commence in September 1997.

Discussion

The context in which cross-border trade is discussed suggests that it is viewed as an alternative to other types of development efforts. Structural-adjustment policies that emphasize the need for developing countries to become self-sufficient also tend to emphasize the need for expanding cross-border trade. Why are certain questions not asked and/or answered only in certain perspectives? Cross-border trade is seen as regional integration from below; it suggests an integrationist approach to the studies.

Response

The government of Ghana is encouraging diversification of trade products, and regional trade is being expanded by changes in government regulations. In fact, efforts to expand cross-border trade build upon existing, sometimes centuries-old, patterns of trade. One issue that will be investigated is the crushing paperwork associated with cross-border trade; it has been suggested that recent policy changes in Ghana have substantially reduced the paperwork requirements for cross-border trade.

B. Improving Monetary and Exchange-Rate Policies

Chair: Nehemiah Osoro (Chair, Department of Economics, UDSM)
Rapporteur: Sam Ziorklui

1. Clive Gray and Ali Kilindo: "Improving the Framework for Monetary Programming" (Interim Report)

Dr. Gray. The project responded to requests from central banks and finance ministries of five African countries: Ghana, Tanzania, Kenya, Madagascar, and Zambia. These countries expressed a need for a framework to predict the impact of alternative instruments of monetary policy upon reserve money and economic activity. Such a framework would be useful for managing volatility in interest rates, inflation, and other macroeconomic aggregates. Given budget constraints, the study was initially confined to Tanzania and Zambia. Subsequently, because of the transfer of the co-principal investigator in Zambia to the IMF in Washington, the study has been further confined to Tanzania. Some interest has been expressed in Malawi.

The study's primary goal is to provide a framework for policy decisions designed to stabilize macroeconomic aggregates in order to attract foreign investment and stimulate domestic saving. The study seeks as well to sensitize politicians to the need for fiscal and monetary discipline in order to ensure sustainable economic growth.

A secondary project goal is to provide a channel by which officials of central banks and ministries can interact with researchers in academia on policy issues relating to economic growth and stability. Partly for that reason, the study does not aim to develop a complex econometric model that would come across to most policy analysts as a black box.

Dr. Gray outlined stages of monetary programming, the first establishing an accounting framework consistent with IMF procedures. The second stage is to postulate relationships that policy-makers can use in predicting economic behavior.

Dr. Kilindo, discussing impending work in Tanzania. The Bank of Tanzania needs to adopt indirect monetary policy instruments in order to stabilize macroeconomic variables. A monetary programming model would be a useful means by which the Bank of Tanzania could monitor the supply of aggregate money and manage liquidity. For such a monetary-programming framework to be useful, it must help lower inflation, reduce budget deficits, and ease interest-rate volatility.

Discussion

Mr. Manyama. The discussant raised the problem of data scarcity for developing such a monetary programming framework, noting the prevailing disparities between internal and external sources of data on African economies. He noted as well the problem of whether such models can handle unpredictable external shocks and excess liquidity. Mr. Manyama also referred to the problem of response lags and how that element can be captured in any monetary-programming model.

2. Charles Jebuni and Dick Stryker: "Monetary and Exchange-Rate Policy in Ghana" (Interim Report)

Dr. Jebuni. (First gave an overview of the Bank of Ghana's monetary policy regimes over the years, highlighting periods in Ghana's economic history when various targets were assigned for various economic-stabilization policies.)

The paper is a preliminary report on a proposal presented at the EAGER conference in Accra. This study's main objective is to estimate the relationship between the real exchange rate and other macroeconomic variables. The methodology for estimating the real exchange rate is based on the model developed by Edwards (1994). Certain exogenous variables bear upon the real exchange rate: external terms of trade, ratio of government consumption to gross domestic product (GDP), and ratio of fiscal deficit to lagged high-powered money.

Dr. Stryker. The data has only just been collected, and more work will be needed for analysis. (The data was collected from the Bank of Ghana and the Ghana Statistical Services from 1980 to 1996.) Although the data have certain limitations, the study has devised approaches to deal with the data problems.

Dr. Stryker discussed the preliminary results of estimating the long-run relationship between the real exchange rate and its fundamental exogenous variables using the Augmented Dickey Fuller approach. He indicated that by using the co-integration approach, researchers can capture the short-run changes in the real exchange rate by using an error-correction model.

Examination of the regression results shows that the estimated parameters are satisfactory in terms of standard statistical measures. Dr. Stryker explained the various variables that proved to be statistically significant and highlighted the preliminary findings based on the regression estimation.

Discussion

Malcolm McPherson. Dr. McPherson noted that discussion had not touched upon liberalization of exchange rates in Ghana. Suggesting that the key issue in monetary policy is to move the system back to equilibrium, Dr. McPherson also indicated that the authors should provide an indication of which models they intend to use. He noted that even though the authors mentioned portfolio model in their paper, it was not explained in the presentation. Because of the informal or parallel markets that exist in Ghana, he believed the composition of the money supply should be explained fully.

Dr. McPherson also suggested the authors look at currency substitution and the confidence of the public in terms of its demand for the local currency versus foreign currencies. He raised an issue with the authors' estimation of the long-run real exchange rate and suggested more focus on the short-run time frame, since the economy is in transition. He would like to see the study broadened to focus on transition, fiscal, and government-debt issues.

C. Industrial Competitiveness

Chair: E. B. Toroko**, **(Director General, Small-Industry Development Organization, Tanzania)
Rapporteur: George Gyan Baffour

1. Eckhard Siggel and Massa Coulibaly: "Study of the Structure of Incentives and Manufacturing Competitiveness in Mali" (Final Report)

The Mali study had two main components. The first investigated the effect of trade policies on import prices, producer prices, government revenues, and consumer prices. Several findings emerged:

- Tariff protection discourages imports.
- Tariff protection encourages domestic production.
- Tariff protection increases government revenue.
- Tariff protection discourages consumption of targeted goods that carry an implicit consumption tax. This implicit consumption tax in Mali is particularly high on food and clothing.

Even though tariffs may encourage domestic production, increase government tax revenue, and discourage imports, their effect on consumer welfare may be detrimental.

The second study component analyzes the determinants of competitiveness and comparative advantage of 11 Malian firms in the manufacturing sector relative to similar firms in Ivory Coast. The analysis used market prices to identify competitiveness, and economic or shadow prices to identify comparative advantage. When the unit cost of production was less than the (market) value of a product, the firm was said to be financially profitable and hence competitive. When the ratio of a firm's real unit costs to the economic value of its output was less than unity, the firm was said to have a comparative advantage (i.e., the firm was economically profitable).

Based upon these definitions, the authors found that seven out of the eleven firms surveyed were competitive and that two had a comparative advantage in trade. The study identified the sources of competitiveness in order of importance as follows:

Rank	**Source**
1.	Tradeable inputs
2.	Labor cost
3.	Nontradeable inputs
4.	Cost of capital

Although some Malian firms enjoyed a comparative advantage in trade, those firms were necessarily competitive in the Ivorian market because of price distortions in that economy. This is because the net effect of price distortions in Mali was cost-increasing, while the net effect of price distortions in the Ivory Coast was cost-reducing.

The study identified four principal causes of price distortion:

- Tariff protection
- Exchange-rate overvaluation
- Interest-rate distortions
- Unit taxes.

These were the main policy implications of the study:

1. Comparative advantage depends on the extent of value-added in production.

2. Manufacturing of goods with a high local input component, which will enhance local value-added, should be encouraged by reducing the tradeable input component.

3. Even though only two of the eleven firms studied had a comparative advantage, most of the firms came close (i.e., with real unit-cost ratios slightly higher than unity).

This was taken to suggest that liberalization of the economic environment—through reducing the cost-increasing distortions, for example—would help these firms improve their performance enough to attain comparative advantage.

Discussion

Juma Mwapachu. Mr. Mwapachu suggested modifying the study organization to the following outline:

- Overview
- Environment of the manufacturing sector

- Global analysis
- Product-specific analysis
- Policy recommendation

For two of these topics, he made the following comments:

Overview. Competitiveness and comparative advantage are measured with a single indicator (i.e., unit price). However, competitiveness and comparative advantage are multidimensional and cannot be captured with a single indicator. Since the authors used the conventional method of measuring these, more background information about the determinants of the price distortions would be useful.

The lack of consistency in the use of measures across the two countries (Mali and Ivory Coast) is concerning. Similar inconsistencies were evident in the use of sector deflators. The absence of consistency in measurement will make cross-sectoral and cross-country comparison very difficult.

The figures in some of the tables do not appear reflective of text material; he also disagrees that the exchange rates in Mali and the Ivory Coast are the same.

Global analysis. Global analysis should go beyond using only trade variables to investigate impacts on import prices, product prices, and consumer prices; other indicators, such as exchange-rate misalignment, are of equal importance.

Mr. Mwapachu disagrees with the authors' assertion that the Malian currency is overvalued, believing that the difference between the official rate and the parallel rate is zero. Finally, Mr. Mwapachu questioned the wisdom of determining competitiveness in Mali, where the goods are produced, rather than in the Ivory Coast, where the goods are sold.

Response

Contributions from the floor suggested that a dynamic analysis might be more useful. The unit-cost analysis provides only a snapshot of the economy and therefore can miss the various changes and interactions that take place in the marketplace. It was also suggested that some of the price distortions may be due to market failures. Authors were encouraged to incorporate market failure into their analysis, probably in computing shadow prices.

2. Malcolm Keswell (South Africa): "Toward an Understanding of the Potential, Constraints, and Comparative Advantage of the Clothing and Textile Industries in the Province of KwaZulu Natal in South Africa" (Interim Report)

This study focuses on the clothing and textile industries, which have an important impact on employment creation in S.A. The main study objective is to understand the cost structure of the garment and textile firms and the ways they contribute to comparative advantage.

Because of the difficulty in obtaining secondary data, the author is collecting both qualitative and quantitative data directly from 37 firms to help identify common themes. The researchers are constrained, therefore, from collecting cost data for decomposition, as was done by the authors of the Malian study.

The typologies used to classify firms by competitiveness and comparative advantage will be defined by such characteristics as firm type, firm size, training methods, incentive schemes, etc. The issue addressed by this disaggregation is that a widely diverse set of firms exists in this sector, and this diversity may hold implications for firms' ability to be competitive.

Discussion

Amu Shah. Mr. Shah noted that the paper focuses on the garment sector alone, even though it claims to cover textiles as well. He also indicated that the 37 firms surveyed are nonrepresentative of the large number of firms in the sector. He suggested that because of its potential for employment creation, the South African garment and textile industry should be encouraged, even if it lacks competitiveness. The way to do this, according to Mr. Shah, is to offer protection through tariffs and quotas.

(Due to time constraints, audience members were unable to discuss this paper as fully as they wished.)

D. Improving Monetary and Exchange-Rate Policies (Continued)

Chair*: *Nehemiah Osoro
Rapporteur: Sam Ashong

1. Anatolie Amvouna: "Determinants of Trade and Growth Performance in Africa: A Cross-Country Analysis of Fixed versus Floating Exchange Rates" (Final Report)

Starting with her analysis of experience with fixed and floating exchange rates in SSA countries, the author noted the shift in countries' choices of regime between 1980 and 1995. This shift is shown in the following table.

SSA Countries' Choice of Exchange Rate Policies
1980 and 1995

Policy	1980	1995
Fixed Rates	45	27
Floating Rates	4	26

The author hypothesized that the shift had not been even more complete because some countries are not yet ready to go to floating exchange rates. Reasons for this include the following:

- Lack of external markets for local currency
- Weak internal capital markets
- Lack of independence at the central bank, particularly with regard to setting the money supply

The two main questions the research addressed were these:

- Does the exchange-rate regime affect economic performance?
- Does the movement from a fixed to floating exchange rate regime improve or worsen economic performance?

The original research, which utilized a single dummy variable to capture the impact of exchange-rate regimes on economic performance, was enhanced following suggestions at an earlier workshop that the approach appeared simplistic. Accommodating these suggestions, the new research included several additional dummy variables that grouped countries in a more-homogeneous manner. Five key conclusions emerged from this research:

- Fixed exchange-rate countries are associated with lower output growth and lower per-capita income growth.
- Floating exchange rate countries experienced both higher output and higher per-capita income growth.
- Countries that maintained a fixed-rate system but devalued during the sample period improved their growth rates.
- Countries that changed from fixed to floating exchange regimes earlier in the period (1980-87) experienced increased output and per-capita income growth.
- CFA countries did not improve their economic performance during the study period.

The conclusion from this research is that fixed-rate countries that either never devalued or never shifted to floating rates did not improve their economic performance.

2. Anatolie Amvouna: "Costs and Benefits of Membership in the CFA Zone" (Proposal)

Ms. Amvouna proposed to research the proposition that CFA countries enjoy a more-stable exchange system than countries outside the CFA zone. Her research would seek to identify reasons why this result might obtain. As a case study for her proposed work, Ms Amvouna would look at the exchange system in Cameroon. Finally, she would also examine whether current benefits enjoyed by members of the CFA zone will diminish with changes wrought by the establishment of the EU.

Discussion

Diery Seck. Noting that the proposal was well written, the project objective well-specified, and the background information well-researched, Mr. Seck made several comments on specific equations proposed for the analysis.

- While the paper seeks to address costs and benefits, the cost/benefit equation accounts explicitly only for costs. Presumably, benefits would be measured as reductions in costs (i.e., negative costs).
- Equation 2 in the text did not seem to agree with the story being told in the text. The comparison countries are Ghana (which exports raw materials) and Nigeria (which exports oil). Since Cameroon exports both, the equation needs to be re-specified to account for this

- In equation 5, the welfare comparison between a fixed and a floating exchange rate has no bearing on a country's membership in a currency zone. The focus should be re-directed toward membership in the currency zone.
- Revenue from seignorage is evenly distributed among currency zone members. It was commented that a proportional sharing suggested by Ms Amvouna is inadequate. Preferably, an independent country should be used for comparison.

Open Discussion

- Normatively, should the research focus on intra-African comparisons rather than on the impact of foreign countries on Africa.
- Does currency convertibility complicate the comparison between Ghana and Cameroon? If so, perhaps Ivory Coast might offer a better comparator.
- In the first paper, the rationale for including the population-growth variable in one of the equations was unclear.
- External shock variables in the equation in Table 8 (first paper?) should be more explicitly specified.

Response

Ms. Amvouna noted that the welfare comparisons made in the paper are only between fixed and floating exchange rate regimes—that the impact of membership in the monetary zone is not accounted for. She also suggested two ways in which she could address this concern:

- Pooled samples and the use of dummy variables
- Redefining the entire sample

E. International Trade and Investment

Chair: Tawia Akyea (Ghana Export Promotion Council)
Rapporteur: Dominique Njinkeu

1. Lucie Phillips and Aloys Ayako: "Local and Foreign Investment in Kenya and Uganda" (Interim Report)

This study seeks to determine whether foreign direct investment (FDI) drives or is driven by domestic investment (DI), or whether the two respond to the same set of incentives with possible spillovers from foreign to domestic firms. The study searches for linkages between these two funding sources at an aggregate level, using econometric time series and panel data analysis. The panel analysis will be based on data gathered at the firm level, using survey information. This analysis will be used to generate quantitative results. Researchers will gain a qualitative perspective through interviews and a rapid-appraisal approach in Kenya, Uganda, and Mauritius. Mauritius will serve as a model of a country that has generated an investment boom by implementing favorable policies.

Discussion

The discussion centered on the following arguments:

- Most SSA countries have designed their policies toward attracting FDI. This was initially the case in Kenya's export promotion zones (EPZ), for example, although these were later opened to local investors as well. The study will check the situation for other countries.
- In attempting to ascertain causality between FDI and DI, the study needs to decompose the DI component into private and public investment. Under this rubric, the study will examine the significance of such issues as—
  - (a) Is the dual citizenship of some entrepreneurs confounding the classification between foreign and domestic investment?
  - (b) To what extent is the classification affected by tax policy?
  - (c) Is there a measurement problem in noting the shift of investment from manufacturing to services sector?

2. Eckhard Siggel and Germina Ssemogere: "Industrial Competitiveness, Trade Prospects, and Growth in Uganda and Kenya" (Proposal)

This proposal, very similar to the analysis just completed in Mali, would analyze the link between incentive regimes and industrial competitiveness and assess the impact of trade and industrial policies on competitiveness. As in Mali, the study would seek to determine competitiveness and would analyze the sources of this, focusing on comparative advantage and policy-induced effects.

The authors also propose to consider the following issues not developed in the proposal:

- Assess whether the reform process has anywhere transformed a public monopoly into a private one.
- Measure the impact of labor-market segmentation on shadow-wage rates, particularly in Uganda.
- Establish ways to monitor the evolution of competitiveness in order to adequately advise policy-makers in the future.
- Use firm-level analysis based on new data to compare Kenya and Uganda, especially in their reactions to policy reform.
- Predict trade flows and growth arising from implementation of policy measures.

Discussion centered around the following points.

Although the two countries are largely agricultural, the analysis focuses on a smaller portion of the economy. Taking the agricultural sector into account, is it possible to follow the entire chain from agricultural to manufacturing sectors and gain a sense of the impact policy has on economic growth? The authors intend to assess backward linkages, especially in the food sector. The cost of food is important in assessing the competitiveness of the manufacturing sector. The overall advantage of the methodology, on this point, is that the agricultural sector does not need to be explicitly in the framework, since the distortions will show up in the economic valuation of opportunity cost.

The research will include an economy-wide assessment based entirely upon quantitative indicators. The authors will consider complementing their indicators by some qualitative analysis from firm-level interviews. Along the same lines, the decomposition of unit cost should identify the policy issues that need to be considered. It will not be harmful to analyze them, even if the quantitative model does not allow addressing all these components. Competitiveness should be considered in a comprehensive manner, and this is important for policy-makers and potential investors.

Policy-makers are interested in the practical matters, including an analysis of political economy, focusing on the rules of the game in both countries. The analysis may utilize some of the conceptual framework provided by institutional economics.

F. Legal, Regulatory, and Judicial (LRJ) Reforms and Governance

Chair: Jessie Mnguto, (advocate)
Rapporteur: Malcolm Keswell

1. Sam Wangwe, H. Semboja, Louis Rajaonera, and Ndaya Beltchika: "The Cost of Doing Business: The LRJ Environment in Ghana, Madagascar, and Tanzania"

Sam Wangwe and H. Semboja: Tanzania
Drs. Wangwe and Semboja discussed the cost of doing business in Tanzania. Both primary and secondary data sources need to be consulted; however, the secondary data has not yet been analyzed, so the presentation was based entirely on a sample of firms interviewed.

The study covered three sectors: food, chemicals, and the wood/timber/furniture sector in Tanzania. In total, about one hundred firms from these sectors provided interviews, with the most important finding thus far being that the enforcement of formal contracts seemed not to be a binding constraint and, thus, not a major cost of doing business. One reason given was that the relationship between firms and their customers appeared to be a friendly one in which commerce takes place through informal contracts based on trust. Still, for the most part, cash was the preferred mode of payment.

The strength of informal contracts appeared to be borne out by that fact that most firms in the sample made no use of public arbitration, and disputes over nonpayment or delivery delays were handled through private informal arrangements. One reason suggested for greater dependence on informal channels was the firms' perception that court action could mean tarnishing their image, which could lose them business. Also, the litigation option can be very expensive.

Louis Rajaonera, and Ndaya Beltchika: Madagascar
This presentation focused mainly on Madagascar, although each of the three study countries was mentioned. These were the stated objectives of the work discussed:

- Identify regulatory constraints on hiring, training, and firing workers.
- Identify regulatory constraints on financing.
- Measure direct and indirect costs of finance.

Based on these objectives, a number of specific research questions were formulated and posed in the form of testable hypotheses. Preliminary findings suggest the following:

Labor Market

1. The labor code was perceived very differently by firms operating in export-promotion zones (EPZ), as compared with other firms.

2. Closed-ended contracts were very prevalent.

3. Two types of hiring procedures seemed to emerge. For qualified workers, networking was the dominant procedure, whereas "walk-in's" appeared to be the norm for unskilled workers.

4. Firing workers does not normally pose significant problems.

Capital/ Financial Markets

1. Older firms tended to finance their needs with their own capital, while younger firms just entering the market tended to borrow from banks and other financial institutions.

2. Firms not exporting any output complained about loans with variable interest rates.

3. Advances from vendors to customers appeared to be common practice.

4. Because overdraft facilities are very rarely expanded, firms seemed to be using small overdraft accounts from a number of banks as a coping mechanism.

Discussion

Prof. Bbenkele said that, while he had no problems in principle with the general thrust of the two studies, he did wish to suggest ways the existing terms of reference might be expanded a little. (He also asked the audience to bear in mind that his views represented a business perspective.)

Perhaps the LRJ "environment" could be broadened to include the effects of the following six elements:

- Restrictive licensing practices
- Poor infrastructure.
- High taxes
- High interest rates
- Insufficient technical expertise in the domestic economy to take advantage of export markets
- Recent developments in labor unions

With regard to the actual methodology and data-collection procedure, it was suggested that using focus-group interview schedules as an alternative to rigid and lengthy questionnaires would be one way to make the data more accurate. The low response rate of the questionnaires thus far (only ten returned thus far) suggests the need for a modification. It was also commented that the study design, in terms of its quantitative and qualitative aspects, was not always very clear.

General Discussion

It was noted that, in 1993, Ghana introduced legislation to speed the process of resolving court disputes. Currently, the procedure takes a very long time to get underway, with litigants sometimes waiting several months or even up to a year. This new legislation has been widely embraced by various interest groups in the private sector, judiciary, and government. However, there appears to be a lag in enforcement of this new law.

Questions

Regarding the study in Tanzania, the major finding appears to be that contract enforcement is not a major problem. If this is the case, we should ask what are *other* possible institutional constraints that are binding, and what can be done about taking the analysis further to investigate these? For example, the issue of corruption could be an important avenue to pursue; it is widely known that small businesses must pay bribes to low-level officials constantly. Also, would it be possible to include in the analysis a study of the environment for *competition* in Tanzania?

(Comment in direct response to the question) Governments in these countries have recently undertaken radical structural-adjustment programs, one thrust of which is to foster greater levels of competitiveness. However, lingering rigidities within the system make enforcement of the law very difficult. To some degree the problem also originates within the Department of Trade and Industry.

Another question forwarded was whether there was a consistent understanding of the concept of a "contract."

Finally, the LRJ studies seem to relate more to the demand side. What about other supply-side issues? For example, do individual firms have the capacity to export? The demand-side issues examined in the study are important, but the need to create capacity on the side of businesses, especially with regard to their ability to handle the *extra* business generated through a greater emphasis on exporting, should also be incorporated. In short, how do you enable firms to tap into export markets on the one hand (in terms of the firms' skills and capacity) and, on the other, ensure that they can "deliver" once they secure contracts?

Replies

Madagascar Study
With regard to the concerns expressed by Prof. Bbenkele, Ms. Beltchika explained that the Madagascar study focused on firms that are already established in the industry, and that researchers were concerned primarily with how to make *these* firms generally more competitive.

In terms of the questionnaires, these were not mailed. Instead, the researchers went into the field and assessed what important dynamics were at play. The questionnaire was developed after this initial assessment, and it was pretested before being implemented. Furthermore, the fieldwork was carried out by very skilled people, who were aware of the dynamics at play in the industries in question. She conceded that the length of the questionnaire did pose a problem, but said that in deciding what information was needed, a trade-off existed with regard to data quality and questionnaire length.

Tanzania Study

The presenters accepted the comments made, noting that they were aware of the problems in general in Tanzania. With respects to the issues raised concerning their finding that informal contracts appeared to be preferred over formal ones, the authors argued that this is corroborated by the general view that business conditions are highly uncertain in Tanzania. Informal contracts seem to provide better assurance under conditions of uncertainty.

In regard to the suggestion that researchers pay more attention to the question of corruption, the presenters informed the audience that many studies have looked at this issue already. However, they did agreed to incorporate this angle into their work.

Finally, with regard to the suggestion that the study look at the cost of doing business from the point of view of a lack of competitiveness, it was noted that competition has been introduced, although some rigidities do still exist in these markets.

VI. Roundtable: Enhancing the Role of the Private Sector in Policy Making

Chair: Sam Wangwe
Rapporteur: Eckhard Siggel

Panelists: Lucie Phillips, Tawia Akyea, Hamadou Sylla, and Moses Kagya

A. Lucie Phillips (IBI, United States)

Dr. Phillips, representing a private-sector consulting firm (IBI) in the United States, focused her remarks on trends in the private sector/government relationship within the U.S., with emphasis on trade and investment with Africa. Traditionally, Africa has not represented a high priority for trade and investment in the United States. In the main, those interested in such activity were multinational oil and mining companies and grain exporters pursuing private interests.

Since 1993-94, three new trends have appeared. First among these is the congressional initiative "Trade, not Aid" associated with the McDermott bill. Secondly, the White House announced policies focusing on trade and investment with Africa during a presidential speech in December of 1996. The first lady's trip to Africa and a planned trip by the president himself fuel this trend. Moreover, private-to-private initiatives have become important. The newly founded Corporate Council on Africa, which is an initiative by several big U.S. business corporations, is an example. The Corporate Council has organized trade and reverse trade missions involving telecommunications, information technology, mining, oil, and other areas of interest.

Dr. Phillips also mentioned the Council on International Business Understanding in New York, which has a global scope but last year chose to focus its annual decisions program on Africa. New relationships are evolving that do not involve governments, such as joint ventures with private African entrepreneurs. Large corporations are beginning to expand their business opportunities in Africa through franchises, outsourcing, and subcontracting. Also, financial fund managers in the industrialized countries are beginning to participate in African stock markets.

B. Tawia Akyea (GEPC, Ghana)

Although Mr. Akyea speaks from the government side, he represented the Ghana Export Promotion Council, which deals with exporters of nontraditional exports—mostly (99 percent) private-sector operators. Since 1983, the Ghanaian Government's policy position has changed, and the private sector is now regarded as the essential engine of growth. While most policies continue to be designed by the public sector, the private sector provides feedback. The latter, however, tends to be disorganized; to some extent the government can help the private sector organize itself (by way of roundtables, for example). But the private sector is also making progress on its own, most recently through the creation of the Private Enterprise Foundation (an umbrella organization); the Chamber of Commerce; and associations of employers and industries. Presently, their discussions concern the restarting of growth, and a national economic summit on the economy is planned for the country. One example of the new role the private sector plays in government policy is the recent removal of impediments to nontraditional exports, which shows a new empowerment of the private sector.

C. Hamadou Sylla (Entrepreneur, Mali)

Dr. Sylla describes the role of the Malian private sector in policy making as a weak one. This reduced role stems largely from historical roots, as many private-sector business men in Mali were illiterate and thus could not participate actively in the policy-making process. Because the public sector absorbed most of the intellectuals, political leaders were rarely challenged by business interests. Since about 1991, however, democratization has led to the development of business associations through which business leaders are becoming aware of their ability to affect policy development. As a result, they are starting to play a more-active role.

D. Moses Kagya (CTI, Tanzania)

Now representing a wine-processing enterprise in Dodoma/Tanzania (in addition to other private-sector firms), Mr. Kagya has recently moved from the public to the private sector. He believes there are reasons to be optimistic about Tanzanian wines, although the market for his products remains a difficult environment and one made even more so by taxation. Even though the wine enterprise has been privatized, problems with supply linger due to farmers' earlier experiences with the government-owned wine company. Because farmers were not paid for some of their previous deliveries, it has been difficult to regain their trust. Additional problems include a narrow market demand for Tanzanian wine.

Mr. Kagya feels that wine production is a viable Tanzanian industry, due to competitive production costs and output quality. However, many firms will need to be assisted in the areas of agricultural marketing and access to financial services.

Questions and Comments

Dr. Gray. To what extent have private-sector operators in Africa accepted the trend of globalization and recognized that governments must shift revenue collection from trade to direct and other indirect taxes?

Prof. Bbenkele. Based on (his) experience with training business executives and CEOs of SADC Chambers, the organizations representing business people as yet have too little capacity for policy analysis and dialogue. EAGER can easily follow up with frequent training so that complex policy issues are analyzed and presented to business people. In this way an effective dialogue with government will become possible. The private sector must challenge the government by paying for themselves for travel and accommodation.

Dr. Stryker. How can EAGER assist the private sector?

Responses

Mme Konary. EAGER research results can reach private-sector agents, but this process of absorption takes time and, in the present project on competitiveness, it may yet be too early to start the information dissemination. Bear in mind that the Chamber of Commerce in Mali represents mainly traders and not manufacturers. Finding themselves in conflict with the Chambers, some other businesses may decide to form their own associations.

Mr. Akyea. In Ghana all impediments to exports have been removed, whereas in import substitution the requests for protection remain.

Mr. Kagya. The Chamber of Commerce is there to inform private operators and should therefore play a stronger role in reforms.

Dr. Sylla. Agrees with Prof. Bbenkele that business people may fail to understand some of the issues, as they lack training in policy; thus, government support will continue to be important.

VII. Plenary Discussion on Research Dissemination and Monitoring

Chair: Charles Jebuni
Rapporteur: Seth Terkper

A. Lucie Phillips

Dr. Phillips discussed methodological issues and the dissemination of research results under EAGER. In terms of qualitative benchmarks for monitoring achievements under the project, Dr. Phillips focused on two issues: have researchers deepened and broadened their own and others' understanding of the research topic, and have policy-makers incorporated this new understanding into their policy decisions? She provided an outline of the project objectives, vis-a-vis research dissemination and monitoring.

In terms of quantitative benchmarks, for example, by the end of its second year the project was to achieve the following:

- Four final reports of country studies
- Fourteen field studies underway or completed
- Four country-desk studies (two from year 1, two from year 2)

In addition, benchmarks anticipated an expansion of the research network and greater involvement of stakeholders and policy-makers in the research process. To date, a system of advisory committees has been established to provide guidance and feedback on this research. In addition an expanding base of African researchers has joined researchers from the firms and organizations in the cooperative agreements to undertake policy-related economic research; this collaboration has generated useful reports, which are now being processed for policy papers and policy briefs.

Dr. Phillips asked researchers to review the benchmarks specified in the Research Dissemination and Monitoring Plan, both to ensure that the benchmarks are attainable and to plan work accordingly. The Plan is a draft document, soon to become definitive. Additional benchmark factors under consideration are the following:

- Is it useful to stakeholders?
- Is it useful to policy-makers?
- Is it feasible?
- Is it consistent with USAID mission objectives?
- Does it contribute to economic growth?

B. Malcolm McPherson

Dr. McPherson focused his comments on the distinction between the EAGER Project's process and its outputs. Posing the objectives of the EAGER process as questions, he asked this of EAGER research:

- Is it collaborative?

- Is there substantial involvement by local researchers?
- Does it contribute to the store of knowledge and understanding about economic policy issues?

Of EAGER project outputs, he asked

- Do they contain new information?
- Do they provide clear recommendations?
- Are we monitoring research activities properly?
- Does the work provide insights into equity and sensitivity issues?
- Is it well written?
- Has additional capacity been created?

These questions were put forth as among those central to the work of monitoring EAGER progress.

C. Annette C. Sheckler

Ms. Sheckler opened her presentation with an introduction to BHM International, which holds the Communications Logistics Contract (CLC) for the EAGER project. BHM's role under this contract is to coordinate and manage the EAGER workshops and to ensure that research generated under the project is disseminated among policy-makers, stakeholders, and other researchers.

Given the arcane nature of much economic research, and given the need to extend this research among audiences who may not have taken the three-semester sequence, the CLC contract is charged with finding mechanisms by which research results can become more accessible in all aspects of the word. Under this objective, it is necessary to use dissemination formats that are appropriate for noneconomists, while still adhering to the fundamental implications of and limitations to this research.

The written materials developed for this dissemination of EAGER research and research results include a variety of lengths and formats.

EAGER Project brochure. Contains general information about the project and its objectives, and provides key contact information.

EAGER Newsletter. Provides current information about the research agenda, research findings, lessons, and policy implications.

Issues Papers. Help identify research topics.

Desk Studies . Commissioned to make use of secondary data that might illuminate major economic policy issues.

Research Proposals. Prepared by research teams under the guidance of advisory committees and presented before the entire EAGER research community at the semi-annual workshops.

Interim Reports. Reviewed by the advisory committee and presented at the semi-annual workshops.

Final Reports. Presented to the research advisory committee, the semi-annual workshop, and the EAGER/Trade technical committee.

Research Reports. Revised final reports or interim working papers that have undergone prior review to assure high quality.

Policy Papers. Shorter papers (approximately 20 pages) that present research findings and their policy implications.

Policy Briefs. Two to four pages in length and geared specifically to policy-makers.

In addition to these written formats, the EAGER CLC provides resources for the use of electronic and other innovative communication media. In pursuit of this objective, BHM has initiated work on several internet initiatives. First, an electronic mailing list is being developed to allow EAGER participants to post messages at a central site and to circulate those messages among other participants registered at the site. This "list-server" will create a forum that allows researchers to discuss issues and will facilitate the exchange of news and information about EAGER research. Because it would not be limited to EAGER researchers, it could have a broader impact as well.

A second electronic format that will be used to disseminate EAGER project outputs is an EAGER web site, which will serve as an easily accessed repository for documents, research summaries, and other project information. It will also provide access to a search engine, chat rooms, and avenues for multi-user conferencing. The web site will have a bilingual interface and will provide a text-only version for broader outreach. The web site should soon be up and registered.

Links may be developed between the EAGER web site and other USAID web sites, including the Agency's own. Links may also include universities, business sites, and other relevant institutions. The Leyland Initiative was discussed as a potential source of additional resources for extending the links between EAGER's electronic community and other relevant communities.

Discussion

Dirck Stryker. Dr. Stryker called attention to the Leyland initiative, which is a U.S. Government effort to materially improve the extension of computer-based electronic communication in Africa. Specifically, the initiative seeks to ensure broader access to the internet throughout Africa and will therefore have likely relevance to the EAGER goal of expanded internet usage. Dr. Stryker suggested that information about this initiative be downloaded and made available to the EAGER electronic community as soon as this becomes feasible.

Since EAGER is already sending documents as attachments to work groups and toward the finalization of workshop reports, the Leyland initiative could be exploited to improve communication in countries involved with the project. BHM could make use of this initiative in its development of greater internet capability for the Project.

General Discussion

To broaden involvement with the EAGER effort, groups from member countries could begin to identify institutions and agencies (e.g., chambers of commerce) that have an e-mail capability.

Future conferences could be enhanced by organizing sessions around workgroups. Workshops might include sessions on erudition.

Some research projects have come to the end of their funding; how should the policy papers and policy briefs be developed?

Responses

BHM has already begun to develop lists of potential users of the EAGER web site, and design of this web site is in an advanced stage. The policy papers and policy briefs are funded under the CLC, and resources exist for producing them; administrative channels for doing this, however, have not yet been developed. The recommendation for organizing EAGER workshops around research workgroups will be taken under advisement.

VIII. Parallel Sessions on the Research Themes

A. Tax Policy Reform

Chair: Diery Seck
Rapporteur: Anatolie Amvouna

1. Pepe Andrianomanana, Louis Rajaonera, Nehemiah Osoro, Hamisi Mwinyimvua, and Clive Gray: "Enhancing Transparency of Tax Administration" (Interim Report)

This work focuses on (a) improving compliance through a transparent tax system and (b) reducing macroeconomic imbalance without increasing taxes on the private sector. The study countries are Tanzania and Madagascar and within each, the focus is on both statistical and behavioral elements. Both countries show high rates of noncompliance, tax evasion, or corruption, and both show a high incidence of tax exemptions.

As its starting point, the study posits that the level of taxpayer compliance is a key determinant of macroeconomic stability. The researchers believe that more transparency should yield better tax performance. Due to a lag in contracting in Tanzania, the present report deals mainly with Madagascar research.

In Madagascar, tax evasion and exemptions are measured at 6 percent of gross domestic product (GDP). Tax evasion is linked to shortcomings in tax administration and lack of transparency in enforcement. The researchers believe there to be a link between poor tax administration and tax compliance, and that greater transparency will raise the opportunity cost of tax evasion.

Discussion

It appears that the transparency concept needs to be more specific; it should, for example, include explicit recognition by government of the problem and estimated extent of noncompliance and, at the very least, hints as to the identity of the main culprits. In this context, transparency also includes taxpayer education; publication of tax regulations and defaulter lists should be encouraged. Other issues to address are corruption (mainly Customs), precision of laws, and tax service staffing.

2. Dirck Stryker, Sam Ashong, Ndaya Beltchika: "Trade Taxes and Producers Incentives in Ghana" (Interim Report)

This study focuses on the bias against exports resulting from import and export taxes. Several indicators are analyzed, including the effective tax rate; tax buoyancy; indirect tax distortion; non tax barriers; tax-free inputs; and effective rate of protection.

Discussion

Seth Terkper (National Revenue Secretariat, Ghana). Some of those issues have already been addressed. This study should suggest an incentive scheme to solve the problem of tax competition and to find ways of broadening the tax base. Another idea is to look at important changes since

1995, and indicate whether any relationship exists between economic performance and the attempt to improve the tax structure.

3. Seth Terkper, Andrew Okello, Pepe Andrianomanana, Nehemiah Osoro, Philip Mpango, and Hamisi Minyimvua: "Tax Policy in Sub-Saharan Africa: Reexamining the Role of Excise Taxation" (Interim Report)

This study involves field research in Madagascar and Tanzania, and desk studies in Ghana, Kenya, and Zambia. The issue addressed comprises one major source of tax revenue. As with companion EAGER studies, the main objective is to enlarge the tax base, diminish tax rates without diminishing tax revenue, and achieve higher rates of tax compliance. The purpose of focusing on the excise tax is to extend the coverage of taxation to domestic production and away from traded goods.

Here, the main methodology is the elasticity approach, using demand functions for products with available data. So far, the work has consisted mainly of examining the importance of the excise tax in total tax revenue, as well as examining the tax base and reforms that have been done. The team has also begun to collect data.

Comments

Discussants suggested that too little attention is paid to local, regional, and noncentral government taxes. Another concern was the question of how to link these taxes to a coherent economic policy. The reply was that a synthesis of all the studies will be written looking at implications, and a CGE model may be used to assess the overall linkages.

B. Barriers to Cross-Border Trade

Chair: Germina Ssemogere
Rapporteur: Gayle Morris

1. Lucie Phillips and Rogers Sezinga: "Gemstone and Gold Marketing for Small-Scale Mining in Tanzania" (Final Report)

The study focuses on Tanzania's mining sector for several reasons:

- Mining is a growth sector in the Tanzanian economy.
- Artisanal mining increases rural incomes (and has, thereby, equity aspects).
- Such a study provides an opportunity to analyze the trade-offs between artisanal mining interests and large-scale mining interests.
- Study results could support Tanzanian government efforts to develop a national mining strategy including both artisanal and large-scale mining interests.

Toward this latter goal, the Government of Tanzania (GoT) has recently implemented a number of reforms that affect trade in precious minerals. These reforms include the lifting of currency controls, the movement to a floating exchange rate, and new rules allowing anyone to sell gold and precious stones. As a result of these changes, there has been a growth spurt in the mining sector.

The researchers have found that 95 percent of gold and 65 percent of gems mined in Tanzania are smuggled across the border to Kenya because there are no taxes on the sale of gold and gems there. Also, since 1994, there has been no legal market for gold in Tanzania.

Estimates place the total value of smuggling in the range of $70 - $300 million per year, which represents a considerable fiscal loss to Tanzania. However, smuggling confounds several policy issues. While it is associated with a loss of revenue, significant economic benefits do still occur in mining areas: more jobs (rising from approximately 1,000 mining-sector jobs in 1990, to 550,000 in 1995—most of which arose from small mining operations); more middle-income jobs (Tsh2000 - 3000/day, a rate more than six times the reservation wage rate in agriculture); higher household income in mining areas; and higher consumption in these areas as well.

Given those economic benefits, there are nonetheless significant socio-environment problems in mining areas, including more health problems; environmental degradation; and increases in safety hazards.

The research findings for this first phase were concentrated in northern area of Tanzania; phase two of the work will focus on central and southern areas of the country. The researchers identified three GoT policy choices:

- Enforce the laws.
- Change laws to reflect Kenya "reality."
- Suppress artisanal mining, and rely on government to police large mining companies.

The major problems facing the mining sector in Tanzania were given as—

- Poor infrastructure (relative to the roads and communications in Kenya).
- Brokers and dealers inexperienced in Tanzania relative to Kenyans.
- Inadequate equipment and expertise.
- Less capital accumulation.
- No current market for medium-quality gem materials; hence, they are left in mining areas.
- Poor quality and type of supporting services .

The researchers saw a wide range of opportunities for the GoT during the reform process. They recommend maintaining a balance between modern and artisanal miners by encouraging mutual partnerships and by setting aside artisanal mining areas (e.g., alluvial sites). The researchers also suggest that Government find ways to attract mineral trade into formal channels and that it promote upstream and downstream linkages in the mining sector.

In terms of marketing, the researchers support the creation of alternative markets (e.g., weekend markets), formalizing mineral brokers, and encouraging brokers to form associations. Shifting secondary markets to regional centers could be of benefit.

Certain fiscal policy changes could improve sector efficiency: for example, decreasing royalty rates; eliminating transaction taxes except for royalties; and enhancing revenue collection at the local level.

Additionally, improving financial services available in mining areas would be beneficial. One way would be to launch an educational campaign with financial institutions on the financial requirements and business cycle of the mining sector. Also the researchers propose establishing joint-venture arrangements and establishing a national credit bureau.

Better dialogue between key players in the mining sector should be encouraged, as well as capacity-building activities for MRD. Finally, community-development programs in mining areas should be improved, with improvements to include formalizing economic activities in mining communities and increasing the number of taxpayers in mining areas.

Discussion

G. Nyelo (Ministry of Energy and Minerals, Tanzania). As the Tanzanian government is currently changing policies in the mining sector, this research was very timely. For the second phase of research, the presenters might list concrete policy recommendations for policy-makers. Other value-added activities besides cutting of gemstones should be researched (e.g., polishing). Also, researchers should look at effects of increasing revenue-generating activities on both the export and import sides.

General Discussion

The interplay between Kenya and Tanzania in precious metals policies should be brought out in the research—especially the differences in mineral taxes.

In regard to reforms mentioned in the presentation, does the GoT have the capacity to pass and then implement these reforms? Consider what happened in the 1992-94 period, when the Central Bank established a gold market in Tanzania. Not only were there losses due to the Central Bank's inexperience with gold markets, but also there was a major fraud case involving the National Bank of Commerce. Instead of Government providing an alternative marketing channel, why not encourage banks to finance private-sector players (with knowledge of the gold market) in establishing a gold market in Tanzania.

Do you need to tie community-development programs to taxation in specific areas? Or will tax revenues flow to those areas without being predirected? Is there adequate administration to allocate tax revenues to specific areas?

What are the regional trade possibilities—particularly with Mozambique, Uganda, Burundi, etc.?

In Uganda the tax is shared at various levels of government, with 50 percent of taxes remaining in the geographic areas of collection. Could Tanzania look at this model in terms of taxes in the mining sector?

Who are the biggest smugglers in the mining sector? It may be necessary to identify and work with them in regard to policy changes; otherwise, the changes will likely be ineffective.

Increase value-added activities: consider use of “reject” gold for tourist jewelry, and so forth, within country.

Local firms have trouble accessing gold and other precious minerals; would it be possible to decrease the number and role of foreign brokers in mining areas?

This piece of EAGER research is a good example of linking policy-makers, researchers, and private stakeholders; some of the policy-makers were even associated with the research.

2. Jeffrey Metzel and Eric Mandara: “Liberalization of the Vanilla Market in Madagascar” (Interim Report).

The researchers presented a summary of the process of liberalizing Madagascar’s vanilla market; ways this process compares to the proposed reform measures; and what can be learned from this experience for similar efforts in other countries.

The world market for vanilla seems insignificant in comparison with that of larger cash crops: for example, world trade of about 2,000 tons represents a gross value of only about $100 million. Moreover, both production and consumption are concentrated in only a few countries. But, Madagascar is the world’s largest producer of vanilla, and taxes on vanilla trade are the most important source of funds for Madagascar’s treasury and also of its foreign income earnings. Given vanilla’s high unit value, it has also been one of the only markets in Madagascar in which profits were easily made. As such, it has, since its introduction to Madagascar at the end of the last century, become a highly politicized market. Thus, liberalization of the vanilla market is at the core of the process of economic transformation.

Preliminary indications suggest that the liberalization of Madagascar's vanilla market has been successful in turning around the sector, with both production and exports growing strongly—even though returns to producers have yet to respond with similar strength. On the other hand, the state has lost a large source of revenues in the process, and some who had been beneficiaries of the former taxes have also suffered losses. The longer-term welfare and distributional effects of liberalization will be evaluated further as a part of the final analysis of this study.

Already, however, several preliminary conclusions of the analysis can be drawn with respect to the reform process:

- Changes of political regime, first to one of transition and then to one of the opposition, were certainly useful in achieving the proposed reforms. These changes were not necessarily exogenous to the liberalization effort, however, as the pressure to liberalize the sector and to change the regime came from the same political forces.
- Nonetheless, many of the special interests who benefited from the earlier market structure remain in place and continue to exert significant influence in the sector in their own interests. As a result, there are continuing pressures to reinstate some of the measures abolished through reforms.

- Certain measures have not been undertaken and could threaten to reverse reforms already implemented. For example, despite proposals to remove local taxes on vanilla marketing, this taxation has continued and some local authorities have tried to increase the rate.
- Apparently, efforts to implement reforms have been more effective at the central levels than at the local and regional levels.
- Discrete reforms to change taxes or prices have occurred with much less difficulty or delay than reforms to abolish old organizations, create new ones, or transfer authority. This bears out the difficulty of institutional change.
- Similarly, self-organization by a relatively few well-off exporters has been far easier than for many vanilla preparers and for the very large and dispersed numbers of much poorer planters (for whom self-organization is largely nonexistent). Still, calls for the creation of a nongovernmental organization to represent these constituencies seem to ignore these issues.

C. Reforming Financial Markets In Sub-Saharan Africa

Chair: Andrew Okello
Rapporteur: John Dadson

1. Sam Ziorklui: "The Impact of Financial-Sector Reform on Bank Efficiency and Financial Deepening for Savings Mobilization" (Final Report)

The background to this study was given as Ghana's recent financial-sector history, starting with direct government intervention/financial repression through the mid-1980s, and then the more-recent experience with financial-sector reforms begun in the late 1980s. The earlier interventions of the 1960s and 1970s had aimed to use the financial sector to support activities deemed by policy-makers to be socially or economically desirable. These interventions had reduced the share of formal financial institutions in the intermediation of savings and finance and eventually led to an obviously unsustainable result.

In 1986, a financial-sector structural-adjustment program sought to increase the efficiency of and, thereby, the volumes intermediated by the formal financial sector. A principal objective of the current research is to assess the impact of this financial-sector adjustment program in terms of increased efficiency of the banking system and financial deepening. The study utilized macroeconomic data as a basis for its analysis.

The study found that seven new banks had entered the banking system up to 1990, and that these new banks were instrumental in the expansion of credit that has occurred since the start of the adjustment in Ghana. However, this overall expansion of credit masks changes in the distribution of credit both in terms of rural/urban access and in terms of clients served. Specifically, the larger, older banks have closed down rural branches and reduced lending to SMEs. The author interprets this result as evidence that financial deepening has not yet occurred in this market.

Four reasons were given for the failure of financial deepening in Ghana:

- Public confidence in the banking system has declined.
- Private borrowers have been crowded out of the financial market.

- Government has taken up much of the incremental volume in credit by virtue of its requirement that private suppliers prefinance their contracts; this prefinance is usually funded by debt.
- The national currency has lost so much value that citizens no longer regard it as a store of value.

Analysis of Ghana's experience with financial-sector reform to date generates several additional questions. Why are banks withdrawing from rural areas and focusing their business on urban branches? What will happen to SMEs and, in particular, rural SMEs? How can Ghana achieve financial deepening?

2. Sam Ziorklui: "The Development of Capital Markets and Growth in Sub-Saharan Africa" (Proposal)

This paper addresses the issue of capital availability, with particular reference to the underdevelopment of capital markets in Africa. Capital shortages are viewed as a constraint to growth in Africa. Five policy issues will be illuminated by this research:

- Constraints impeding the development of capital markets in Africa
- Potential sources of capital (short, medium, and long term)
- Debt and equity issues
- Prospects for the development of stock markets
- Competition between African capital markets and money markets in Asia and Latin America for foreign investment, etc.

The study objective is to provide a systematic treatment of these issues across three African countries: Ghana, Tanzania, and Zambia. The study will examine the structure of capital markets and nonbank financial institutions (NBFI) that intermediate in capital markets. It will also examine constraints affecting this market, including financial-sector policy reform and regulation and supervision, and it will investigate ways in which national stock exchanges could be integrated into regional systems so as to be more competitive in attracting foreign investment.

The study will also develop a framework for analyzing capital markets and capital market development; it will formulate as well a foundation for defining policies leading to more-efficient development of capital markets in Africa. In this, it will emphasize distributional consequences of capital market development and economic growth. The study will utilize statistical analysis and econometric modeling using information generated through a proposed field survey and secondary data.

The study will have two phases: phase I will focus on impediments to capital market development; phase II will develop a framework for integrating domestic capital markets with regional and global markets.

Discussion

I. Kaduma. There is a need to seek practical solutions to the real problems of capital access for small-scale enterprises. One should not be distracted by elegant models based on large quantities of questionable data.

In regard to small firms' access to capital, the examples were given of Tanzania's (unsuccessful) attempts to have formal institutions provide financial services for rural SMEs and other attempts involving informal grassroots organizations that had experienced some measure of success. There is a great need to design appropriate mechanisms for ensuring inclusion of these markets for SMEs.

3. Michael Isimbabi: "The Emerging World Trade Order in Financial Services" (Proposal)

This proposed study would examine issues in two related areas: (a) capital scarcity and underdevelopment and (b) inefficiency in financial systems in Africa. As seen by the proposal's author, the challenge is to design strategies and policies that achieve the benefits of liberalization without incurring any of the hazards that sometimes accompany reform.

The study would analyze the implications for African countries of trends in world trade in financial services and develop alternative policies and strategies to guide these countries in policy making and in trade negotiations. Issues to be addressed include prospects for creating attractive investment climates and policies and strategic options for policy-makers.

Kenya and Zimbabwe would be case studies for this research effort, with each case study examining, *inter alia:* the national financial system; trends in the international environment for capital flows; and attitudes and perceptions of international banks toward SSA. Data sources would include some primary information gathered through interviews and discussions and also some secondary sources. Recommendations and policy prescriptions would be based on the analysis results.

The study is proposed as a one-year activity.

Open Discussion

There is a need to establish supporting institutions when attempting to develop capital markets. Macro-economic constraints to financial deepening and growth are also noteworthy.

Broad-based access to the financial system needs to be assured, particularly for rural and micro and small enterprises. One way to do this is through legal and regulatory mechanisms. Another approach is to base efforts to expand access on traditional, grassroots systems.

D. Labor Markets and Productivity

Chair: Moses Kagya
Rapporteur: Rashad Cassim

1. Kwabia Boateng, Charles Betsey, and Kwadwo Tutu: "Increasing Labor Demand and Productivity in Ghana" (Interim Report)

The rationale behind this study is that, as economies open up, labor markets tend to equilibrate with international markets. However, if labor markets in the domestic economy are segmented, this process is hindered. The investigators seek to determine the causes and impacts of segmentation in Ghanaian labor markets, focusing on the division between formal and informal sectors.

One factor making this issue difficult to address is the absence of complete data. In Ghana, the state of the economy cannot be determined by looking at national statistics because these measure only the state of the formal sector—thus failing to capture the complete picture. The team has now identified appropriate data for developing time-series analysis of labor productivity.

A problem in the Ghanaian economy is a growing labor force with no commensurate growth in labor demand. In the formal economy there has, in fact, been an employment decrease. Overall, the figure of 200 thousand entrants to the labor force was given (time period not provided), with only 20 thousand jobs created. The researchers identified a need to increase labor productivity to support the high formal-sector wage rates. Ghana has low labor productivity, even by African standards.

The researchers are seeking to link labor demand to a range of macro-economic variables. Although manageable for the manufacturing sector, this is difficult in terms of data for the services sector and the informal sector.

Another approach to these issues is to look at the efficiency of firms and to predict their capacity for absorbing labor on that basis. The informal sector is the most likely area for this labor absorption to take place, so the question is how to improve firm-level efficiency in the informal sector. The researchers will assess the impacts of economic policies on informal firms and will examine actual and potential linkages between the formal and informal sectors that might generate increased efficiency.

2. Fuad Cassim and Dirck Stryker: "Increasing Labor Demand and Productivity in South Africa" (Interim Report)

The researchers for this study identified the link between economic growth and employment growth as central to their research effort. In this they are looking at South Africa's macro-economic strategy and its impacts on exports and investment. Two positive developments in this respect are South Africa's exchange-rate depreciation, which should improve exports, and the government's commitment to reducing the budget deficit, which should free up resources for the private sector.

Two obstacles threaten to undermine these two developments. The first is South Africa's limited scope for export growth and, thereby, employment creation; the other is rigidities in the labor market. Because of South Africa's relatively high level of protection and its high wage rates and low labor productivity, more must be done to achieve export growth and to put the economy on a more "labor-absorbing" path.

The government has committed itself to freeing up factor markets, but not as yet labor markets. In fact, new legislation in the form of the "Employment Standards Bill" may be going in the opposite direction. This legislation will undermine the competitiveness and growth of small and mid-scale firms. The important need is to find ways to produce goods and services at lower unit costs.

An important element in this research is the search for better definitions. Within the definition of "employment," why is it that South African rural labor is so costly? What are the trade-offs between self-employment and underemployment? To what degree do labor rigidities extend into the informal sector if only 25 percent of formal employees are union members?

The researchers propose to use multi-variate analysis to look at labor demand, pursuing their research both from the perspective of the firm and from a macro-economic point of view. They will attempt to measure employment trends over firm characteristics such as size, etc. From the macroeconomic perspective, they will look at industrial strategies in terms of intensity of labor demand and sectors of focus.

Discussion

Nathaniel Livanga (UDSM); Andreas Sing (ILO). Given the growing integration of labor markets across national borders in Africa, why are workers still migrating to South Africa, given the rigidities in the labor markets referenced in the presentations? Are these workers finding employment in the informal sector?

A need exists for training and enhanced human resources in the labor force. Although the private sector is a consumer of training and benefits from trained workers, it appears to have little interest in supporting training efforts.

There could be a clearer delineation between the categories of "formal" and "informal." Better data on the informal sector might be gleaned from household surveys. In Tanzania, informal incomes tend to be higher than those in the formal sector; in Ghana, this is not the case.

Is there a clear linkage between depressed wage rates and low worker productivity? Is labor-market flexibility central to job creation, and do rigidities in the labor market truly stem from the labor unions.

It is important to recognize the relationship between export promotion and job creation, particularly with regard to nontraditional exports, where firms tend to be more labor intensive.

Annex: EAGER Research Outputs Discussed at the Workshop

Final Reports

Jeffery Metzel. “Prospects for Developing Malian Livestock Exports.”

Eckhard Siggel and Massa Coulibaly. “Study of the Structure of Incentives and Manufacturing Competitiveness in Mali.”

Lucie Phillips and Rogers Sezinga. “Gemstone and Gold Marketing for Small-Scale Mining in Tanzania.”

Sam Ziorklui. “The Impact of Financial-Sector Reform on Bank Efficiency and Financial Deepening For Savings Mobilization.”

Anatolie Amvouna. “Determinants of Trade and Growth Performance in Africa: A Cross-Country Analysis of Fixed versus Floating Exchange Rates.”

Interim Reports

Gayle Morris and John Dadson. “Cross-Border Trade in Ghana: An Analysis of Client-Patron Relationships.”

Clive Gray and Ali Kilindo. “Improving the Framework for Monetary Programming.”

Malcolm Keswell. “Toward an Understanding of the Potential, Constraints, and Comparative Advantage of the Clothing and Textile Industries in the Province of KwaZulu Natal in South Africa.”

Lucie Phillips and Aloys Ayako. “Local and Foreign Investment in Kenya and Uganda.”

Sam Wangwe, H. Semboja, Louis Rajaonera, and Ndaya Beltchika. “The Cost of Doing Business: The LRJ Environment in Ghana, Madagascar, and Tanzania.”

Pepe Andrianomanana, Louis Rajaonera, Nehemiah Osoro, Hamisi Mwinyimvua, and Clive Gray. “Enhancing Transparency of Tax Administration.”

Dirck Stryker, Sam Ashong, and Ndaya Beltchika. “Trade Taxes and Producer Incentives in Ghana.”

Seth Terkper, Andrew Okello, Pepe Andrianomanana, Nehemiah Osoro, Philip Mpango, and Hamisi Minyimvua. “Tax Policy in Sub-Saharan Africa: Reexamining the Role of Excise Taxation.”

Kwabia Boateng, Charles Betsey, and Kwadwo Tutu. “Increasing Labor Demand and Productivity in Ghana.”

Fuad Cassim and Dirck Stryker. “Increasing Labor Demand and Productivity in South Africa.”

Jeffrey Metzel and Eric Mandara. “Liberalization of the Vanilla Market in Madagascar.”

Research Proposals

Malcolm McPherson. “Restarting and Sustaining Growth in Sub-Saharan Africa.”

Michael Isimbabi. “The Emerging World Trade Order in Financial Services.”

Sam Ziorklui. “The Development of Capital Markets and Growth in Sub-Saharan Africa.”

Eckhard Siggel and Germina Ssemogere. “Industrial Competitiveness, Trade Prospects, and Growth in Uganda and Kenya.”

Anatolie Amvouna. “Costs and Benefits of Membership in the CFA Zone.”

Anatolie Amvouna. “Comparative Methodologies for Analyzing Monetary Policy.”