EAGEReport

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PROMOTING TRADE and Development through Policy Reform

by J. Dirck Stryker

During the past decade and a half, numerous countries in Africa have undertaken extensive policy reforms designed to free up markets and orient their economies in a more outward-looking direction. Reforms have included deregulation of markets for goods, labor, and capital, as well as reduction or elimination of taxes and subsidies in these markets. Reforms in trade and exchange rate policy have comprised the following: devaluation, the establishment of more flexible exchange rates, the dismantling of quantitative restrictions on imports, the lowering and harmonization of import tariffs, the reduction in or elimination of taxes on exports, and the establishment of preferential regimes regarding credit and taxation of imported inputs used in the production of exports.

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EAGER

USAID

EAGER — Equity and Growth through Economic Research — is a six-year activity (1993–1999) sponsored by the U.S. Agency for International Development, Bureau for Africa, Office of Sustainable Development, Strategic Analysis Division.

The primary goal of EAGER is to increase the availability and use of analytical research by decision-makers in both the public and private sectors in order to promote the adoption and implementation of policy reforms that foster rapid, equitable, and sustainable growth. EAGER supports economic and social science policy analysis in Sub-Saharan Africa. The research addresses two key constraints that inhibit the implementation of more appropriate policies. First, EAGER seeks to expand indigenous capacity in these countries to undertake policy analysis. Second, EAGER seeks to improve the impact of that policy analysis on improving economic performance.

Two basic principles guide the policy analysis undertaken by EAGER. First, outstanding American and African institutions and analysts work side by side on collaborative investigative teams. Second, stakeholders and decision-makers are involved in the selection, design, implementation, and dissemination of EAGER research.

EAGER research activities comprise two components:

- **Public Strategies for Promoting Growth and Equity, which is referred to as EAGER/PSGE and is being implemented by the Harvard Institute for International Development (HIID)**
- **Trade Regimes and Growth, which is referred to as EAGER/Trade and is being implemented by Associates for International Resources and Development (AIRD).**

EAGEReport provides periodic updates on the EAGER research agenda and on findings, lessons, and policy-related results of EAGER activities. EAGEReport is published as part of EAGER's substantial program of logistics, communication, and dissemination, which is implemented by BHM International Inc. EAGEReport is published in English and French and may be quoted and reproduced if proper credit is given.

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All-Africa EAGER Workshop

August 13–15, 1997

White Sands Hotel, Dar es Salaam, Tanzania

EAGER is hosting an Africa-wide workshop in Dar es Salaam, August 13–15, 1997. The workshop will take place at the White Sands Hotel, and will be hosted by the Economic and Social Research Foundation (ESRF).

Participants will include researchers and other representatives from institutions in the EAGER consortium in the United States and Canada, as well as invited policymakers, business people, and others with a stake in policy reform in Tanzania and throughout Africa. Following the format of previous EAGER workshops in Bamako, Kampala, and, most recently, Accra, the workshop will comprise both plenary and parallel sessions on topics related to EAGER studies, based on presentations by the researchers.

For more information, or to obtain copies of the forthcoming proceedings from the workshop, contact Annette Sheckler at BHM International (telephone: 301-565-2205, ext. 113; fax: 301-565-4384; e-mail: Shecklera@aol.com).

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The reforms have been designed to induce growth through the reallocation of resources away from inefficient production of import-competing goods and nontradables and towards the production of goods for export. This should lead to static economic gains resulting from trading in accordance with comparative advantage and exploitation of economies of scale. There are also a number of dynamic ways in which trade may contribute to economic growth. These include having trade and associated investment serve as a conduit for technological transfer, increasing the efficiency of enterprises forced to compete to a greater extent in foreign and domestic markets, expanding the commercial and managerial competence of entrepreneurs, augmenting the skills of the work force, creating a market for labor in the face of growing population pressure, and increasing foreign exchange earnings that can be used to import capital equipment. In addition, according to the new "endogenous" growth theory, openness to trade increases the returns to innovation and encourages specialization in "research-intensive" production.

The empirical evidence for developing countries largely supports the theoretical arguments concerning the favorable impact of outward-looking, market-oriented policy reform on trade and growth. The recent experience in Africa, however, has been disappointing. Despite a substantial record of policy reform in many African countries during the 1980s, output per capita fell by 0.6 percent from 1987 to 1994, virtually the same performance as during the previous ten years. Lack of economic growth may reflect the failure of reforms to be fully implemented or sustained, or it may be due to structural factors such as landlocked location and natural resource abundance. It is also possible that many African countries lack the physical infrastructure and human capital in the form of education and institutional development that would allow them to take full advantage of the potential opened up through policy reform. Thus, policy reform may be a necessary, but not sufficient condition for expanded trade and growth. The length of time required for these beneficial effects to occur may be longer where there is less infrastructure and where other conditions necessary for development are lacking.

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Two arguments, in particular, merit special attention because they have been raised relatively recently in the literature. The first, which has been put forth by Robert Bates, relates to the

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failure in Africa for reform to become sufficiently imbedded in the political fabric such that it can retain widespread support.[1] Prior to reform, according to Bates, entrenched interests associated with the state maintained a policy environment that destroyed producer incentives and heavily penalized the rural sector, while benefiting the urban population upon which the state depended. Because of the erosion of producer incentives, the productive base of these economies ultimately broke down, and the states were forced to turn to the International Monetary Fund and the World Bank for assistance. This shifted power towards the executive branch of government and, in particular, towards the bureaucrats in the central bank and finance ministry. Once the initial rounds of reforms had been achieved, however, the old special interests began to reassert themselves without substantial opposition from those who would benefit materially from the reforms, especially producers of nontraditional exports, unless the latter were able to forge new alliances with the technocrats. In many countries this did not happen, and backsliding ensued.

Africa also suffers from a poorly developed institutional base. This is expressed in numerous ways. For example, the weak tax base makes it very difficult for governments to raise the revenue that they need without excessively taxing the small formal sector and destroying its incentives to expand. This creates inflationary fiscal pressures, which are hard to control because weak financial institutions make the implementation of monetary policy very difficult. Weaknesses in the financial system also make it hard for firms that want to expand to raise the necessary capital. Other institutional problems relate to an inadequate legal, regulatory, and judicial (LRJ) environment, excessive administrative controls on foreign trade, and weak commercial and marketing institutions. The importance of this institutional environment in the modern world economy has been stressed by Mancur Olson, who deems it the most critical factor in establishing the preconditions for investment, trade, and growth.[2]

Case studies of individual country experience in Africa suggest that the ability of these countries to take advantage of outward-looking, market-oriented reforms depends, at a minimum, on the following factors.

- **First, the reforms must be substantial, well implemented, and sustainable.**
- **Second, the country must have markets capable of reallocating resources in line with comparative advantage based on resource endowments, productivity levels, and input prices.**
- **Third, there must be adequate infrastructure in transportation, telecommunications, energy, water supply, and other areas essential to competitive export activity.**
- **Fourth, there must be mechanisms to acquire and distribute information on market opportunities, production technologies, and other areas through professional and trade associations, agricultural research organizations, training and educational institutions, radio and television coverage of markets, etc.**
- **Fifth, countries must have the human capital capable of taking advantage of new opportunities for trade.**
- **Finally, there is the role of the public sector and the institutions that**

surround it vis-à-vis the private sector. Especially important in this regard is the incentive structure imposed by the tax system, a stable macroeconomic environment, a strong LRJ environment, and a politically and militarily secure society within which economic activity can prosper.

A recurring theme in EAGER studies is the weak state of institutional development in Africa.

Implications of EAGER Research

The results of EAGER research conducted thus far suggest some of the reasons for the limited response of many African countries to the improved policy environment. Much of this has to do with the fact that announcing a policy change at a high level does not necessarily mean that incentives change dramatically for producers. Lack of macroeconomic control and severe fiscal weaknesses have played havoc with inflation and real exchange rates. The bias against exports that exists because of Africa's dependence on taxation of trade persists even though trade tax rates have been simplified and reduced. Barriers to cross-border trade remain ever present despite major efforts to identify and eliminate them. As suggested by an EAGER study of livestock production and export in Mali, perhaps this is because an alliance has yet to be struck between the exporters who benefit from the policy reforms and the technocrats who were instrumental in undertaking them.

A recurring theme in EAGER studies is the weak state of institutional development in Africa. This shows up in EAGER's econometric analysis and country studies alike. A limited tax base and weak tax administration lead to low revenue, fiscal imbalance, inflation, and disincentives to producers. Poorly developed financial institutions limit access to capital, especially by small and medium-size firms. An inadequate LRJ environment contributes to uncertainty, discretionary government intervention, and discouragement of investment. Lack of information about markets, inability to meet quality standards and production schedules, and delays in clearing customs contribute to poor competitiveness on world markets.

Changing all of this requires a continuing effort to determine where the bottlenecks are and to inform policymakers, the public, and special interest groups of their impact on and cost to the economy. The premise underlying EAGER is that sound economic research can play an important role in this process. This requires working closely with public officials and private sector leaders to make certain that the research is relevant to policy decisions, is methodologically sound, and is disseminated in such a way as to inform the greater public and contribute to the formulation of well-conceived policies that have a foundation of broad support.

1. Robert Bates, "The Politics of Economic Policy Reform: A Review Article," *Journal of African Economies* 2(3) (1993): 417–33. See also, Robert Bates, *States and Markets in Tropical Africa: The Political Basis of Agricultural Policy* (Berkeley: University of California Press, 1981).

2. Mancur Olson, "Big Bills Left on the Sidewalk: Why Some Nations Are Rich, and Others Poor," *Journal of Economic Perspectives* 10(2) (1996): 3–24.

J. Dirck Stryker, Founder and President of Associates for International Resources and Development (AIRD), is Chief of Party, EAGER/Trade. He is also Associate Professor of International Economic Relations at the Fletcher School of Law and Diplomacy. This piece is excerpted from "Trade and Development in Africa," *PRAXIS: The Fletcher Journal of Development Studies*, volume XIII, 1997.

UPDATE on EAGER Research

A number of research studies are in development or underway by the two EAGER components. Below is a list of the individual studies under the broad research themes of Trade Regimes and Growth (EAGER/Trade) and Public Strategies for Promoting Growth and Equity (EAGER/PSGE). The lead article in this issue of EAGEReport ("Promoting Trade and Development through Policy Reform") provides an overview of the broad issues that are being addressed by EAGER/Trade. The article that follows this update ("Current EAGER/PSGE Research") describes two studies being conducted by EAGER/PSGE under the theme of "Legal, Regulatory, and Judicial Reforms and Governance." Future issues of EAGEReport will examine in detail the studies being conducted under other EAGER research themes.

TRADE REGIMES AND GROWTH (EAGER/TRADE)

BARRIERS TO CROSS-BORDER TRADE

Promotion of Mali's Rice Exports Towards the West African Regional Market
Principal Investigator: Abdoul Barry, AIRD
Status: final draft expected summer 1997

Prospects for Developing Malian Livestock Exports
Principal Investigator: Jeffrey Metzel, AIRD
Status: final draft expected summer 1997

Tanzanian Small-Scale Mining
Principal Investigator: Lucie Phillips, IBI
Status: final draft expected summer 1997

Cross-Border Trade in Ghana
Principal Investigator: Gayle Morris, IBI
Status: first draft expected summer 1997

Domestic Marketing of Vanilla Exports in Madagascar
Principal Investigator: Jeffrey Metzel, AIRD
Status: first draft expected summer 1997

Regional Marketing of Uganda's Nontraditional Export Crops
Principal Investigator: Fred Opio, EPRC
Status: proposal to be reviewed summer 1997

EFFECTS ON TRADE OF MONETARY, FISCAL, AND EXCHANGE RATE POLICY

Monetary and Exchange Rate Policy in Ghana
Principal Investigator: Charles Jebuni, CEPA
Status: first draft expected summer 1997

Trade Taxes and Producer Incentives in Ghana
Principal Investigator: J. Dirck Stryker, AIRD
Status: first draft expected summer 1997

Monetary and Exchange Rate Policy in Uganda
Principal Investigator: Marios B. Obwona, EPRC
Status: proposal to be reviewed summer 1997

Efficiency of Trade Tax Regime in Kenya
Principal Investigator: Graham Glenday, HIID
Status: proposal to be reviewed summer 1997

NEW OPPORTUNITIES FOR AFRICAN TRADE AND INVESTMENT

Promoting New Trade Opportunities for Africa
Principal Investigator: Lynn Salinger, AIRD
Status: completed

Structure of Incentives and Manufacturing Competitiveness in Mali
Principal Investigator: John Cockburn, CREFA-LAVAL
Status: final draft expected summer 1997

South Africa: Potential, Constraints, and Comparative Advantage in the Cotton/Textiles/Garments Subsector
Principal Investigator: Lynn Salinger, AIRD
Status: first draft expected summer 1997

Foreign and Local Investment in Kenya and Uganda
Principal Investigator: Lucie Phillips, IBI
Status: first draft expected summer 1997

Domestic Resource Cost Approach to South Africa's Industrial Comparative Advantage
Principal Investigator: Siphiwe Cele, Development Bank of South Africa
Status: proposal approved January 1997

Structure of Incentives and Manufacturing Competitiveness in Kenya and Uganda
Principal Investigator: Eckhard Siggel, CREFA-LAVAL
Status: proposal expected summer 1997

REGIONAL INTEGRATION IN EAST AND SOUTHERN AFRICA

Promoting Trade through Regional Integration
Principal Investigator: Steven Radelet, HIID
Status: completed

Global Trade Analysis for Southern Africa
Principal Investigator: William Masters, Purdue University
Status: first draft expected January 1998

Modeling Electricity Trade in Southern Africa
Principal Investigator: Brian Bowen, Purdue University
Status: first draft expected January 1998

CHALLENGES TO TRADE

Lessons of East Asia for Promoting Trade in Africa
Principal Investigator: Karen Engel, AIRD
Status: completed

Bringing Down Policy Barriers to Trade in Africa
Principal Investigator: Jeffrey Metzel, AIRD
Status: completed

Political Economy of Policy-Making in Africa
Principal Investigator: Lucie Phillips, IBI
Status: completed

Restarting Growth in Africa
Principal Investigator: Malcolm McPherson, HIID
Status: proposal expected summer 1997

SURVEY PAPERS AND DESK STUDIES

Trends in African Trade
Principal Investigator: Abdoul Barry, AIRD
Status: completed

Structural Barriers to Trade
Principal Investigator: Joseph Stern, HIID
Status: completed

Econometric Analysis of Trade, Growth, and Poverty
Principal Investigator: J. Dirck Stryker, AIRD
Status: first draft expected summer 1997

Emerging World Trade Order in Financial Services
Principal Investigator: Michael Isimbabi, IBI
Status: first draft expected summer 1997

Determinants of Foreign Direct Investment in Africa
Principal Investigator: Saskia Wilhelms, AIRD
Status: proposal approved spring 1997

PUBLIC STRATEGIES FOR GROWTH AND EQUITY (EAGER/PSGE)

LEGAL, REGULATORY, AND JUDICIAL REFORMS AND GOVERNANCE

The Cost of Doing Business: The Legal, Regulatory, and Judicial Environment in Ghana, Madagascar, and Tanzania
Principal Investigator: J. Dirck Stryker, AIRD
Status: first draft expected January 1998

Legal and Regulatory Framework for Sub-Saharan Africa
Principal Investigator: Georges Korsun, IRIS
Status: proposal accepted summer 1997

MACROECONOMIC STABILIZATION

Tax Policy in Sub-Saharan Africa: The Role of Excise Taxes: Madagascar and Tanzania
Principal Investigator: Jonathan Haughton, HIID
Status: first draft expected summer 1997

Enhancing Transparency in Tax Administration: Madagascar and Tanzania
Principal Investigator: Clive Gray, HIID
Status: first draft expected summer 1997

Improving the Framework for Monetary Programming: Tanzania and Zambia
Principal Investigator: Clive Gray, HIID
Status: proposal accepted fall 1996

Restarting and Sustaining Growth in Africa
Principal Investigator: Malcom McPherson, HIID
Status: proposal accepted summer 1997

FINANCIAL MARKETS

Financial Intermediation for the Poor: Senegal and South Africa
Principal Investigator: Eric Nelson, DAI
Status: proposal accepted winter 1996–97

The Impact of Financial Sector Reform on Bank Efficiency and Financial Deepening for Savings Mobilization: Ghana
Principal Investigator: Sam Ziorklui, Howard University
Status: first draft expected summer 1997

Development of Capital Markets
Principal Investigator: Sam Ziorklui, Howard University
Status: final proposal expected summer 1997

LABOR MARKETS

Growth of Productivity and Employment in South Africa
Principal Investigator: J. Dirck Stryker, AIRD
Status: first draft expected summer 1997

Guide to Participating Research Organizations

AIRD: *Associates for International Resources and Development, Cambridge, MA, USA*

CEE: *Centre d'Étude Economique, Antanánario, Madagascar*

CEPA: *Center for Policy Analysis, Accra, Ghana*

CREFA-LAVAL: *Centre de Recherche en Economie et Finance Appliquées, Université Laval*

DAI: *Development Alternatives, Inc., Bethesda, MD, USA*

EPRC: *Economic Policy Research Center, Kampala, Uganda*

ERB: *Economic Research Bureau, University of Dar es Salaam, Tanzania*

HIID: *Harvard Institute for International Development, Cambridge, MA, USA*

IBI: *International Business Initiatives, Arlington, VA, USA*

IRIS: *Institutional Reform and the Informal Sector, University of Maryland, College Park, MD, USA*

UDSM/ED: *University of Dar es Salaam Economics Department, Tanzania*

Current EAGER PSGE RESEARCH

Legal, Regulatory, and Judicial Reforms and Governance

Last year, the economies of Sub-Saharan Africa grew by 4.4 percent — the fastest rate in 20 years and no longer appreciably lower than the growth rates of other poor and middle-income countries around the world. Yet, the legal, regulatory, and judicial (LRJ) framework and infrastructure in these countries are proving to be inadequate, hampering the flow of information and raising the costs of economic transactions. Below is a description of two studies of the role of the LRJ environment being undertaken by EAGER's Public Strategies for Growth and Equity component.

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

The market-oriented reforms undertaken in Ghana, Madagascar, and Tanzania have not led to the expected improvements in general economic growth, and an EAGER/PSGE research team is examining why. The team comprises researchers from the University of Maryland's program on Institutional Reform and the Informal Sector (IRIS), Mayatech Corporation, and Associates for International Resources and Development (AIRD). The researchers will focus on the role of three factors in promoting or inhibiting growth:

- **Contract Enforcement: Impartial contract enforcement, overseen by an independent judiciary, provides a critical incentive for firms to enter into complex commercial agreements. Appropriate enforcement procedures enhance the predictability of the system by restraining opportunism among contracting parties and diminishing the arbitrary influence of elites. This reduces the costs and increases the benefits of commercial exchange. It also allows small and medium-size enterprises to participate more fully in the economy.**
- **Labor and Capital Market Laws and Regulations: Well-designed laws and regulations governing the markets for labor and capital can enhance growth and equity by changing the costs and incentives for businesses. Existing labor codes in many Sub-Saharan African countries limit the ability of firms to fire full-time employees. Consequently, firms rely on short-term task workers, whom they are unwilling to train. Lowering the costs of capital and increasing firms' access to alternative financing mechanisms can help improve their ability to invest and expand. Improving the access to capital of small and medium-size enterprises also can enhance equity. In many Sub-Saharan countries, firms can only gain financing by mortgaging real property (for which they have a registered title document), which severely restricts their ability to borrow.**
- **Bureaucratic Constraints on Private Sector Development: In many countries, firms in the private sector operate under LRJ systems that are slow, costly, uncertain, and inadequate. As a result, many firms find informal ways to conduct business. While such informal arrangements may be adequate at modest levels of economic activity, they become more costly to the firms and to society as a whole as the pace of economic activity increases.**

Each of the three research institutions involved in this study will focus in depth on one of three topics listed above and will work primarily in one of the three study countries (although not to the exclusion of the other two). This approach will allow the research team to make cross-country comparisons while taking into account the priorities of the policymakers in each country.

Contract Enforcement in Tanzania

IRIS will study the impact of formal legal institutions on contract enforcement, primarily in Tanzania. The research team, led by Patrick Meagher and Satu Kähkönen, will address the following questions:

- **What are salient characteristics of business transactions in the specific sectors under study?**
- **What modes of contracting and contract enforcement are used?**
- **What aspects of the legal system facilitate or obstruct contracting?**
- **What are the relationships among legal institutions, contracting practices, and the nature of business transactions?**
- **How can reform in these areas help to promote private sector growth?**

The researchers will consider how to enhance business activity by reforming key aspects of the system, including: contract law; systems for adjudication, arbitration, dispute resolution, and civil procedure; property and lien registration; credit reporting; insurance; and consumer information.

Labor and Capital Markets in Madagascar

J. Dirck Stryker will serve as Principal Investigator for AIRD's study of the laws and regulations that govern labor and capital markets affect the prospects for growth. The research team will focus on Madagascar and will examine:

- **How do labor regulations affect firms? How do the effects differ among firms?**
- **What are the constraints on firms' ability to raise capital and obtain financing through bank credit, borrowing from overseas, issuing stocks and bonds, and other formal means?**
- **Which aspects of the current system present the greatest obstacles to firms' expansion?**

The team will assess the promise of such reforms as enhancing the appropriability of property used as loan collateral, including inventory and receivables as well as real property, and allowing for chattel mortgages and the repossession of property in case of delinquency.

Bureaucratic Constraints in Ghana

Fred Boadu of Mayatech Corporation will lead a study of how bureaucratic constraints inhibit private sector development, primarily in Ghana. His team will explore:

- **From what sources can small and medium-size firms obtain medium- and long-term lending and credit insurance? What are the costs associated with each source? What is the impact on the behavior of the firm?**
- **How do the systems used to provide credit to small and medium-size firms compare with the bank and non-bank financing that is available to large firms?**
- **How have the courts influenced the relationship between labor and management?**
- **How are rules and regulations affecting trade, insurance, and the labor market promulgated and implemented? What costs are associated with these bureaucratic procedures?**

The team will consider the appropriateness of deregulating labor markets to some degree, particularly in the area of hiring and firing, and of undertaking reforms designed to promote on-the-job training.

The Impact of Financial Sector Reform in Ghana on Bank Efficiency

Commercial banks play an important role in mobilizing savings and allocating credit to the private sector, particularly in developing countries where capital markets are not well-developed. However, the banking sectors of many developing countries have been subject to excessive government regulation and market intervention and, as a result, have grown inefficient and fragmented. They are often characterized by high operating costs, inflated profits, huge non-performing loan portfolios, inadequate capitalization and reserves, and insolvency.

In the early 1980s, the government of Ghana embarked on a comprehensive economic recovery program that targeted the problems of the financial sector. The program was implemented in collaboration with the World Bank and the International Monetary Fund and was known as the Financial Institutions' Sector Adjustment Program (FINSAP). The impact of the program has been broad and significant, but the financial sector has performed poorly in the wake of the reforms. Policymakers and other stakeholders in Ghana consider it a priority to determine why.

An EAGER/PSGE research team will assess the impact of the reforms on banks' operations and efficiency and, in particular, on their ability to mobilize savings and allocate credit to the private sector. The study team of eight senior researchers will be led by Sam Q. Ziorklui of Howard University. Because Ghana has been a pioneer in Sub-Saharan Africa in structural adjustment and financial sector reform, the results of this study may be important for other countries that face similar problems. The study, just getting underway, will address the following questions, among others:

- **What are the main constraints to banking efficiency in Ghana?**
- **How did the reforms affect banking efficiency, savings, and growth?**
- **How did the commercial banks react to the financial sector reforms, especially the removal of ceilings on deposit and lending rates? Had the ceilings been effective when they were in place?**
- **Did commercial banks increase the share of credit (loans) allocated to the private sector?**
- **How do banks control their risk of exposure to foreign exchange rate volatility?**
- **What changes have been made in the regulation and supervision of banks? How will these changes promote banking efficiency, public confidence, savings mobilization, and the allocation of credit to the private sector?**

The research will include interviews with bank managers and staff members, bank regulators and examiners, and commercial bank depositors and borrowers. The researchers also will construct a comparative index of bank efficiency and performance.

Policy Workshop in Ghana Embodies EAGER's Interactive Approach

For a copy of the published proceedings of the February workshop in Accra, contact Annette Sheckler at BHM International (telephone: 301-565-2205, ext. 113; fax: 301-565-4384; e-mail: Shecklera@aol.com).

EAGER held its third semi-annual workshop in Accra, Ghana, on February 3–8, 1997. Hosted by the Ghanaian Centre for Policy Analysis (CEPA), the workshop brought together more than 100 researchers, policymakers, and business leaders from nine Sub-Saharan African countries and the United States. The participants engaged in a lively discussion about how EAGER research activities can better promote and support the design and implementation of effective policy reform in Sub-Saharan Africa. The participants reviewed the preliminary results of current EAGER research, discussed proposals for future studies, and discussed some of the broad issues that affect growth and development in the region.

These semi-annual workshops provide an opportunity for African policymakers to take an active intellectual role in guiding EAGER's research and policy focus. At previous workshops in Bamako (Mali) and Kampala (Uganda), the policymakers offered guidance for the design of proposed research projects. Now, as some of the early research is nearing completion, they are providing practical, policy-oriented feedback on the results of the initial fieldwork. The policymakers push the researchers to test their results and to find politically acceptable and economically viable avenues for spurring development. As a result, the researchers have taken into account the potential impact of and interactions among economic actors that might otherwise have been overlooked.

The Vice President of Ghana, John Evans Atta Mills, welcomed participants on the first day of formal meetings. He stressed the critical importance of issues to be addressed — notably trade and its ability to create new economic opportunities — for the economic success of African countries. He called upon the participants to stimulate trade by addressing the problems that impede it. He emphasized that the soundness of trade policies depends on the depth of the research on which they are based, and he challenged the participants to attempt to foresee and address potential obstacles to effective policy reform before specific policies are implemented. (See the full text of the Vice President's remarks below.)

The workshop participants took up this challenge, offering a rich mix of theory, research, and practical policy reform experience. In particular, they helped focus and improve proposals for future research, suggested ways to overcome methodological and practical obstacles to conducting the research, and raised important considerations for implementing policies that spring from the research.

The EAGER Research Agenda

During the first day of formal meetings, the workshop participants reviewed the broad research strategies of the two components of EAGER: Trade Regimes and Growth (EAGER/Trade) and Public Strategies for Promoting Growth and Equity (EAGER/PSGE). (See "Update on EAGER Research.")

J. Dirck Stryker, of Associates for International Resources and Development (AIRD) and Chief of Party of EAGER/Trade, summarized the preliminary findings of several studies nearing completion by EAGER/Trade. EAGER/Trade covers five research themes:

- **Barriers to Cross-Border Trade**
- **Effects on Trade of Monetary, Fiscal, and Exchange Rate Policy**
- **Regional Integration in East and Southern Africa**
- **New Opportunities for African Trade and Investment**
- **Challenges to Trade**

Clive Gray, of the Harvard Institute for International Development (HIID) and Chief of Party for EAGER/PSGE, outlined the studies now being implemented under the EAGER/PSGE component, which fall under four main categories:

- **Legal, Regulatory, and Judicial Reforms and Governance**
- **Macroeconomic Stabilization**
- **Financial Markets**
- **Labor Markets**

An afternoon plenary session focused on two multi-country EAGER studies. EAGER/PSGE presented the broad outlines of a study on "Restarting and Sustaining Growth and Development in Africa," which will explore why structural adjustment has not consistently led to improved economic growth. The study will focus on the factors that influence the success of the policy reform process. "New Opportunities for Trade and Investment," a study being implemented by EAGER/Trade, is exploring how Africa can carve out an active role in the globalized international trading system, which centers around commerce in labor-intensive, high-tech goods and services, particularly given its continued reliance on trade in primary products.

Individual country studies proposed or currently underway were discussed in parallel sessions on the second day of formal meetings. The country studies were grouped for discussion under categories that echoed the broad research themes of the two EAGER components.

The research teams also exchanged insights on methodological and practical research issues. Topics included two different methods for measuring comparative advantage and competitiveness, strategies for increasing the participation of the private sector in EAGER research, approaches to econometric modeling, and collecting and using of qualitative and quantitative data. These discussions indicated that, methodologically, the research is generally on the right track. However, they also suggested that more can be done to bring the private sector more centrally into the policy dialogue.

The Interactive Approach

EAGER seeks to promote an interactive approach to policymaking by spurring and sustaining an ongoing dialogue among those who design, implement, and are affected by policy reform. EAGER's semi-annual workshops in Africa are one means of doing this. EAGER will also use the Internet to promote more continuous *and* spontaneous conversations among a broader network of researchers, policymakers, and business people and to widely disseminate the results of EAGER's work. Research teams also work throughout their projects with Advisory Committees that comprise high-level policymakers from both the public and the private sectors. The Accra workshop, and its aftermath, was an excellent example of how this interactive approach can function. Within six weeks after the workshop, the proceedings were distributed to participants. These ensured continued discussion of the themes of the workshop and the research upon which it focused. This discussion — much of which took place via e-mail — resulted in modifications to research proposals and incorporation of comments and suggestions into the research plans. As a result, the research was made to apply more directly to policymakers' needs.

Welcome Address
to the Workshop Participants

by Professor John Evans Atta Mills, Vice President of Ghana

I extend my warmest welcome to all participants who are visiting Ghana for the first time and also express my personal pleasure at this opportunity to meet and interact with you, especially on the important topic of "Trade, Growth and Equity in Sub-Saharan Africa: An Interactive Approach to Policymaking."

Trade, if handled effectively, opens up new markets, creating more job opportunities and fueling the growth of the economy. Sound trade policies will depend upon the depth of research that has gone into their preparation. Much too often, however, our programs suffer because we rush into the implementation stage and only start thinking of solving problems when we come up against them. This is why we too often hear of "backward integration," when what we really mean is that we are trying to resolve problems that we should have foreseen.

You must therefore be congratulated not only on the relevance of your topic but on the rationale behind the workshop — to bring together policymakers, business leaders, and researchers to see how best to make economic and social research relevant to policy formulation and how best to make practical use of the research in solving pressing economic and social problems.

I understand that you will also discuss issues concerning the effects on trade of monetary, fiscal, and exchange rate policy and of industrial competitiveness in domestic, regional, and world markets. The practical tone of these aims is of crucial interest to any government that, like the government of Ghana, has set itself the target of making the private sector the engine of growth and that is set to reap the practical fruits of economic reform programs.

If research is not tailored to meet specific needs, it will be of little use to our industrial and commercial communities. Many research findings have gathered dust on bookshelves in offices and libraries, because [they are] overly academic and theoretical.... Fortunately for our countries and our business communities, you have realized this and are here to find solutions.

Let me take the example of the Council for Scientific and Industrial Research to better illustrate this point. The Council noticed that it was not getting the support it needed for its research activities. It therefore...took contracts to engage in specific and tailored research to fit particular purposes. I understand that it has found [this] so rewarding that it has decided to commercialize on a large scale its research and development activities. [In fact], an act has been passed by Parliament to give teeth to this policy by reviewing the mandate of the Council. This way, research institutions can complement government's efforts to accelerate economic growth.

A major concern of Ghana's development program has been to provide adequate infrastructure to accelerate economic growth. One of the pillars of this policy has been the extension of electricity nationwide. One aim of this policy is to open up the country for industrialization and improved commerce. You can assist in this exercise by paying attention to the needs of rural communities in your research programs and by making available to rural industries and markets your research findings. I submit that there will be no better opportunity than this forum for you to lay down the mechanisms for such future cooperation and integration for rural development. I urge you to place such an item on your agenda, if it is not already there.

I believe one of the ways you can make a worthwhile impact in this regard is to make research findings affordable to small-scale

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Welcome Address
to the Workshop Participants

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businesses.... Rural businesses do not need sophisticated and expensive processes. Quite often, simple but efficient processes are all that are required. For example, one of the problems for our rural farmers is improper storage of their farm produce, which leads to unacceptable levels of post-harvest losses before the produce can be sold in various markets. The solutions must be affordable and accessible if they are to have any practical effect.

I would also like to recommend that we find ways and means of bringing the cost of research down to manageable levels. One way we can do this is to rely more on local consultants and researchers than on foreign ones. We need to make use of the talents and skills in our tertiary institutions and other professional bodies rather than resorting to overseas personnel at every opportunity, [which] is discouraging [to] Ghanaian researchers and consultants. This results in very heavy bills for management and technical service fees to outside companies, which the country could save if we relied more on our local potential. In addition to saving us several thousand dollars every year, this will also encourage our local researchers and consultants to devote more time to research. It will also build up our pool of consultants and research personnel, which can then be more readily tapped. The Association of Ghanaian Consultants and similar bodies are no doubt fully aware of this.

At the same time, I am aware that the use of foreign consultants is often a condition written into aid and loan agreements. It is a positive sign that more donor countries and agencies have come to recognize the capabilities of our local consultants, and we should all press for greater recognition of this pool of expertise. We should also give more support to the creation of subregional and regional specialized centers of excellence, which can provide services beyond our national borders.

I hope these deliberations are very successful and beneficial, and I assure you that the government of Ghana is keenly interested in the outcome of your discussions. The vision of the government is to place this country solidly among the middle-income-level nations by 2020. You have a part to play in this, and I am confident that you will not let Ghana and our continent down!

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EAGEReport

Restarting and Sustaining Growth and Development in Africa

Over the past two decades, Africa has been burdened by sluggish, often negative, economic growth, resulting in reduced welfare for most of the population. Although the growth rates have recently improved, the variety of structural adjustment programs that have been put in place still have not yielded politically acceptable rates of growth or development.

IN THIS ISSUE

EAGER's Public Strategies for Promoting Growth and Equity component (EAGER/ PSGE) has launched a comprehensive research effort on "Restarting and Sustaining Growth and Development in Africa." A group of EAGER/PSGE consortium members and collaborating African research institutions will be implementing the research, with the Harvard Institute for International Development (HIID) taking the lead. The initiative is designed to highlight the key obstacles to

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EAGER

USAID

EAGER— Equity and Growth through Economic Research—is a six-year activity (1993–1999) sponsored by the U.S. Agency for International Development, Bureau for Africa, Office of Sustainable Development, Strategic Analysis Division.

EAGER supports economic and social science policy analysis in Sub-Saharan Africa. Its primary goal is to increase the availability and use of analytical research by decision-makers in both the public and private sectors in order to promote the adoption and implementation of policy reforms that foster rapid, equitable, and sustainable growth. Two key constraints inhibit the implementation of policy reforms: limited capacity for analysis, and insufficient economic improvement resulting from the analysis. EAGER research will help expand indigenous capacity to undertake policy analysis, and improve the positive impact of that analysis on economic performance.

EAGER ensures the involvement of all interested parties by adhering to two basic principles. First, American and African analysts and institutional representatives work side-by-side on collaborative investigative teams. Second, stakeholders and decision-makers are involved in the selection, design, implementation, and dissemination of EAGER research.

EAGER research activities comprise two components:

- **Public Strategies for Promoting Growth and Equity (EAGER/PSGE), implemented by the Harvard Institute for International Development (HIID)**
- **Trade Regimes and Growth (EAGER/Trade), implemented by Associates for International Resources and Development (AIRD)**

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Regular contributors to EAGEReport include the EAGER teams at USAID, HIID, and AIRD, as well as Linda Griffin Kean (who serves as Managing Editor), Sytske Braat-Campbell (Abt Associates), and consultants to Abt Associates Don Jackson, Linda Klinger, and Catherine Utz (who translated this issue into French). KINETIK Communication Graphics Inc. designs and produces both the English and French editions.

Restarting and Sustaining Growth and Development in Africa

FROM PAGE 1

accelerated growth and to suggest policy departures for achieving broad-based development. Using both cross-country research and country-based analysis, the study will explore why economic reform programs in many countries have not been sustained.

Scholars from different disciplines and various backgrounds and from both Africa and the West have consulted to formulate objectives, specify tasks, designate individual researchers or groups of researchers, and create a schedule of milestones. The result will be a set of initiatives designed to restart and, more importantly, sustain growth and development in Africa.

The study is predicated on the existence of linkages between growth (sustained increases in real output per capita) and development (general improvements in welfare). Comparisons of growth rates and development among different countries invariably cite three factors that contribute significantly to positive results:

- **capable macroeconomic management, with "macroeconomic management" defined as policy or administrative actions or decisions that avoid such fiscal traps as deficit financing, overreliance on debt, and other actions that lead to rampant inflation.**
- **effective institutions, with "institutions" referring to political groups and government bodies, from cabinet ministries to smaller bureaucratic agencies, that improve the performance of public bureaucracies, enhance the implementation of constructive policies and, in general, foster good governance.**
- **strategies that enhance competitiveness and productivity, with "strategies" referring to efforts by foreign and domestic producers to raise productivity, create jobs, increase the level of output, and promote international competitiveness.**

The lack of sustained reform is primarily due to weaknesses within governments.

Fulfilling the Promise of Reform

Africa's economic plight has prompted massive responses on a global level and by individual African countries. International financial institutions and bilateral donors have launched initiatives such as program lending, balance-of-payments support, sectoral rehabilitation, multilateral investment guarantees, and accelerated debt reduction. They also have supported intensive research on Africa. Scores of conferences, seminars, and workshops have sought solutions for Africa's economic problems. Nonetheless, little of the reform agenda that grew out of these activities has been implemented in a sustained manner.

Many researchers consider the primary cause of failure to be weaknesses within governments, including a lack of commitment to reform, political agendas that focus on short-term goals, and weak local institutions. In some cases, the government officials overseeing reform efforts have favored opportunistic routes to economic stability over more prudent albeit slower-acting choices involving production, enterprise, and innovation.

Policy reforms raise numerous political issues, including the role of independent central banks, sequencing, and social costs of adjustment. But the first priority of policymakers should be to ensure that reforms, once in place, are sustained. This is the key to promoting long-term economic growth, which in turn, fosters equity and reduces poverty.

The Focus of the Research

Senior researchers in five countries—Kenya, Senegal, Tanzania, Uganda, and Zambia—have expressed interest in the new study on restarting and sustaining growth. An economist from the EAGER/PSGE consortium will liaise with each national team. If the debate is to reach top policymaking circles, prominent officials and scholars must be involved in each country. An early task for each team, therefore, is to enlist the interest and support of appropriate local decision-makers.

A seminar will be held in each country to seek a consensus on the principal directions for research. Following completion of the country and thematic

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Restarting and Sustaining Growth and Development in Africa

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reports, a multinational workshop will distill key measures for sustaining reform and promoting growth and development. Reports will be distributed as EAGER discussion papers and will comprise chapters in the project's final report.

Each country study will cover five major topics:

- **Principal elements of policy reform and the extent of implementation**
- **How foreign investors and local entrepreneurs have modified their behavior in response to reforms, based on their perceptions of resulting improvements or problems in the business environment**
- **Policymakers' perceptions of the reform implementation process and its outcome and of the response from foreign investors and local business**
- **Measures necessary to complete each reform program and launch the country into rapid growth and sustained reform**
- **Obstacles to implementing these measures and means of overcoming them.**

In addition, the research teams will analyze perceptions of political leaders, technical specialists, and major stakeholders regarding their country's growth aspirations and the initiatives that government (and others) must undertake to realize them. This will include attitudes toward the following issues:

- **The external sector, notably the foreign exchange rate, openness to trade, and the need for exports to grow more rapidly than GDP**
- **The financial system, including the link between fiscal imbalance and inflation and the question of whether any system based on state-run banks can escape bankruptcy**
- **Regulation and its impact on local investors who seek export outlets**
- **The status of privatization, its evolution, and the expectations for success**
- **Channels of communication between business and government**
- **Policymakers and the effectiveness of the policy dialogue.**

The People Behind the Project

The coordinator of the new study is Malcolm McPherson (HIID), EAGER/PSGE's senior adviser. He is supported by a team of senior research advisors at HIID, including Jeffrey Sachs, David Bloom, and Robert Bates.

James Duesenberry (HIID) is leading the macroeconomic management effort, one of the study's cross-cutting themes. This work will include studies on the role of financial reform in sustained growth and development, by Lisa Cook of HIID; improving fiscal, debt, and reserve management, by Duesenberry and McPherson; and ending aid dependence in Africa, by McPherson and Tomoko Noda of Harvard's John F. Kennedy School of Government.

Arthur Goldsmith, a visiting scholar at HIID, is leading the work on institutions and politics. This will include studies of the political economy of sustained reform, by Deborah Brautigam of American University; the role of leadership in improving policy coordination, by Derick Brinkerhoff of Abt Associates; and institutional dimensions of sustained reform, by Goldsmith.

McPherson is taking the lead on the work on enhancing productivity, with support from HIID's Peter Timmer, Jeffrey Vincent, and Sydney Rosen. This effort will emphasize the rural-urban nexus and ways to enhance global competitiveness. The team will also explore ways to enhance labor productivity and the impediments to sustained growth and development caused by mismanagement of public resources.

Duesenberry, Goldsmith, and McPherson are collaborating on a broad overview of slow growth in Africa and its causes. Rachel McCulloch of Brandeis University and HIID will support this effort. "Promoting and Sustaining Trade and Exchange Reform in Africa," a related EAGER/Trade project undertaken by HIID, will contribute to the new study, in particular by looking at weak institutions and inadequate microeconomic incentives that discourage foreign investors and domestic producers from raising productivity and creating jobs.

The composition of most of the country teams is still being finalized. In Senegal, the work has been subcontracted to the Centre de Récherche en Economie Appliquée (CREA) of the University Cheikh Anta Diop, in Dakar. Leading the effort will be CREA director Abdoulaye Diagne. The main subcontracting agency in Kenya is Mwaniki Associates & Agriconsult, Ltd., led by its managing director, Ngure Mwaniki. Researchers from Kenya's Institute for Policy Analysis and Research (IPAR) also will participate.

The first priority of policymakers should be to ensure that reforms, once in place, are sustained.

Making EAGER Count in Ghana

by Stephen Haykin

By 2020, Ghana envisions joining the ranks of middle-income countries, with commensurate improvements in living standards for the Ghanaian people. Although Ghana has sustained growth rates of 5 percent per year since it began a sweeping program of structural adjustment in 1983, per capita income in this country of 17 million people averages only $410 per year. Bold new initiatives are required if Ghana is to accelerate annual growth to 7 percent—the level required to fulfill their vision.

USAID supports Ghanaian efforts by pursuing a strategic objective of "increased private sector growth," which is intended to increase the productive capacity of private enterprises and develop more efficient, lower-cost marketing systems.

A critical prerequisite of this economic growth program is improving the policy and regulatory environment in Ghana. Complementary efforts will focus on improving financial intermediation; increasing the management capacity of producers and marketing enterprises; expanding use of improved technologies; increasing access to market information; and improving infrastructure.

USAID assistance will also strengthen private enterprises, which in Ghana are primarily rural microenterprises, with nearly a third headed by women.

USAID's successful Trade and Investment Program has supported economic policy reforms for five years and yielded important insights:

- **USAID's contribution to improving policies to benefit Ghanaian people can be significant. Policy reforms undertaken in recent years, including removal of foreign exchange controls and streamlining procedures for exports, led to increases in nontraditional exports from $68 million in 1992 to $227 million in 1996, and created approximately 60,000 new jobs.**[1]
- **Bilateral policy reform programs aimed at specific economic sectors must also support the larger, macroeconomic picture. Had inflation been lower and private sector confidence greater, it is likely that the impact of USAID assistance on trade and investment in Ghana would have been even greater. USAID's contributions can complement those of other development partners, notably the International Monetary Fund and the World Bank. USAID often has a comparative advantage in fostering public-private dialogue and consensus and providing expert assistance in both the development and implementation of policy changes.**
- **Because policies in Ghana are being made in a more participatory manner, the process of policy change is becoming increasingly complex. Ghana has just completed a round of peaceful, transparent, and democratic elections for the presidency and parliament. With increased debate in parliament, the flourishing of independent think tanks and advocacy groups, and an increasingly open media, broader ownership of policy changes is both desirable and achievable.**

USAID continues to play an active role in encouraging well-informed and participatory decision-making. In June, the organization supported a conference entitled, "Ghana: Reaching the Next Level Through Global Competition—A Public/Private Partnership." Held in North Carolina, the conference brought together government and private sector leaders from Ghana and leading international policy analysts and investment advisors. It culminated in a commitment to revitalize the policy dialogue and cement public-private collaboration to move Ghana's economy forward. As a next step in this effort, Ghanaian entrepreneurs and policymakers will hold a national economic summit to outline concrete actions to revitalize the Ghanaian economy.

EAGER's Value-Added

EAGER provides Ghana and the USAID mission in Accra with excellent opportunities to bring critical knowledge and analysis into the ongoing policy debate. Eight approved EAGER proposals—representing nearly $1 million—will focus U.S. and Ghanaian expertise on

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key policy issues. Research oversight committees have been formed, and top government officials and leading academicians in Ghana have taken an active interest in EAGER's work.

The most urgent policy issues in Ghana involve stabilizing the economy and exchange rates, improving fiscal management, and controlling inflation. To restore and maintain macroeconomic balance, EAGER supports the following research activities:

- **Research on monetary and exchange rate policy, conducted by Ghana's Center for Policy Analysis (CEPA), the Research Department of the Bank of Ghana, and EAGER/Trade, will help the Bank of Ghana undertake applied quantitative analysis of monetary and foreign exchange variables. EAGER will guide the effort to manage these key macroeconomic variables.**
- **EAGER research on "Tax Policy in Sub-Saharan Africa: The Role of Excise Taxes" will include a case study of Ghana. Conducted by HIID, this work will examine the revenue, efficiency, and distributional effects of actual and potential excise taxes in Sub-Saharan Africa. This study is significant for Ghana, which seeks equitable means for raising public revenues and reducing government budget deficits.**
- **Encouraging private sector growth in Ghana will require new financial innovations and efficiencies. Howard University, located in Washington, DC, will work in collaboration with the Bank of Ghana to research "The Impact of Financial Sector Reform on Bank Efficiency and Financial Deepening for Savings Mobilization." The study will investigate the impact of financial sector reform on bank operations and allocative efficiency.**
- **The EAGER study on "The Cost of Doing Business: The Legal-Regulatory-Judicial Environment" will examine the impact of laws and regulations that affect both capital and labor markets and whether these laws and regulations contribute to low levels of long-term credit and low rates of formal sector employment. In Ghana, researchers from the Institute for Statistical, Social, and Economic Research and Ghana Law School will collaborate with MayaTech Corporation and AIRD. Companion studies will be conducted in Tanzania and Madagascar.**
- **"Increasing Labor Demand and Productivity in Ghana and South Africa" will bring together the University of Ghana at Legon and CEPA with Howard University and AIRD. The purpose of this research is to study the effects of different variables on labor demand and productivity in Ghana and South Africa, to assist in proposing policies that will increase employment and labor productivity. The study will examine the important relationship between labor policies and economic growth.**

Because trade expansion is critical to Ghana's future growth, two studies will examine aspects of trade policy and market development:

- **CEPA and AIRD will again collaborate on "Trade Tax Regimes and Producer Incentives," seeking ways to improve import tax policies to stimulate production of export products while sustaining government revenues.**
- **In an examination of "Cross-Border Trade," researchers from the University of Ghana and International Business Initiatives will collaborate to analyze the socioeconomic relationships among traders in Ghana and those in neighboring countries.**

Ghana also plans to participate in EAGER's new multi-country study on "Restarting and Sustaining Growth and Development in Africa," led by HIID and leading American and African scholars (see "Restarting and Sustaining Growth and Development in Africa," beginning on page 1).

EAGER's work on macroeconomic balance, financial markets, labor markets, and trade policy will be complemented in Ghana by USAID–sponsored analysis of other topics. This includes market and enterprise development, structural issues such as land use and environmental sustainability, and programmatic issues such as stimulating policy dialogue, consensus-building, and measuring the impact of policy.

Overall, USAID expects EAGER to contribute to informed debate and participatory policymaking in Ghana. This, in turn, will lead to further strengthening of the policy environment for private sector growth and improvements in living standards. At the same time, EAGER will capitalize on the substantial expertise in Ghana for economic analysis and management and further strengthen this capacity through collaborative research with leading institutions in the United States.

Stephen Haykin is a Program Economist with USAID's Asia and Near East Bureau. He was previously assigned to USAID/Ghana, where he served as Program Economist and liaison with EAGER.

1 All exports except gold, cocoa, timber, and electricity are considered nontraditional.

Sightings on the Internet

You can access the latest information about EAGER on the Web at **http://www.eagerproject.com**. EAGER's site includes data on its research agenda, institutional partners, research results, and workshop proceedings. Browse current and prior issues of the EAGEReport and other publications. Keep up-to-date with our schedule of events and electronic "flashes." Soon, you will be able to communicate with EAGER partners around the world through our bulletin board. EAGER's website is meant to serve you, so visit us and let us know your suggestions for improvements and expansion.

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OTHER SITES OF INTEREST

Leland Initiative (**http://www.info.usaid.gov/regions/afr/leland**). This site details the goals of this USAID effort to promote a favorable policy environment, create a sustainable Internet service provider industry, and enhance user applications for sustainable development. The site answers commonly asked questions and explains the methodology used by the Leland Initiative to achieve its objectives. It also provides Internet business opportunities, links to Leland project countries, and Leland contact information.

Africa Online (**http://www.africaonline.co.ke/AfricaOnline/coverbusiness.html**), based in Kenya, provides information on doing business in Kenya, Côte d'Ivoire, and Ghana. It also includes several private investment profile services, including Ernst & Young (**http://www.Africa Online/marketplace/links.html**).

The Government of Uganda's Investment Authority (**http://www.uganda.co.ug/invest.htm**) provides information on why and how to invest in Uganda, including a copy of the 1991 Uganda Investment Authority Code.

The Government of Madagascar's information site (**www3.itu.ch/MISSIONS/Madagascar/**) provides foreign investment information via the U.N. mission in Madagascar.

South Africa's official trade and investment incentives are available via the following websites: Southern Africa Development Community (**www.sadc-usa.net/ trade/incentives/southafrica.html**) or U.S.-South Africa Binational Commission (**www.southafrica.net/economy/default.html** and **www.usia.gov/regional/bnc/usafrica/ti.htm**).

SITES ABOUT INTERNET ACCESS AND POLICY IN AFRICA

One site developed and maintained by Michael Jensen (**http://www.demiurge.wn.apc.org/africa/**) has detailed information and communications technology information on virtually every African country and is the most comprehensive source of information on Africa connectivity issues.

For an online database of the information and communications infrastructure in Africa, see **http://paradigm.wn.apc.org/africa/index.htm.**

For more information on Francophone Africa Internet issues, see **http://www.africances.fr/afrint/**.

The Sub-Saharan program of the American Association for the Advancement of Science hosts a user's guide to electronic networks in Africa at **http://www.aaas.org/international/africa-guide/index.html**. The site also has a list of African universities that are online (**http://www. aaas.org/international/ssa/afonline.html**).

The Network Start-Up Resource Center carries Regional Reports and other interesting information on the use of the Internet in Africa (**http://www.nsrc.org/AFRICA/africa.html**).

SANGONET provides a treasure trove of information about a range of topics in Africa (**http://www.demiurge.wn.apc.org**).

The Africa Networking Initiative has created a Donors Database that provides information on current and planned project activities of development assistance agencies in Africa (**http://www.bellanet.org/partners/ani/database/**).

The African Studies Program at the University of Pennsylvania has a special site devoted to African issues (**http://www.sas.upenn.edu/African_Studies/AS.html**).

The Africa site at Stanford University has a detailed listing of discussion groups centered around Africa (**http://www-sul.stanford.edu/depts/ssrg/africa/elecnet.html**).

Prospects for Developing Malian Livestock Exports

EAGER/Trade recently completed a study that explored the long-term prospects for increasing net economic returns to Mali's livestock trade. Principal investigator Jeffrey Metzel of AIRD worked with Malian team members Abou Doumbia, Lamissa Diakite, and N'Thio Alpha Diarra to address four research questions:

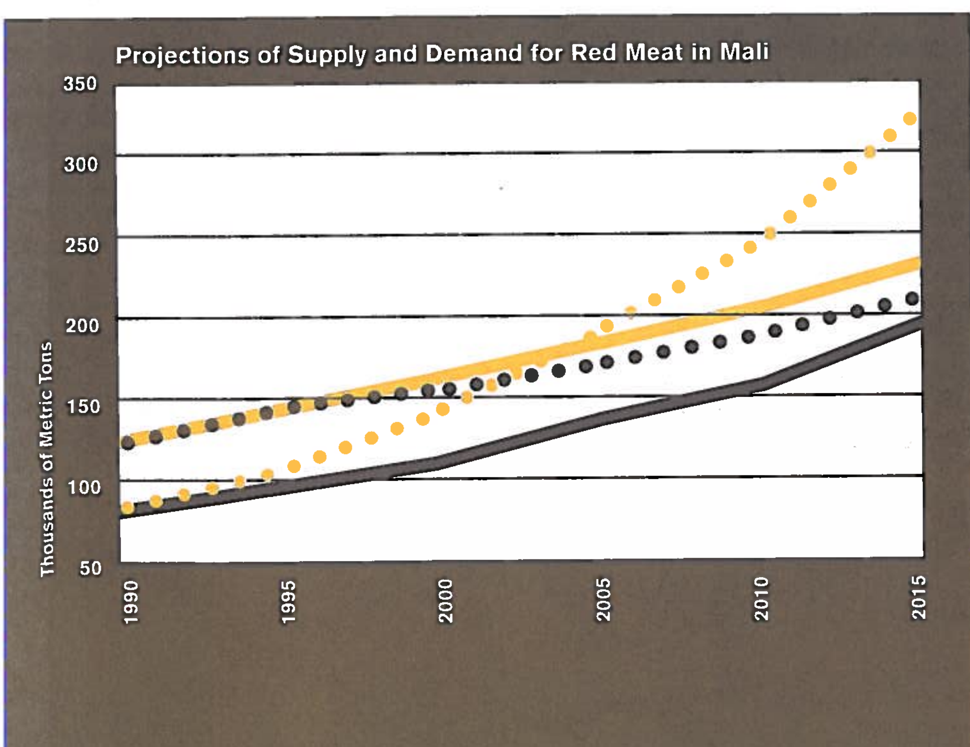
1. **What are the most important sources of ruminant livestock production growth in Mali?**
2. **What are trends in red meat supply and demand for Mali, and what are the prospects for continuing exports to the regional market?**
3. **What is the potential to add value in the livestock chain for export?**
4. **How can public policy increase economic returns from livestock exports for Mali?**

1. Sources of ruminant livestock production growth

Production growth can result from herd growth or productivity increases per head. The study evaluated influences on herd growth for six production systems distinguished by agroecological zone and the types of agriculture associated with each system. The greatest scope for increasing livestock production growth, both by raising herd numbers and increasing productivity, appears to exist in the agropastoral zones. This implies that public efforts to support livestock should be concentrated in these zones.

Agricultural development initiatives appear to play a very positive role in encouraging livestock production. Conversely, crop yield shows no correlation to herd size in agropastoral systems and shows a weakly negative correlation in pastoral systems. This suggests that crop yields have little bearing on herd size and that the positive contribution of development initiatives are realized through other effects, such as improved access to inputs, extension services, market information, or other impacts to livestock originating from crop development activities.

The study confirmed the impact of drought in shifting herds from pastoral systems associated with dryland crops to systems that have dry season crops due either to irrigation or flood recession. This has implications for both investments in water control and drought response strategies. For example, dry season agriculture tempers herd losses from other systems during drought, an effect that should be factored into the benefits of these systems in assessing public investments. Programs and strategies targeted to pastoralists during droughts also should address such herd shifts.



2. Red meat supply and demand trends and prospects for continuing exports to the regional market

If recent trends continue in domestic consumption and production of red meat, total consumption will overtake production in the next ten years, and Mali will lose export earnings from livestock. Only raw or tanned hide and skin exports would likely increase under this scenario, as local slaughter increases.

The figure opposite shows a change from net exporting to net importing status for Mali (projected demand outstrips supply). Overall, the better the performance of the Malian economy, the more rapid the decline in livestock exports. If supply continues its trend of long-term growth, rapid income growth (e.g., 3 percent) could effectively end large-scale exports of livestock by 2002. Under the base-case supply scenario, the point of net deficit production is forestalled only by a year or two. Under more moderate income growth (e.g., 1 percent), however, the level of surplus generated by the livestock sector under the base-case scenario nearly keeps pace with demand growth for the next 20 years.

The analysis also uncovers three important assumptions, which provide feasible scenarios for sustaining the export market.

First, on the supply side, evidence suggests there is ample room to raise productivity above levels that have persisted over the last 30 years. Production growth in the agropastoral systems is likely to be sustained where feed biomass remains in surplus. This is because of the sensitivity of production growth to biological productivity parameters and the current low level of some of these parameters in comparison to norms in more developed livestock systems. Those agropastoral systems associated with rain-fed cereals or rent crops have substantial capacity, and livestock systems associated with irrigated crops might expand rapidly with private investment in irrigation.

The second assumption is that price changes are likely to depress demand for red meat. For example, the emergence of cheaper, industrially produced poultry in Mali and projected increases in world prices for red meat could further dampen domestic demand and increase consumption of poultry as a substitute. Of course, the decrease in domestic demand could be moderated or offset by other uncertain parameters, such as the pace of growth in per capita income and rate of urbanization.

The third assumption is that policy could have a strong influence on domestic supply or demand. Improvements in supply due to productivity increases are likely to be associated with investments in improved health, diet, and intensified production through such activities as fattening. Changes in demand due to world price changes will be automatic, as long as policy accomodates price changes from world markets. In addition, the emergence of poultry (or other protein alternatives) may be most rapidly advanced by improving the climate for private investments in agroindustries.

3. Potential for value-added in the livestock chain

The study evaluated two means of increasing value added in the livestock sector: increasing the value of animals through small-scale seasonal fattening, and moving the locus of slaughter to Mali to capture the added value in both slaughter and the processing of animal products and byproducts.

A dynamic and relatively new subsector is emerging in central and southern Mali to raise value in livestock through short-term seasonal fattening. This industry takes advantage of several complementary phenomena, including thin but healthy animals brought in from more northerly pastoral zones; availability of relatively abundant crop residues; expansion of low-valued cottonseed cake; seasonal unit price increase for animals during the hot dry season; and the proximity of cattle trading routes to southern commercial markets. Prospects for expanding fattening appear attractive, both in financial and economic terms.

There is good news for increasing value added through slaughter. The slaughter and byproduct industries that are dependent on red meat are ensured

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steady growth given projections for rapid growth in the domestic demand for such products. Policy changes can make the activity much more attractive for development of export markets as well. The recent elimination of the tax on raw hide and skin exports has already made these exports marginally profitable, although they are still much less attractive than livestock exports.

Even more important for increasing profitability, however, would be a reduction in transport taxation for coastal countries. Eliminating these taxes would dramatically reduce the costs of moving fresh and frozen products between the Sahel and the coast. This issue is even more important given the current costs of illicit taxation.

There may already be the potential for substantial profits from selling certain high-quality boxed cuts of meat beyond traditional coastal West African markets, such as the Middle East. These profits could be realized through a strategy that targets these markets first and develops the expertise, infrastructure, and services to sell quality meat products in other foreign markets.

The study demonstrates the strong detrimental effects of ad hoc policies that favor specific industries. The tanning industry in Mali sought to protect its access to raw hide and skin exports by obtaining a tax on their export. This policy reduced the costs of raw hides and skins to the tanning industry, but it also reduced incentives for domestic slaughter by depressing the value of the hide and skin byproducts. Thus, the tax raised relative incentives to export livestock, to the detriment of the domestic slaughter industry. A more evenhanded policy of low taxation for the entire sector will promote investment in the sector and allow private actors to determine the most lucrative investments to raise their financial returns, and, subsequently, the sector's economic returns.

4. Increasing economic returns from livestock exports via public policy

Policy measures that can be used to increase the value of Malian livestock exports may be grouped under three broad headings: accelerating production to ensure an exportable surplus, increasing the efficiency of marketing, and increasing value added in processing.

Accelerating Production

The government should increasingly emphasize support services for agropastoral systems, small ruminant production, and small-scale fattening enterprises. These services could be related to initiatives such as research, animal health, nutrition, and market development.

Policy measures could be used to facilitate efficient resource allocation between livestock and competing interests (including strengthening markets for resources and institutions) and to determine rules for settling disputes. Strategies should facilitate offtake during drought and reconstitution after drought, and target dryland pastoral zones where drought has been shown to have the largest negative impact.

Drought policies should also facilitate animal movement and access of pastoralists to emergency resources. Government efforts to "program" destocking or reconstitution with measures that limit when, what kinds, or how many animals may be exported during these periods of crisis should be avoided, as they only increase uncertainty, impede market performance, and reduce opportunities for livestock producers to mitigate risk.

Fattening activities in agricultural zones should be a focus of new private investments. Policies to address constraints faced by fattening enterprises can foster these investments, including support for private banks to service fattening enterprise clients, support for extension services on optimal feed rations and use of domestic feed sources, and removal of all official restrictions on the market for cottonseed cake.

Increasing Marketing Efficiency

Monitoring customs, police, military, and veterinary inspection services can help eliminate unauthorized taxation of livestock trade. Sponsoring a dialogue among market actors and officials in Mali and destination countries may help sustain progress by reducing the high costs associated with unauthorized taxation of similar services in coastal countries.

Other efforts could include: disseminating market information to livestock traders; reducing taxation of road transport; eliminating restrictions on truck movements across borders based on nationality of registration; liberalizing air freight services out of Mali to increase competition, lower costs, and improve availability and service; and increasing the capacity of the Bamako-Dakar railway to transport live animals and containers.

Increase Value-Added in Livestock Processing

Several measures could be undertaken in this area. Investment incentives could be introduced to encourage private investors to establish slaughterhouse facilities, regardless of scale, which meet international standards. There could be an end to large direct investments of public resources to promote regional red meat exports, which are not likely to be financially attractive. Private operators could be assisted in obtaining training to meet grades and standards required for meat products for international markets. Adequate inspection of meat processing firms to enforce standards could be encouraged. Finally, the system for taxing the exports of livestock products could be more evenhanded, with tax levels at zero or near-zero to avoid bias in investment incentives between value-adding sectors.

Doing Business in Africa: Conference Notes

Attracting Capital to Africa: The "Corporate Council on Africa" Summit

by Lucie C. Phillips

The Corporate Council on Africa recently held a summit of U.S. corporate leaders and African political and economic leaders near Washington, DC. from April 19–22, 1997. Among the African guests of honor were President Joaquim Albert Chissano, Mozambique; Vice President and Minister of Finance and Development Planning F. G. Mogae, Botswana; Executive Deputy President Thabo Mbeki, South Africa; Prime Minister Daniel Kablan Duncan, Côte d'Ivoire; Prime Minister Kintu Musoke, Uganda; and Deputy Prime Minister Kassu Illala, Ethiopia. Fifty-five cabinet ministers from throughout the continent also attended.

The corporate participants represented oil and related companies, beverage companies, transportation and heavy equipment manufacturers, telecommunications companies, and accounting/consulting firms. Chief executives of at least a dozen Fortune 500 companies attended.

The objectives of the Corporate Council on Africa summit were to challenge African countries and the U.S. private sector to work toward expanding commercial opportunities in Africa. It was the first such event in the United States to bring together a large group of top African leaders and chief executives of U.S. international companies.

The remarks of the African heads of state embodied a new confidence in Africa's role in world trade and investment and an awareness that an early involvement in the recent wave of growth in those areas will benefit both Africa and its corporate partners.

World Bank President James Wolfensohn told participants that international financial institutions (IFIs), such as the Bank, were elevating the priority assigned to Africa and working on a debt relief program that would reward reformers. He stressed, however, that because the project funding available for such initiatives is far from sufficient, IFIs will rely on collaborations with corporate investors to leverage their contributions to economic development.

U.S. First Lady Hillary Rodham Clinton addressed the gala awards dinner. She stressed the many signs of positive development she had seen on her recent trip. But she noted that U.S. aid was inadequate to address the need for human resource development, opening of trade, and health care, particularly for refugees.

In a taped address, President Clinton emphasized the importance of Africa in U.S. policy, and announced that he would make a presidential visit to Africa during the coming year. The possibility of debt relief for countries that have taken reforms seriously and implemented them appeared to be a salient plank in U.S. policy toward Africa. Treasury Secretary Robert E. Rubin noted that Africa has been a top priority for his department, but also that Treasury could do more, particularly in supporting the IFIs. He acknowledged the need for the United States to pay its arrears to the United Nations and increase the financial capability of the Bretton Woods institutions (the World Bank, International Monetary Fund, and World Trade Organization).

Twenty corporate and IFI sponsors conducted workshops to showcase their activities to promote African economic development.[2] Their investments to support trade growth, GDP growth, and job creation, among other activities, far outweigh the total amount spent on official development assistance. The few hundred or thousand jobs created by such initiatives, however, are minuscule compared to the growth of the working-age population in Africa. Only Coca-Cola, with its huge network of distributors, could speak of creating hundreds of thousands of jobs in Africa.

Several innovative corporations discussed their programs to spread the economic benefits of their investments more widely by subcontracting with local providers and/or providing assistance for infrastructure, education, health, and community development.

In addition to the reflections stimulated by workshops and speeches, the summit provided an opportunity for business and government leaders to have private meetings on specific projects. Executive President Mbeki of South Africa described it as, "the beginning of an African renaissance." Following up on the summit, the Corporate Council launched an African Business Exchange program under USIA auspices, and began planning for the 1999 summit.

Lucie C. Phillips is chief executive of International Business Initiatives (IBI), headquartered in Arlington, VA, and senior advisor to EAGER/Trade.

2. Summit speeches, papers, and an overview were published in: CCA, *Africa and the American Private Sector: Corporate Perspectives on a Growing Relationship*, (1997).

Doing Business in Africa: Conference Notes

South Africa: A World-Class Emerging Market

by Lucie C. Phillips

The recent South Africa Trade and Investment Conference in Washington, DC, highlighted the current economic climate in South Africa, as well as specific initiatives by the South African government to improve the nation's international competitiveness and privatize state-owned assets. Co-sponsored by the Department of Commerce, Overseas Private Investment Corporation, U.S. Trade and Development Agency, and Government of South Africa, the conference also presented practical information about assistance available from the U.S. government for U.S. companies seeking to invest in or trade with South Africa.

The theme of the first day was "South Africa: A World-Class Emerging Market." The sessions featured addresses by South African Trade and Industry Minister Alec Erwin and U.S. Commerce Secretary William M. Daley, as well as panel discussions among public officials and private sector representatives from both countries.

The second day focused on "Infrastructure and Investment," with presentations by South Africans from various economic sectors about current opportunities for trade and investment. One panel discussed the "Growth, Employment, and Redistribution Strategy" (GEAR), a major initiative of the South African government to enhance economic growth, employment, and development. The initiative includes market-oriented policies to create a more conducive environment for foreign investment, foster private and public investment, and privatize state assets through strategic partnerships between private investors and the government. GEAR targets a 6 percent economic growth rate and assumes growth to be trade-led (including regional trade with other African countries).

Another panel discussed strategies designed to make South Africa internationally competitive. These include the "Spatial Development Initiatives," which are designed to foster economic development in specific underdeveloped areas, and efforts to restructure the "apartheid space economy" through private sector approaches. Another major initiative involves major telecommunications projects planned by Telkom South Africa, in cooperation with foreign partners, to install fiber-optic cable systems and satellite systems. The goal is to make South Africa the hub for low-cost telecommunications services for eastern, southern, and western Africa.

A third panel discussed the dynamics of "strategic partnering" under the government's programs to restructure state-owned assets through privatization. The government takes a sectoral approach, focusing primarily on those sectors considered most important to the economy, such as utilities and infrastructure. To foster African economic empowerment, human resource development through training and skills transfers is emphasized. Strategic partners are expected to incorporate in their investment plans strategies to develop human resources and provide procurement opportunities for African businesses.

Another panel discussion on "The Spectrum of Opportunities for Trade and Investment" featured presentations by Investment South Africa (the government's investment promotion agency) and representatives of the South African private sector in South Africa, including those from several U.S. firms or joint ventures.

The South African investment conference was one of a series that the new South African government has organized in developed countries to stimulate and channel potential investments. South Africa wants to ensure that new investment targets the key sectors that will generate broad-based economic growth in keeping with its economic and social policies. At the same time, the conference afforded American firms interested in South Africa, some of whom are already in the process of investing, with an opportunity to make known their experiences and concerns.

South Africa wants to ensure that new investment targets the key sectors that will generate braod-base economic growth.

Doing Business in Africa: Conference Notes

Advantage Global Africa '97: Business and Investments in Africa

by B. Lynn Salinger

The Massachusetts Export Center sponsored an all-day business and investment conference in Boston that brought together European, African, and U.S. investors, as well as expatriate Africans involved in business and educational exchanges. The program covered a wide range of business topics, from advice for novice exporters to information for global investors.

Sessions included:

- **An introduction to the post-structural adjustment economic orientation of many African countries**
- **Highlights of important opportunities for investment in the energy and telecommunications sectors**
- **Export financing services provided by the U.S. Export-Import Bank**
- **Topics relating to venturing in African markets, including where to find information and a survey of potential consumer markets by country profile, including Côte d'Ivoire as an example of an "adjusting" Francophone country, Gabon as an oil-rich CFAF–zone member, Botswana as a wealthy, diversified Anglophone country, and South Africa as an example of an Anglophone country still "adjusting"**
- **Legal aspects of investing in civil-law versus common-law countries**
- **Export-import and international investment logistics for traders and investors.**

The Deputy Director of the U.S. Commerce Department outlined the Clinton Administration's Africa Trade and Investment Initiative, first showcased at the Denver G-8 summit in June. The initiative is similar to the Africa Growth and Opportunity Act (AGOA) recently presented to Congress, with several important differences. The most notable is the omission of trade preferences offered under the AGOA to African textile and clothing exporters. The AGOA proposes to eliminate existing quotas on certain categories of Kenyan and Mauritian exports to the United States, to forswear imposing any other quotas on Sub-Saharan African textile and clothing exports until expiration of the international Agreement on Textiles and Clothing (ATC), and to requalify African textile and clothing exports under the Generalized System of Preferences (GSP) for duty-free access to U.S. markets.

The Clinton Administration wants to retain the ability to impose quotas during the international phase-out of quotas under the ATC. The administration questions the legality, under World Trade Organization rules, of offering preferential treatment for textiles and clothing to one body of countries in advance of fulfilling U.S. commitments under the ATC.

The administration's main concern, however, is the budgetary implications of a possible reduction of revenues through a tariff preference accord. As a result of the 1991 budget agreement, all measures that would result in a loss of revenues must include a "budget offset proposal" to compensate for the shortfall.

The infrastructure panel covered several aspects of telecommunication reform in Africa. For example, Africa will be able to surge ahead in cellular phone capacity, bypassing investing in fixed wire distribution systems. This offers plenty of room for small, medium-sized, and large companies to provide value-added services such as voice mail, calling cards, fax machines, and Internet services. In addition, African governments are making commitments to proceed with "Africa One," a project to encircle the African continent with fiber-optic cable. Finally, state-owned telecommunication firms are being privatized around the continent, further stimulating investment.

A presentation on legal aspects of venturing in Africa drew distinctions between common-law traditions of former British colonies, where there is a reliance on legal precedents as defined through the courts to interpret law, and civil law traditions of former French colonies, where anything not articulated by a legislature is assumed to be illegal. As a result, businesspeople operating in Francophone countries are confronted with a much denser body of regulations, which legitimize all activity.

B. Lynn Salinger is a Senior Economist at AIRD.

The All-Africa EAGER Workshop...

And A Consultant's Personal Perspective

by Robert Wieland

In August, EAGER hosted its fourth semi-annual, Africa-wide workshop in Dar es Salaam, Tanzania. It was an opportunity for EAGER researchers to discuss their research goals, findings, and progress since the previous workshop in Accra.

The workshop opened with a welcome from the new USAID/Tanzania Mission Director, Lucretia Taylor, who also introduced Tanzania's Minister of Finance, Daniel Yona. Both Ms. Taylor and Mr. Yona expressed their high expectations for EAGER's program, particularly in terms of the high opportunity cost of donor funds and the need for politically feasible policy reform options and the analysis that must underpin this.

Ten African countries and Canada and the United States were represented at the workshop. Tanzania's television news service filmed the opening sessions for national broadcast. It was clearly a significant event in the broader process of economic policy reform in Africa.

For your correspondent, it was especially meaningful to be sitting in Tanzania, listening to arguments for market liberalization coming from both economic researchers and policymakers. As a Peace Corps volunteer in Tanzania (1979–81), I experienced an economic environment that was predicated on heavy government intervention and where free markets were anathema. Now, I was listening to Tanzanian researchers and policymakers searching for ways to further extricate their economy from the more disastrous results of that policy while still adhering to the equity and social welfare objectives the policy sought to serve.

Outside the hotel where the workshop took place, much had improved since my last visit to Tanzania. The roads were better, electricity was more reliable, and there was much evidence of increased economic activity, from the small-scale roadside stands stocked with more goods of greater variety than in the past, to the new office buildings rising on the Dar es Salaam skyline. The people seemed optimistic about the future, and there was a higher degree of confidence in national institutions and leadership than I remember.

The policy reform path that took Tanzania from direct government control of economic activity to more indirect policies for achieving economic growth and social welfare mirrors the reform experience across much of Africa. It has been difficult for the government to surrender its monopolies in trading, manufacturing, and finance, and the process of privatization has been scarred by false starts and half-steps. Nevertheless, given the opportunity, private entrepreneurs have entered the picture and helped ensure that policy reform moves forward.

Robust private markets, especially in agriculture, have replaced the old state-

From left to right: Clive Gray, Chief of Party, EAGER/PSGE; Lucretia Taylor, Director, USAID/Dar Es Salaam; Sam Wangwe, Executive Director, ESRF; Tanzanian Finance Minister Daniel Yona; Dirck Stryker, Chief of Party, EAGER/Trade.

From left to right: Conference participants Massa Coulibaly, Ahmadou Cylla, Madame Konaré.

A constituency for liberalization is building within African countries, and EAGER is contributing to this process.

owned trading system, and the improvements seem to be widely understood, at least among those who were active in the economy in the 1980s. There appears little doubt that food that can be purchased is preferable to food that is theoretically lower in price but is not available. In the financial sector, the flood of unredeemable debt that characterized the 1980s seems to have been staunched, and prospects are good for sustainable financial deepening, even if there seems to have been a retreat to higher-value, urban markets.

In 1981, the official value of the Tanzania shilling against the U.S. dollar was 8:1, but dollars traded on the black market for 30 to 35 shillings—a 300 percent premium. While there is still a curb market for foreign currency, the premium is a small fraction of previous levels. By and large, Tanzanians who need foreign currency can usually obtain it—a marked contrast with the days of currency controls. Tanzania's trade with the outside world is increasing, especially with its neighbors. Indeed, except for a persistent and growing government budget deficit, Tanzania's macroeconomic indicators are improving.

Along with this economic improvement, Tanzanians are enjoying longer lives and better health than in 1980. Infant mortality is down, and a larger percentage of the population has access to health care, safe drinking water, and sanitation. The percentage of children attending primary school is down since 1980, but the percentage of children attending secondary school is up.

These statistics from the World Bank's *World Development Indicators* confirm what I perceived myself during my brief visit: Tanzania has begun to right its course, and the country seems headed toward the prosperity that it should enjoy, given its rich natural endowment and hard-working people.

Back at the EAGER workshop, researchers and policymakers discussed the finer points of continued economic reform. In terms of trade, there were disagreements about how best to increase regional trade, but no one argued for a return to the closed borders of 1980. In terms of private enterprise, there were arguments about how best to involve entrepreneurs in the policy reform process, but no one argued that they should be denied a seat at the table. In terms of financial markets, the talk focused on how to improve access for rural and small-scale economic agents, but no one argued that the government re-exert control over the banking sector.

The workshop made it clear that the policy reform process in Africa is maturing. Early reform was induced by donor loans that helped African governments overcome some of the political obstacles to change. Now, however—and not a moment too soon—a constituency for liberalization is building within African countries.

EAGER is contributing to this process. By funding research with direct relevance to policy decisions, by making African researchers integral partners in this work, by holding high-profile meetings and workshops, and by bringing the results to public attention, EAGER is supporting the policy reform process. And it is making a valuable contribution to ensuring that the reforms yield economic growth and development.

Logistics for the workshop, presenting research under EAGER/Trade and EAGER/PSGE which are led by AIRD and HIID, were handled by BHM International, which manages communication dissemination for EAGER. The workshop was hosted by the Economic and Social Research Foundation of Tanzania. Previous workshops have been held in Accra, Ghana; Kampala, Uganda; and Bamako, Mali. The next combined EAGER workshop is scheduled for February 1998, near Johannesburg, South Africa.

Robert Wieland is an economist with the consulting firm International Economics—Washington in Washington, DC.

For a copy of the published proceedings of the August workshop in Dar Es Salaam, contact BHM International (telephone: 301-565-2205; fax: 301-565-4384), or visit the EAGER website at: http://www.eagerproject.com

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EAGEReport

ISSUE 5 / SPRING 1998

Pursuing the AGOA: Countering Potential TEXTILE and APPAREL TRANSSHIPMENT through Africa

IN THIS ISSUE

EAGER

USAID

The Africa Growth and Opportunity Act (AGOA), passed by the U.S. House of Representatives on March 11, 1998 and now before the U.S. Senate, affirms the intention of the U.S. government to establish a free trade area with sub-Saharan Africa (SSA). The Clinton Administration's "African Trade and Investment Program" supports many initiatives parallel to the bill, and President Clinton reiterated his support of the AGOA during his March 1998 trip to six countries in SSA. Among the measures proposed is removing tariffs and quotas currently applied to imports of African textiles and apparel into the U.S., and not reinstating them until after January 2007, at the earliest.

This preferential treatment would be available to SSA countries that strongly commit to economic reform programs intended to integrate them into world trade.

In addition to promoting textiles and apparel exports to the U.S., the bill calls for:

1. **Strengthening and expanding SSA's private sector, especially women-owned businesses;**
2. **Encouraging increased trade and investment between the U.S. and SSA;**
3. **Reducing tariff and non-tariff barriers and other trade obstacles;**
4. **Expanding U.S. assistance to SSA's regional integration efforts;**
5. **Negotiating free trade areas;**
6. **Establishing a U.S.–SSA Trade and Investment Partnership;**
7. **Working with countries committed to accountable government, economic reform, and eradication of poverty;**
8. **Establishing a U.S.–SSA Economic Cooperation Forum; and**
9. **Continuing to support development assistance for those SSA countries that are attempting to build civil societies.**

The bill authorizes the naming of a senior assistant trade representative for Africa (Ambassador Charlene Barshefsky has announced the appointment of Assistant U.S. Trade Representative Rosa Whitaker to lead the newly created Office of African Affairs), and provides for multilateral financial institutions to continue to work on debt relief and policy reform.

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EAGER—Equity and Growth through Economic Research—is a six-year activity, concluding in 1999, that is sponsored by the U.S. Agency for International Development (USAID), Bureau for Africa, Office of Sustainable Development, Strategic Analysis Division.

EAGER supports economic and social science policy analysis in sub-Saharan Africa (SSA). Its primary objective is to increase the availability and use of analytical research by decision-makers in both the public and private sectors to promote the adoption and implementation of policy reforms that foster rapid, equitable, and sustainable growth. The research addresses two key constraints that inhibit the implementation of more appropriate policies. First, EAGER seeks to expand indigenous capacity in SSA countries to undertake policy analysis, and then attempts to improve the positive impact of the analysis on economic performance.

EAGER policy analysis is guided by two basic principles. First, outstanding American and African institutions and analysts work side-by-side on collaborative investigative teams. Second, stakeholders and decision-makers are involved in selection, design, implementation, and dissemination of EAGER research.

EAGER research activities are comprised of the following two components:

- **Public Strategies for Promoting Growth and Equity (EAGER/PSGE), implemented by a consortium led by the Harvard Institute for International Development (HIID)**
- **Trade Regimes and Growth (EAGER/Trade), implemented by a consortium led by Associates for International Resources and Development (AIRD)**

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Pursuing the AGOA: Countering Potential TEXTILE and APPAREL TRANSSHIPMENT through Africa

FROM PAGE 1

It is the position of EAGER/Trade that this bill offers significant market opportunities to African manufacturers and exporters of textiles and apparel, and could be an important catalyst for investment, trade, economic growth, and ultimately, employment expansion and poverty reduction in the region. Key to the success of the bill, however, is overcoming U.S. industry opposition, which stems in part from fears of rising illegal transshipments from Asia.

Some U.S. efforts in the western hemisphere demonstrate the benefits of trade liberalization. Since the North American Free Trade Agreement (NAFTA) was launched, Canada and Mexico have become the two most important single-country suppliers of apparel to the U.S. market, replacing China, which dropped to fourth place. The Caribbean Basin Initiative (CBI) has provided Caribbean countries with similar privileged access into the U.S. market, although a low rate of duty is assessed on the Caribbean value-added activity. It is clear that preferential treatment offered to CBI and NAFTA countries has led to significant increases in their exports to the U.S., bringing downstream benefits such as increased employment and foreign exchange earnings to exporting nations. This same impact is sought by AGOA for African textile and apparel exports to the U.S.

A confirmed 10-year window of quota-free, duty-free treatment of goods would give SSA countries an extra bargaining chip to compete against other developing countries for commercial supply relations with U.S. buyers. Quota ceilings on many products, especially from Asia, currently constrain buyers from purchasing from traditional suppliers. Until these quotas are eliminated worldwide at the end of the Agreement on Textiles and Clothing (ATC) in 2005, the promise of quota-free status for African exports eases buyers' concerns about interventions in African supply due to the sudden imposition of a quota by the U.S. Moreover, duty-free status through 2007 reduces the import price of African goods in U.S. markets by 17 percent, more than compensating for higher transport costs relative to Asian and western hemisphere suppliers. These advantages represent important impetuses for export-led growth in SSA.

U.S. manufacturers of textiles and apparel oppose the AGOA bill, and have taken a protectionist stance against it. Their chief concern is that removal of trade barriers on African exports to the U.S. will result in an increase in illegal transshipments from Asian countries, which have exhausted their own export quotas. U.S. industries want to avoid additional competition from Asian goods in the U.S. market before ATC quotas are eliminated. Since transshipment has proven difficult to control and African countries have limited ability to rapidly increase their production and export capacity, U.S. manufacturers argue that AGOA gains would not be realized by SSA (the intended beneficiary), but rather by a third party—Asia. They argue that U.S. textile and apparel employment would suffer, due to a rise in legitimate imports from Africa and illegal imports from Asia, transshipped through leaky African customs regimes. U.S. industry opposition to the bill, however, is not uniform. Textile and apparel importers and retailers support AGOA, and U.S. manufacturers have also informally indicated their willingness to consider arrangements with Africa similar to those within NAFTA or the CBI.

Given these arguments, two main issues raised by the AGOA are addressed by EAGER/Trade research:

1. **What is the potential economic impact on the U.S. from the removal of import barriers involving African textile and apparel exports to the U.S.?**
2. **How can AGOA be structured so that transshipment risks are minimized?**

CONTINUED ON PAGE 4

A confirmed 10-year window of quota-free, duty-free treatment of goods would give SSA countries an extra bargaining chip to compete against other developing countries for commercial supply relations with U.S. buyers.

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According to the International Trade Commission (see the following table), the first policy scenario, "no quotas," has minimal impact on U.S. imports, production, and jobs because the current incidence of quotas is so low. But an evaluation of the second scenario, "no quotas–no import duties," indicates that textile imports from SSA into the U.S. may potentially increase from 10.5 to 16.8 percent, and apparel imports from 26 to 50 percent (especially shirts/blouses and trousers, the categories in which SSA exports are currently most pronounced). Yet U.S. production, which no longer specializes in these basic commodities, would barely be affected, decreasing only 0.1 percent, and U.S. jobs would be reduced by 676 full-time equivalents, compared with total textile and apparel industry employment in 1996 of nearly 1.5 million jobs.

The U.S. budget would also be affected. Elimination of quotas on SSA apparel imports would have a small but positive effect on U.S. tariff revenues. Elimination of both quotas and import duties, however, would result in a net loss in U.S. tariff revenues of $72 to $77 million. While these sums are quite small relative to total U.S. customs duties receipts, any legislative proposal that implies a negative revenue effect for the U.S. budget must include a proposal for a balancing budget offset elsewhere. The March 11 version of the bill passed by the House identifies this offset and thus removes this stumbling block.

EAGER researchers propose a two-pronged effort to guard against unlawful transshipment from third-world countries:

1. **Improving customs management: In many developing countries, customs regimes suffer from myopic policy objectives; lack of political commitment to the fiscal and management independence of the customs agency; staffing by ill-trained professionals; and use of outmoded hardware and software.**
2. **Use of a private third party for country of origin inspection and visa approval: Since the monitoring of customs fraud (e.g., transshipment) currently depends on an exporting country's customs authority, an alternative is to require use of independent, third-party, pre-shipment inspection (PSI) firms to manage textile/apparel export visas from SSA.**

In the case of AGOA, PSI firms could be hired to monitor and control illegal textile and apparel transshipments in Africa. For example, a PSI firm would certify the country of origin on behalf of an exporters' association in a specific African country. Investigators would assess the capability, capacity, and quality of exporters in Africa and their respective textile and apparel lines. The firm would be responsible for knowing the production and export capacities of countries and individual firms, as well as the latter's product lines and qualities.

To gain support for AGOA from U.S. industries and African exporters, quota-free, duty-free access to U.S. markets could be offered to exporting countries subject to the use of an independent, third-party verification company acceptable to both the U.S. and the African country. Presentation of both the visa and the country of origin seal would be required for each shipment upon arrival in U.S. ports. It would be cheaper for local private exporters (or the export board, on their behalf) to pay for the service than to bear the burden of import duties upon arrival in the U.S.

An EAGER/Trade article by B. Lynn Salinger (lsalinger@aird.com), Abdoul Barry, and Selina Pandolfi of AIRD.

IMPACT ON:

	U.S. Imports	Exports from elsewhere	U.S. Production	U.S. Workers
Removal of Quotas	↑0.4-0.6% (a)	negl.	negl.	negl.
Removal of Quotas + Import duties	↑10.5-16.8% (t) ↑26.4-45.9% (a)	negl. ↓≤0.3%	negl. ↓0.1%	↓negl.

Source: International Trade Commission. *Likely Impact of Providing Quota-Free and Duty-Free Entry to Textiles and Apparel from sub-Saharan Africa.* Publication 3056 (September 1997). pp. 3-10.
Notes: (a) denotes apparel; (t) denotes textiles; "negl." denotes change of less than 0.05 %. Ranges reflect upper- and lower-bound estimates.

GEMSTONE and GOLD marketing for SMALL-SCALE MINING in Tanzania

A decade ago, Tanzania began liberalizing and privatizing its mining industry. As a result, the sector experienced a dramatic increase in private sector participation in mineral trade and production. Official statistics (about 1 percent of GDP, and 2 percent of total export earnings) greatly underestimate current economic benefits from the mining sector, however, because artisanal mining of gold, colored gems, and diamonds and related marketing is contained mainly within the informal sector. Guidance and policy dialogue throughout the study was provided by a Policy Advisory Committee chaired by Gray Mwakalukwa, Commissioner of Mining, and organized by Professor Samuel Wangwe, head of the Economic and Social Research Foundation.

Impacts of mineral liberalization on employment and income are striking. The part- and full-time mining workforce has increased from a few thousand in the 1980s to 550,000 in 1995, with earnings at least six times the wages in agriculture. In a country with only 1.2 million salaried jobs, this sector alone has increased the middle-income population by 46 percent in just a few years. These jobs may be at risk, however, as formal capital-intensive mining—which is just becoming operational—tends to squeeze out small miners.

Funded under the USAID EAGER project, this study focuses on a sector with high potential growth. The transition from a statist to a market-oriented economy and uncertainties in policy orientation are currently inhibiting growth. This study seeks to determine the policy framework most likely to enhance growth and socio-economic equity (in this case, employment). At the same time, it recognizes the need to maintain government revenues, and analyzes the fiscal implications of each policy recommendation.

Specifically, the study explores the nature and characteristics of the existing mineral market in Tanzania, since it has been singled out as the main cause of poor sector performance. Since 1987, the macroeconomic policy framework has been cited as a source of mineral marketing problems. The artisanal nature of mining activities has also been responsible for poor sector performance. Steps have been taken to create a legal private marketing system, and gem and diamond dealers now have a partially viable legal framework. But small-scale gold miners currently have no legal buyers for their ore. Therefore, a substantial portion of minerals produced in Tanzania is smuggled. The result is that Tanzania's tax revenues from precious minerals declined in the mid-1990s, even as mining activity grew.

Government Objectives for the Mining Sector

In 1997, the Ministry of Energy and Minerals set the following objectives for the mining sector:

- **Maximize fiscal and export earnings; and**
- **Raise the sector's contribution to total country GDP by at least 10 percent by the year 2025.[1]**

The government is committed to making the mineral sector's development more efficient and increasing regional and global competitiveness. It seeks to attract more production to formal export channels to make the sector more flexible and to withstand both internal and external changes that might affect its progress. It is anticipated that the mineral sector will substantially contribute towards income generation; employment creation; social and economic infrastructure development, particularly for rural areas; and increases in foreign exchange earnings and government revenue. The government will continue to maintain its promotional and regulatory role in directing sector activities while reducing its direct involvement in mineral production activities.

Study Approach and Methods

Consultants from the Advisory Committee and its representatives from the Ministry of Energy and Minerals; Tanzania Revenue Authority; Tanzania Chamber of Mines; Tanzania Mineral Dealers' Association (TAMIDA); and Federation of Miners Associations of Tanzania (FEMATA) contributed to this study. The team used rapid rural appraisal methods to interview participants at every level of the marketing chain. The sampling pattern involved both geographic and socio-professional stratification. On two initial field trips, the team interviewed more than 300 people in two

[1] This target is based on official statistics, which currently peg mineral exports at slightly under 2 percent of GDP. Because exports are not measured through official channels, the current study estimates that mineral exports actually comprise at least 10 percent of GDP. A higher target could therefore be set.

GEMSTONE and GOLD marketing for SMALL-SCALE MINING in Tanzania

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of the five zones into which the study had divided the country, including 20 master dealers, 123 mine owners, 50 brokers, and 64 officials and mining community leaders.

Because previous studies have not directly addressed marketing operations and related policy issues, that is the focus of this study. Topics covered include marketing problems, a history of the participants' roles in the market, and details of prices, margins, and commentaries regarding the industry.

Four sets of economic analyses were conducted. The first analyzed the impact of the mineral trade on the actual macro-economic situation of Tanzania, including the impact of the liberalization of mineral trading on employment, income distribution, and economic growth (GDP). It also examined the effects of smuggling on GDP and foreign exchange.

The second analysis was one of two macro-economic calculations that were undertaken. It explored the impacts of undeclared mineral exports on undervaluation of GDP, and assessed the portion of GDP generated by mining. As precious minerals are almost entirely exported, the balance of trade indicated in official statistics is also substantially understated, as most of these exports are undeclared. It is known in mineral trade circles that these exports generate foreign exchange used to finance imports. This helps to explain how Tanzania has managed to record an increasingly large negative trade balance for many years, without a corresponding devaluation of its currency (which floats freely). Consumption of imports is clearly higher than official exports could finance.

The third analysis calculated the value-added from trade at each step in the marketing chain, and estimated the distribution of economic benefits from northern Tanzanian mining between Kenya and Tanzania. Results showed that an estimated 95 percent of gold and 60 percent of gems are smuggled out overland, through Kenya. Most policymakers in Tanzania assume that an equivalent portion of economic benefit is lost to the Tanzanian economy. This assumption is false. Because most of the value-added is in the mining and early stages of marketing, Tanzania gains most of the economic benefit. An estimated 77 percent of value-added from gold and 71 percent from gemstones stays in Tanzania. The total value of gold and gemstone exports is between US$69 million and US$299 million per year over the last few years.

Finally, to analyze the competitiveness of Tanzania's business climate, a micro-economic model of the costs of doing business as a gem dealer was created. It shows how the tax structure and relative costs of capital favor the growth of business in Kenya, rather than in Tanzania. In addition, the team conducted an extensive review of the literature on artisanal mining. Previous literature includes a series of worldwide studies and workshops financed by the World Bank; surveys designed to attract mineral investment to Tanzania; and background geological mapping and information.

Findings and Conclusions

The primary opportunities for continued growth with equity are listed here.

- **Preserving a balance between modern mining and artisanal mining (i.e., between capital- intensive and labor-intensive mining);**
- **Attracting more trade to Tanzania from current market circuits in Kenya; and**
- **Promoting upstream and downstream value-added activities in Tanzania.**

Trade has been driven into Kenya primarily because of attempts in Tanzania to levy transaction taxes at rates that are too high. Other constraints among Tanzanian dealers include insecurity, under-capitalization, cumbersome and extremely bureaucratic procedures, and lack of information, skills, and infrastructure.

The study recommends that transaction taxes be eliminated, except for royalties, which will finance proper stewardship of depleting resources, if they are actually used for that purpose. Royalties must, however, be at a bearable rate, estimated at 1.1 to 1.5 percent for gold, and 2 to 3 percent for gemstones. Also recommended is the zoning of reserved mining areas for artisanal mining, with artisanal miners having second choice of reef-mining sites and first choice for alluvial mining.

This EAGER/Trade research was conducted by Rogers Sezinga (TanDiscovery) (tandisc@intafrica.com), Lucie Colvin Phillips (IBI) (lcphillips@ibicorporation.com), and Haji Semboja and Godius Kahyarara (ESRF).

Enhancing TRANSPARENCY in TAX ADMINISTRATION in MADAGASCAR

In recent years, Madagascar has experienced marked deterioration of its tax performance. Tax and non-tax revenue has declined from 14.6 percent of GDP in 1987, to 8.4 percent in 1995. This situation starved the public sector of resources with which to maintain infrastructure, expand social services, and maintain the purchasing power of civil service wages, with detrimental consequences for public administration.

Using 1994 data, the EAGER/PSGE study estimates that almost 60 percent of payments legally due under several major tax instruments—i.e., company and non-wage income tax, value-added tax, sales tax, and taxes on foreign trade—were evaded that year. These data do not include taxes on wage income, real estate, consumption (including taxes collected by state monopolies), and fuel excise. Estimated evasion rates on individual taxes range from 29 percent for import taxes to 94 percent for taxes on non-wage income.

No government collects 100 percent of taxes legally due. The U.S. Internal Revenue Service, which collects 85 percent of its revenue (excluding social insurance contributions) from income tax—compared to only 18 percent for Madagascar—estimates net evasion of individual income tax, after enforcement action, at 13 percent. If tax evasion in Madagascar could be reduced initially from 60 to 50 percent, tax performance (i.e., revenue/GDP) would rise by 1.5 percent of GDP, and a budget deficit of about 4.8 percent (see World Bank, World Development Indicators–1997) would drop by nearly one-third.

Clearly, political will to reduce the budget deficit by confronting tax evasion is lacking. Tax services are denied both the resources and political support needed to pursue evaders. This is illustrated dramatically by the performances of company tax and tax on non-wage income. In the first case, companies in the capital whose turnover exceeded one billion Malagasy francs (about US$230,000) declared an average profit in 1995 amounting to only 2.4 percent of sales, despite a consensus in the profession that profit margins average 15–20 percent in trade and 10 percent in industry. More than half of all companies in Antananarivo (31 percent of the large ones) declared losses. In 1997, the Directorate-General of Taxes, with technical assistance from the IMF, established a Large Enterprise Unit which now pursues major corporate taxpayers with considerably more vigor than in the past. It is too early to quantify the outcome of this move.

In the second case, which concerns non-wage income (i.e., earnings of proprietorships), declared income during 1994/95 averaged 190,000 Mfs, or about US$52. Seventy percent of proprietorships declared earnings below 750,000 Mfs (US$200), equivalent to less than 60 percent of the then-minimum wage.

A separate component of the study examined real estate taxation. Three categories of residential rental property in Antananarivo were sampled: low, intermediate, and upper income. Rentals declared in tax returns averaged 47, 52, and 38 percent of rentals reported to the study's enumerators by tenants, owners, and/or neighbors. The study also considered tax exemptions as possible sources of evasion and corruption. In 1995 and 1996, so-called "partial" exemptions from import duties amounted to 12 and 5 percent, respectively, of total tax receipts. These exemptions are in fact discretionary, resulting from requests from importers to the administration.

In addition, the study mounted opinion surveys of businesspeople and tax officials. The first category accused the Indo-Pakistani minority of being the chief evaders, and cited administrative weakness, corruption, and high tax rates as the principal causes of non-compliance. The highest evasion rates for domestic taxes were ascribed to company tax in the commerce sector, and, among foreign trade taxes, to import duties. Primary means of evasion were believed to be smuggling and sales without receipts. Also cited was inattention to taxpayer information.

Concurring with taxpayers on several points, tax officials conceded that there existed staff incompetence, abuse, and corruption, and agreed that the tax services never pursue true evaders, so taxes are paid year after year by the same small group of people.

The study's Research Supervision Committee offered suggestions to help formulate four primary recommendations, listed here:

- **There is an urgent need for a taxpayer information system, which would involve active participation of business groups and other stakeholders. An official bulletin would disseminate tax laws, regulations, and rulings, which would be of no effect unless published therein.**
- **All tax exemptions accorded by the government, including decisions of the Administration Transaction Commission (created in 1994), should be a matter of public record.**
- **Names of taxpayers found guilty of infractions should be published, with accompanying sanctions.**
- **Information on tax collection and evasion, grouped into tax categories, should be published regularly. The finance and economics ministry's Permanent Secretariat for Macroeconomic Analysis (SPPM) is the appropriate agency for this task, given the present government structure.**

An EAGER/PSGE article, by Pepe Andrianomanana, Professor of Economics, and Head, Centre d'Etudes Economiques, University of Antananarivo (andpe@simicro.mg).

UPDATE on EAGER Research

Several research projects for EAGER/Trade and EAGER/PSGE have been completed or are currently under way. They are categorized here under broad EAGER research topics. All completed research will soon be available through EAGER's website (www.eagerproject.com).

Trade Regimes and Growth (EAGER/Trade)

Barriers to Cross-Border Trade

Promotion of Mali's Rice Exports Towards the West African Regional Market
Principal Investigator: Abdoul Barry, Associates for International Resources and Development (AIRD)
Collaborating Institutions: Consultants Etude et Formation, Mali; Ministry of Finance and Ministry of Agriculture, Market Information System, Mali
Status: completed

Impact of Adjustment on Agricultural Competitiveness and Regional Trade in Sahalian West Africa
Principal Investigator: Abdoul Barry, AIRD
Collaborating Institutions: Comité Permanent Inter-Etats de Lutte contre le Sécheresse dans le Sahel (CILSS), Burkina Faso
Status: completed

Prospects for Developing Malian Livestock Exports
Principal Investigator: Jeffrey Metzel, AIRD
Collaborating Institutions: Compagnie Malienne pour le Développement des Textile, Mali; Cellule des Planification et de la Statistique, Ministère de Développement Rural et de l'Environnement, Mali; Economie des Filières Group de Recherche, Institut d'Economie Rurale, Mali
Status: completed

Gemstone and Gold Marketing for Small-Scale Mining in Tanzania
Principal Investigator: Lucie Phillips, International Business Initiatives (IBI)
Collaborating Institutions: Economic and Social Research Foundation, Tanzania; The Business Center, Tanzania
Status: completed

Cross-Border Trade in Ghana
Principal Investigator: Gayle Morris, IBI
Collaborating Institutions: University of Ghana at Legon, Ghana
Status: Final draft expected July 1998

Domestic Marketing of Vanilla Exports in Madagascar
Principal Investigator: Jeffrey Metzel, AIRD
Collaborating Institutions: Centre d'Etude et de Recherche Economique pour le Développement, Madagascar
Status: Final draft expected July 1998

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

Monetary and Exchange Rate Policy in Ghana
Principal Investigator: Charles Jebuni, Center for Policy Analysis (CEPA), Ghana
Collaborating Institutions: AIRD
Status: Final draft expected July 1998

Trade Taxes and Producer Incentives in Ghana
Principal Investigator: Dirck Stryker, AIRD
Collaborating Institutions: CEPA
Status: First draft expected July 1998

Monetary and Exchange Rate Policy in Uganda
Principal Investigators: Marios B. Obwona, Economic Policy Research Center (EPRC) and Polycarp Musinguzi, Research Department, Bank of Uganda, Uganda
Status: Final draft expected July 1998

Efficiency of Trade Tax Regime: Kenya
Principal Investigator: Graham Glenday, Harvard Institute for International Development (HIID)
Collaborating Institutions: Ministry of Finance, Kenya
Status: First draft expected July 1998

Fixed Versus Flexible Exchange Rates in Africa
Principal Investigator: Anatolie Amvouna, University of Cameroon, Yaounde
Collaborating Institution: AIRD
Status: completed

New Opportunities for African Trade and Investment

Structure of Incentives and Manufacturing Competitiveness in Mali
Principal Investigator: John Cockburn, Centre de Recherche en Economie et Finance Appliquées, Université Laval (CREFA-LAVAL), Canada
Collaborating Institutions: Ecole Nationale d'Administration, Mali; Centre Invoirienne pour la Recherche Economique et Sociale, Ivory Coast
Status: completed

International Trade Policy for Development of South Africa
Principal Investigator: Siphiwe Cele, Development Bank of Southern Africa
Status: First draft expected July 1998

South Africa: Potential, Constraints, and Comparative Advantage in the Cotton/Textile/Garments Subsector
Principal Investigator: B. Lynn Salinger, AIRD
Collaborating Institutions: Development Policy Research Unit, University of Cape Town, South Africa
Status: completed

Promoting New Trade Opportunities for Africa
Principal Investigator: B. Lynn Salinger, AIRD
Status: completed

Foreign Direct Investment in Kenya and Uganda
Principal Investigator: Lucie Phillips, IBI
Collaborating Institutions: EPRC, Uganda; University of Nairobi, Kenya
Status: Final draft expected July 1998

Structure of Incentives and Manufacturing Competitiveness in Kenya and Uganda
Principal Investigator: Eckhard Siggel, CREFA-LAVAL
Collaborating Institutions: Economics Dept., Makerere University, Uganda; Economics Dept., University of Nairobi, Kenya
Status: Final draft expected July 1998

Regional Integration in East and Southern Africa

Global Trade Analysis for Southern Africa: South Africa, Zimbabwe, Zambia
Principal Investigator: Will Masters, Purdue University
Collaborating Institutions: Economics Dept., University of Zimbabwe, Zimbabwe; Economics Dept., University of Zambia, Zambia
Status: completed

Promoting Trade Through Regional Integration
Principal Investigator: Steven Radelet, HIID
Status: completed

Modeling Electricity Trade in Southern Africa
Principal Investigator: Tom Sparrow, Purdue University
Collaborating Institutions: Southern African Power Pool; Zimconsult, Zimbabwe
Status: completed

Challenges to Trade

Lessons of East Asia for Promoting Trade in Africa
Principal Investigator: Karen Engle, AIRD
Status: completed

Bringing Down Policy Barriers to Trade in Africa
Principal Investigator: Jeffrey Metzel, AIRD
Collaborating Institutions: IBI
Status: completed

Political Economy of Policymaking in Africa
Principal Investigator: Lucie Phillips, IBI
Status: completed

Promoting and Sustaining Trade and Exchange Reform in Africa
Principal Investigator: Malcolm McPherson, HIID
Status: First draft expected September 1998

Structural Barriers to Trade
Principal Investigator: Joseph Stern, HIID
Status: completed

Determinants of Foreign Direct Investment in Africa
Principal Investigator: Saskia Wilhelms, AIRD
Status: First draft expected July 1998

Effects of Policy Reform on Investment, Trade, Growth, and Poverty
Principal Investigator: Dirck Stryker, AIRD
Status: First draft expected July 1998

Transshipment of Textiles and Clothing through Africa
Principal Investigator: B. Lynn Salinger, AIRD
Status: completed

Other Survey Papers and Desk Studies

Trends in African Trade
Principal Investigator: Abdoul Barry, AIRD
Status: completed

Emerging World Trade Order in Financial Services
Principal Investigator: Michael Isimbabi, IBI
Status: completed

CONTINUED ON BACK COVER

Research

The WTO agreement and FINANCIAL services in AFRICAN countries: a POLICY and RESEARCH review

The development of well-functioning, efficient, and stable financial systems is critical to the evolution of vibrant private sectors that can spur economic growth in developing countries. Financial infrastructures in most African countries, however, are weak and underdeveloped, thus hampering their ability to mobilize savings, stimulate domestic and foreign investment, and efficiently allocate capital to bring about sustained economic growth.

Multilateral trade and investment initiatives, such as the General Agreement on Trade and Services/World Trade Organization Agreement (GATS/WTO) on financial services, present opportunities for African countries to build stable and well-functioning financial systems, integrate domestic financial markets with global markets, and attract foreign investment. Because globalization may result in even further marginalization, the challenge for African countries is to determine how they can best reap benefits from the globalization of trade, finance, and investment.

This study identifies relevant policy and research issues with respect to the implications of GATS/WTO and related trends in international trade, finance, and investment for Africa. It provides a framework for further research on these issues, based on case studies of selected African countries. There is currently no published study on this subject, since the issues are relatively new. Thus, this study is timely with regard to policymaking in Africa, the EAGER research agenda, and USAID's objectives on financial and private sector development in sub-Saharan Africa (SSA).

The study addresses the following six issues.

1. Integration of domestic and international markets.

Liberalization of capital flows, investment, and financial services in both developed and developing countries has resulted in an increasingly integrated global financial system, characterized by, among others things:

- **High-speed, large-volume, sophisticated financial transactions and information flows;**
- **Rapid and sometimes volatile cross-border capital flows;**
- **Increased co-movements of securities markets; and**
- **Remarkable strides in financial innovation, such as derivatives and securitization.**

This has presented developing countries with opportunities to attract much-needed foreign capital to finance economic growth. Countries must, however, create and maintain conducive economic, regulatory, and institutional environments which enable them to attract and retain private capital and utilize it to foster equitable economic growth.

2. Development of financial sectors.

African financial sectors remain underdeveloped for several reasons, some of which include:

- **Weak prudential regulation and supervision;**
- **Unnecessary and harmful political control and interference;**
- **Inadequate physical infrastructure and human resources; and**
- **Underdevelopment of capital markets.**

Even the most developed African financial sectors need more diverse financial intermediaries, other than commercial banks. Savings and investment climates could improve quickly with viable venture capital; finance and leasing companies; contractual savings institutions (i.e., pension funds, insurance companies); securities firms; investment funds; and investment banks.

3. Foreign investment.

Foreign investment in African financial services sectors, through the establishment of subsidiaries, joint ventures, or full branches, can foster development of more stable and efficient financial systems. Recent trends indicate that investment in developing country financial markets by foreign financial services providers can facilitate competition that brings about greater efficiency in financial services delivery. It introduces new and innovative financial instruments, products, or services, and improves access to global capital markets and sophisticated financial services.

4. Attracting long-term capital.

Investment environments in most African countries remain uncompetitive relative to other developing regions. The continent continues to be perceived as highly risky, and has been unable to attract significant diversified foreign investment. Oil, mining, power, and telecommunications—sectors that provide quick, high returns—have dominated recent investment. African countries have been unable to attract critical long-term capital required for infrastructure development. Firms' capital projects rarely find funding, and venture capital is scarce for financing small and medium-sized businesses.

5. Opening financial services markets.

African countries face a daunting challenge to develop their financial services sectors and foster private investment. This challenge must be addressed with the utmost urgency, especially because Africa is seriously handicapped by poor leadership, education, health, and social welfare. To ensure that they benefit optimally from the WTO and other multilateral initiatives, African countries must risk formulating and implementing sound policies and strategies to open up their financial services markets. To ensure long-term political, economic, and social stability, policies must be designed to foster equitable economic growth and improve economic conditions of the poor, including effective financial services delivery in areas that can directly impact on poverty alleviation, such as the growth of small- and medium-sized businesses.

Policies and strategies should focus on:

- **Fostering entrepreneurial risk-taking by prospective financial services providers by eliminating impediments to private investment and the proper functioning of financial systems;**
- **Determining strategies for opening financial markets to foreign financial services providers, liberalizing cross-border capital flows, and assessing the amount of markets to be opened, how quickly, and how capital flows should be managed; and**
- **Determining how the WTO and other multilateral and regional initiatives can best facilitate financial sector development and foreign investment. Countries must study the multilateral context and determine how it affects them.**

6. Research.

Research, using case studies of individual countries or regions, should focus on the following issues:

- **Prospects for the evolution of competitive environments for private investment in financial services, including substantial improvement in political, economic, legal, regulatory, institutional, and social environments. Investor response should be closely monitored;**
- **Opportunities represented by innovations in financial services, and the prospective returns to investors from investment opportunities;**
- **Trends in multilateral and regional trade/investment initiatives, foreign investment, and international financial markets, and their implications for African countries; and**
- **Experiences of other developing regions, e.g., Asia, Latin America, Central/Eastern Europe, in trade/investment and financial liberalization, and their relevance to African countries.**

Such research, analysis, and strategic thinking should lead to clear definitions of roles for governments and policymakers, and recommendations regarding the following:

- **Types of financial intermediaries, innovations, and regulatory structures necessary for the development of a strong financial infrastructure to serve the countries' key economic sectors;**
- **Areas of financial service delivery in which foreign investment should be particularly encouraged;**
- **Creation of a conducive financial and investment environment to stimulate domestic and foreign investment in the financial sector and facilitate entrepreneurship and innovation in financial services;**
- **Integration of domestic and international financial markets, through removal of restrictions on cross-border capital flows and provision of market access to financial services providers;**
- **Regional financial integration and coordination within African regional trade liberalization and economic integration initiatives (e.g., SADC, ECOWAS, AEC); and**
- **Determination of the best strategies for African countries to participate in the WTO, the OECD's Multilateral Agreement on Investment (MAI), and other multilateral agreements.**

An EAGER/Trade article by Michael Isimbabi of IBI (misimbabi@ibicorporation.com).

EAGER South Africa Workshop

The fifth semi-annual EAGER Country Workshop convened on February 4 at Muldersdrift, South Africa, 40 kilometers outside of Johannesburg. This three-day workshop brought together EAGER researchers from Africa and the U.S., most of whom presented interim or final research results. In addition to EAGER researchers, a number of South African government officials and staff and several private sector representatives attended. USAID staff from Washington and several African missions also participated in the workshop.

Similar to previous workshops, the South Africa Workshop scheduled several sessions targeting economic issues of importance to the host country. These sessions generated fruitful discussions on issues such as policymaking, regional cooperation, trade, and employment. Purdue University presented its Global Trade Analysis Software, applied to the case of South Africa, which generated considerable interest among participants.

The number of research reports distributed to workshop participants and ready for dissemination in the countries concerned showed a quantum jump over the previous workshop. Institutionalization of collaborative research was the theme of a plenary session focusing on the creation and expansion of policy research networks in Africa.

The workshop report is currently being assembled, and distribution is anticipated in mid-April. A more detailed exposition of the workshop and its research themes will be featured in the next EAGEReport. The success of this workshop sets a high standard of performance for the upcoming one, tentatively slated for Dakar, Senegal, in October 1998.

Robert Wieland is with the consulting firm International Economics–Washington (inteconwrw@aol.com).

CURRENT EAGER Research

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Public Strategies for Growth and Equity (EAGER/PSGE)

Legal, Regulatory, and Judicial Reforms and Governance

The Cost of Doing Business: Laws and Regulations affecting Labor and Capital in Madagascar
Principal Investigator: Dirck Stryker, AIRD
Collaborating Institutions: Société d'Assistance Technique et de Gestion; JURECO Etudes et Conseils
Status: Final draft expected July 1998

The Cost of Doing Business: Contract Enforcement in Tanzania
Principal Investigator: Patrick Meagher, Center for Institutional Reform and the Informal Sector (IRIS), University of Maryland
Collaborating Institution: Economic and Social Research Foundation
Status: Final draft expected March 1998

Governance and Economic Regulation in Ghana
Principal Investigator: Fred Boadu, Mayatech
Collaborating Institution: Institute of Statistical, Social, and Economic Research
Status: Final draft expected March 1998

Competition Policies for Growth: Legal and Regulatory Framework for Sub- Saharan African Countries
Principal Investigator: Cynthia Clement, IRIS
Collaborating Institutions: To be determined
Status: Final draft expected December 1998

Macroeconomic Management

Tax Policy in Sub-Saharan Africa: The Role of Excise Taxes: Madagascar and Tanzania
Principal Investigator: Jonathan Haughton, HIID
Collaborating Institutions: Centre d'Etudes Economiques, Madagascar; Department of Economics, University of Dar es Salaam, Tanzania
Status: Final draft expected June 1998

Enhancing Transparency in Tax Administration: Madagascar and Tanzania
Principal Investigator: Clive Gray, HIID
Collaborating Institutions: Howard University; Centre d'Etudes Economiques, Madagascar; Department of Economics, University of Dar es Salaam, Tanzania
Status: Final draft expected June 1998

Improving the Framework for Monetary Programming: Tanzania and Malawi
Principal Investigator: Clive Gray, HIID
Collaborating Institutions: Economic Research and Policy Department, Directorate of Economics and Statistics, Bank of Tanzania; Economic Research Bureau, University of Dar es Salaam; Reserve Bank of Malawi
Status: Final draft expected December 1998

Restarting and Sustaining Growth and Development in Africa
Principal Investigator: Malcolm McPherson, HIID
Collaborating Institutions: IRIS; AIRD; Howard University; M.A. Consulting Group, Kenya; Makerere Institute of Social Research, Uganda; Centre de Recherches Economiques Appliquées, Université Cheikh Anta Diop, Senegal
Status: First draft expected September 1998

Financial Markets

Financial Intermediation for the Poor: Senegal and South Africa
Principal Investigator: Eric Nelson, Development Alternatives International
Collaborating Institutions: MayaTech; University of Stellenbosch, South Africa; Bureau d'Etudes REMIX, Senegal
Status: Final draft expected March 1998

The Impact of Financial Sector Reform on Bank Efficiency and Financial Deepening for Savings Mobilization: Ghana
Principal Investigator: Sam Ziorklui, Howard University
Collaborating Institutions: Department of Economics, University of Ghana; Bank of Ghana; Merchant Bank of Ghana; CDH Group
Status: Final draft expected June 1998

The Development of Capital Markets and Growth in Sub-Saharan Africa: Ghana and Tanzania
Principal Investigator: Sam Ziorklui, Howard University
Collaborating Institutions: To be determined
Status: Final draft expected March 1999

Labor Markets

Increasing Labor Demand and Productivity in South Africa
Principal Investigator: Dirck Stryker, AIRD
Collaborating Institutions: University of Witwatersrand; University of Cape Town, South Africa
Status: Final draft expected December 1998

Increasing Labor Demand and Productivity in Ghana
Principal Investigator: George Gyan-Baffour, Howard University
Collaborating Institutions: University of Ghana; Center for Economic Policy Analysis
Status: Final draft expected December 1998

The Contribution of Business Linkages to the Growth of Productive Employment Among Micro and Small Enterprises in South Africa
Principal Investigator: Donald Mead, Michigan State University
Collaborating Institutions: University of Natal/Pietermaritzburg; University of Natal/Durban; University of the North
Status: Final draft expected May 1998

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IN THIS ISSUE

AN ASSESSMENT OF ECONOMIC POLICIES & GROWTH: EAGER WORKSHOP, Muldersdrift

At EAGER's fifth semi-annual Country Workshop, participants expressed reservations about the progress of market liberalization in South Africa. Held in Muldersdrift, South Africa on February 4–6, and co-sponsored by USAID and South Africa's Trade and Industrial Policy Secretariat (TIPS), the workshop brought together researchers, USAID staff, and Africans from the public and private sectors to discuss EAGER themes. Representatives from South Africa's academic sector and from its publicly and donor-supported institutions also participated.

South Africa's recently elected government has been stressing policies that support economic growth through freer markets. Still, South Africans are divided on economic policies regarding the current imbalance of wealth distribution and costs of remedying the situation. This issue helped shape the discussion in the first session, *Current Issues in the South African Economy.* This session brought together South African researchers from two important policy institutions, in addition to a USAID economist: Rashad Cassim, Executive Director of TIPS; Asghar Adelzadeh of South Africa's National Institute for Economic Policy (NIEP); and an economist from USAID's South Africa Mission, Ric Harber. Each speaker noted the importance of the Growth, Equity, and Redistribution (GEAR) program, which has been adopted by the South African government as its central strategy. Through GEAR, the government of South Africa commits itself to export-led development with efficiency-oriented macro-economic policies and limited government interventions.

Mr. Cassim was less than sanguine about this plan's prospects for successful implementation. He discussed the high costs borne by workers in industries that are shedding labor, and the consequent pressure to change this strategy. Additional liberalization may be difficult, because some employment loss is attributed to the adjustment to a more open economy. Furthermore, reforms implemented to date may not be adequate to provide the investment and economic growth benefits anticipated. He also suggested that the exchange rate may still be overvalued.

EAGER

USAID

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EAGER—Equity and Growth through Economic Research—is a six-year activity, concluding at the end of September 1999, that is sponsored by the U.S. Agency for International Development (USAID), Bureau for Africa, Office of Sustainable Development, Strategic Analysis Division.

EAGER supports economic and social science policy analysis in sub-Saharan Africa (SSA). Its primary objective is to increase the availability and use of analytical research by decision-makers in both the public and private sectors to promote the adoption and implementation of policy reforms that foster rapid, equitable, and sustainable growth. The research addresses two key constraints that inhibit the implementation of more appropriate policies. First, EAGER seeks to expand indigenous capacity in SSA countries to undertake policy analysis, and then attempts to improve the positive impact of the analysis on economic performance.

EAGER policy analysis is guided by two basic principles. First, outstanding American and African institutions and analysts work side-by-side on collaborative investigative teams. Second, stakeholders and decision-makers are involved in selection, design, implementation, and dissemination of EAGER research.

EAGER research activities are comprised of the following two components:

- **Public Strategies for Promoting Growth and Equity (EAGER/PSGE), implemented by the Harvard Institute for International Development (HIID)**
- **Trade Regimes and Growth (EAGER/Trade), implemented by associates for International Resources and Development (AIRD)**

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EAGER WORKSHOP, Muldersdrift

FROM PAGE 1

There is a broad consensus that the principal problems of the South African economy are poverty and too few jobs. Mr. Asghar recommended that the government focus on these problems, and re-think its policy framework by adopting a more activist role to generate higher growth and achieve better income distribution. Such policies might offset the equity problems that derive from the current endowment of wealth and jobs, at least in the short term.

Mr. Harber echoed Mr. Asghar's belief that South Africa's excess capacity might justify a Keynesian stimulus to reduce unemployment. He believes that fiscal, monetary, and exchange rate policies have the potential to reduce poverty and promote growth, but did not address short- and long-run trade-offs to such a stimulus. He did, however, identify the need to change the labor structure of markets as a more durable means of reducing unemployment, as well as the need to cut the fiscal deficit, which may increase taxes in South Africa. He supported the GEAR program as the central framework for policy development.

Research papers with a South African focus were presented at concurrent sessions addressing trade, labor markets, factor productivity, market structure, finance, and regional energy-sharing. Will Masters of Purdue University, Inyambo Mwanawina of the University of Zambia, and Robert Davies of the University of Zimbabwe addressed global and regional trade issues facing southern and South Africa. Mr. Masters described the Global Trade Analysis Project (GTAP) and data issues surrounding applications of the GTAP model to the area. GTAP is a public access (i.e., Internet) analytical tool available to researchers who are interested in trade and policy. A detailed account can be found in a separate article in this newsletter.

Mr. Mwanawina assessed the implications of regional and sub-regional integration for capital flows and the consequences of capital inflows on real exchange rate appreciation and import dependence. His results indicate that, in the absence of regional, policy-induced barriers to trade and investment, capital flows into South Africa would rise and increase labor absorption and economic growth. He found that the spillover benefits in neighboring countries would be limited, however; those neighbors would have to undertake domestic economic reforms in their own countries.

Mr. Davies applied a multi-sector, multi-country Computable General Equilibrium (CGE) model to simulate internal and external impacts of the South Africa-European Union (SA-EU) and the Southern Africa Development Community (SADC) agreements. Tax and tariff scenarios were simulated to show changes in import quantities from the European Union (EU) and welfare effects of SA-EU free trade agreements. Those simulations indicate that a SA-EU Free Trade Agreement could yield both strong trade diversion and weak trade creation effects for South Africa. A SA-SADC Free Trade Agreement might yield stronger trade creation, but, due to the small base, would yield low returns in the near-term. Removing intraregional trade barriers would improve overall benefits.

In a session on *Labor Markets, Employment, and Productivity in South Africa*, two research themes were presented, one examining labor demand and productivity, and the other exploring means for promoting competitiveness in two potentially export-leading manufacturing industries. Dirck Stryker of Associates for International Resources and Development (AIRD) and Mr. Cassim discussed their research under the first theme. Preliminary analysis shows a shedding of labor in the manufacturing sector, although production continues to rise. These events coincide with trade liberalization, but linkages are not yet clear. They also noted data limitations regarding small, non-reporting firms. Another finding of particular interest is that wages seem to be rising—in the face of high unemployment—

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Attendees of the Muldersdrift Workshop

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faster than inflation, suggesting an "insider-outsider" problem and lack of flexibility in labor markets.

Lynn Salinger of AIRD, Haroon Bhorat of the University of Cape Town, and Malcolm Keswell of the Parliamentary Research Service presented aspects of their research, entitled, *Promoting the Competitiveness of Textiles and Clothing Manufacture in South Africa.* (Detailed discussion is provided in a separate article here.)

A team including Ed Bbenkele and Owen Skae of the University of Natal, Francis Anim of the University of the North, South Africa, and Donald Mead of Michigan State University presented findings on the *Contribution of Business Linkages to the Growth of Productive Employment Among Small Enterprises in South Africa.* Support in the donor community for programs to encourage linkages between small enterprises and larger firms has been varied. Because the efficiency and equity of such linkages are questionable, researchers will explore conditions under which linkage projects could be expected to function best.

Mr. Bbenkele has studied the role of small-scale gatherers in the traditional medicines sector and their linkages with larger pharmaceutical companies. Initially, his research shows significant opportunities for economic growth in regard to supplying South African pharmaceutical companies, export trade to Europe, and shifting from gathering to cultivation of medicinal plants. Mr. Skae is examining linkages between small and large firms in the services sector in Durban and Richards Bay. While this research is only just getting under way, he noted that greater participation by small firms in this market would go unnoticed without either primary survey data or the development of new variables that measure business linkages. Mr. Anim is examining efforts to promote growth of mostly black-owned micro- and small enterprises in the northern province. He will assess how linkages with white-owned, larger firms could be improved. Mr. Mead noted that there appears to be widespread interest in business linkages in South Africa. Market development appears to be a major constraint in the development of small enterprises. Forging linkages with large buyers may be one solution.

Regarding electricity trade in southern Africa, Ferdi Kruger of ESKOM, South Africa and Mr. Masters simulated policy choices using a model and data representing electricity supply and demand factors. This analysis assessed the benefits of the Southern African Power Pool (SAPP) and covered three key points: (i) regional trade (import and export) by each member of the pool under two different scenarios, with and without harmonization; (ii) value of traded volumes with and without harmonization; and (iii) daily cost. Simulations show significant gains from short-term trading, even with current infrastructure; large export gains for Mozambique, the Democratic Republic of Congo, and Zambia; cost savings for South Africa, Botswana, Namibia, and Swaziland; and reduced CO_2 emissions.

To address *Financial Intermediation for the Poor*, Mohammed Karaan of the University of Stellenbosch presented information on the South African financial system, along with a similar case study on Senegal undertaken by Hamed Ndour of REMIX, Senegal. In his assessment of the South African financial system as it relates to small-scale and rural clients, Mr. Karaan examined a number of institutions and approaches for reaching this clientele. Case studies show that the large state-owned banks do not seem to be commercially viable vehicles for sustained delivery of financial services. A promising new approach has rural clients contributing to a deposit fund and leveraging those savings with borrowing. Another potentially successful approach is the Village Banking Scheme, under which institutions gather member shares and deposits and place them with commercial banks to collect interest. The Village Bank then borrows against those deposits and these loans are used to finance loans to members.

Eric Nelson, formerly of Development Alternatives, Inc., summarized the study results from Senegal and South Africa, noting that formal sector institutions do not serve this clientele with savings and deposit services. Mr. Nelson pointed out that Village Banks would be vastly increased if private investors were allowed to participate.

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PROMOTING the COMPETITIVENESS of Textiles and Clothing Manufacture in South Africa

As part of the EAGER/Trade Regimes and Growth component, an investigation of the competitiveness of textiles and clothing manufacturing in South Africa revealed that there are many routes to success. Although the study indicates that more large firms are successful than small firms, approaches to achieving success vary considerably within size categories. For large firms, success depends partly upon market segment and partly upon factory management. Success in small firms depends upon knowledge of industry trends and investment.

The research team, composed of AIRD economist Lynn Salinger, University of Cape Town economist Haroon Bhorat, University of Massachusetts–Amherst economist Diane Flaherty, and South African researcher Malcolm Keswell, presented preliminary findings at the February 1998 EAGER workshop in Muldersdrift. By this time, the team had interviewed individuals at 105 clothing and textiles firms, representing a diversity of sizes, product types, locations, plant modernity, labor relations, retail channels, and dependence on exports and imports. Most firms conduct some design and manufacturing, and several cut-make-trim (CMT) (i.e., clothing assembly) operations and design houses were included. They discussed findings with stakeholders, including the director of textiles, clothing, and footwear in the Department of Trade and Industry; members of the Clothing Federation; and an economist of the South African Textile and Clothing Workers' Union. The private sector was enthusiastic about the work completed to date, and is now pressing for the research findings to be communicated to members of Parliament and the government's tripartite policy deliberation body, NEDLAC.

Preliminary Findings

As previously noted, routes to success vary for clothing and textile firms. The following example, which compares two large South African companies, shows how the way in which firms compete can contribute to success. Company A produces for the mass market. It has not computerized much of its inventory, design, or administrative functions, or invested substantially in new machinery. It views labor relations purely as a matter of discipline. Company B has a more mixed market segment, ranging from up-market, relatively specialized products to more mass-market items produced in long runs. It has computerized its inventory, design, and administrative functions, and has an empathetic view of labor relations. Moreover, Company B is informed of and experimental in implementing modern methods of organization, such as just-in-time inventory control and flexible methods of moving work along the line. It also has a policy of promoting through the ranks and training in multiple skills and multiple tasks. It rewards workers whose suggestions save money, and its bonus scheme increases the bonus percent as workers get closer to the target.

Company A fell on hard times and downsized, with the ultimate goal of moving production out of the country. Company B is profitable and expanding. Although it explored moving out of South Africa, it determined that there is plenty of opportunity to make money there and will stay.

The lessons from these two stylized firms are clear. While Company A faces difficult external conditions, it

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Clear, medium-term policy parameters should be established to minimize uncertainty about the macro-, labor, and sectoral policy environments which complicate firms' strategic planning...

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has done little to respond creatively to the challenges. Its response is to continue to do what it has always done, only in a different location. It chooses locations which look like the South Africa in which it was for many years successful. Company B, in contrast, is forward-thinking and flexible, changing its internal organization and strategy in response to changing external conditions.

With broad changes in South African government, the private sector needs some assurances of stable—or at least predictable—rates of exchange, interest, inflation, wages, tariffs, and so forth.

Policy Implications

Policy implications of the data are beginning to emerge and focus around the following themes:

Human capital development: Worker and manager education and upgraded skill levels are central to improving company performance. Government expenditures on basic literacy, adult education, technical institutes, and vocational schools (i.e., *technikons*) will likely have the effect of "crowding in" private sector investment, and thus should be encouraged. Changing managerial behavior and attitudes is more challenging, but must be addressed if South African managers are to take their firms into the global marketplace of the 21st century.

Access to capital: Access to working capital is critically important, particularly for growing small firms. Simply bridging finance for established CMT operations can help set into motion the virtuous cycle of decreased slack time, a more stable work force, and achieving higher quality and productivity. Investment capital is twice as expensive in South Africa as it is in the U.S. and Europe, which clearly constrains South African investment in new capital equipment. With regard to technology development, researchers have found little evidence in South Africa of collaborative public-private development of applied technologies, which exist elsewhere, to further the competitiveness of textiles and clothing manufacturing.

Policy stability: Clear, medium-term policy parameters should be established to minimize uncertainty about the macro-, labor, and sectoral policy environments which complicate firms' strategic planning. While policy stability will not necessarily overcome inherent risk-aversion in managers of "Company A" firms, it will nonetheless benefit firms that take more risks. With broad changes in South African government, the private sector needs some assurances of stable—or at least predictable—rates of exchange, interest, inflation, wages, tariffs, and so forth.

Labor relations: Emerging patterns suggest that it is in the management's interest to collaborate with its labor force to promote multi-skilled workers, improve productivity, and enhance competitiveness. This suggests that there is a market-based alternative to excessive regulation of labor relations, and government should resist the temptation to intervene extensively in this area.

Export promotion: This study revealed that firms seldom used Department of Trade and Industry support for trade-related travel. Programs should be established to help firms understand and use available export marketing assistance.

There is evidence that many South African firms are learning how to compete. There is considerable optimism in the industry that collaborative efforts are beginning to yield a productive business export strategy. If the link between progressive use of labor by management and improved productivity and competitiveness can be communicated widely, there is even some real hope that labor may share in the gains derived from export orientation.

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FINANCIAL INTERMEDIATION for the Poor in SENEGAL and SOUTH AFRICA

In Asia and Latin America, financial institutions that serve the poor play four principal roles:

- **Help households create or diversify sources of income;**
- **Mobilize and safeguard their savings;**
- **Transfer funds among family members or business associates; from urban to rural areas; or from emigrants to their families; and**
- **Increase households' level of debt (called "credit" by banks) during time of need.**

Development Alternatives Inc. (DAI) and Mayatech Corporation, in association with researchers in Senegal and South Africa, conducted field studies to determine the extent to which whether or not microfinance programs in Africa successfully responded to the financial needs of the poor. The team discovered that a fifth, previously undiscerned role was more important in Senegal and South Africa than any of the four principal roles: Providing the immediate liquidity which averts crises or allows the poor to exploit opportunities to improve their economic condition. Formal and nongovernment organization (NGO) sectors are ill-equipped to provide this service, which relies on both knowledge and trust.

In Senegal, the study identified government policies with unfavorable repercussions on finances for the poor. The interest rate ceiling above which lending qualifies legally as usury is linked to the rediscount rate. When the latter rate falls due to macroeconomic policy, micro-credit becomes impossible, and even existing loans become illegal. For example, in 1997, the usury ceiling fell from 21 percent to 12 percent. No credit program serving the poor can cover its costs at 12 percent. Nearly all microfinance and mutual institutions are heavily subsidy-dependent.

The Senegalese government passed a restrictive law that permits some NGO deposit-taking programs, despite their difficulty in meeting legal requirements for registration as banks. The law does not tolerate identical private activities, however. Catholic Relief Services (CRS) has provided seed capital to start "village banks," which function without subsidy and are based on the practice of traditional *tontines* in which villagers regularly deposit the same sum, so the model does not require literacy or numeracy in management. The "bank" can make six-month, one-month, and intermediate loans with these monthly contributions, plus loan installments. Village banks have repaid 100 percent of seed capital at a market interest rate, and system expansion is limited only by CRS resources.

NGOs cannot possibly finance village banks in Senegal's 13,000 villages. The study calls for a change in banking regulations to allow private entrepreneurs to establish such institutions with their own and/or mixed (i.e., commercial bank) funding.

In South Africa, all formal financial institutions providing credit to the poor are heavily subsidy-dependent. Commercial bank branches are widespread, but serve only for transfers, and the post office bank is believed to be too heavily cross-subsidized to retain despite its role in deposit-taking and transfers.

Given the strengths of the *stokvel* movement in South Africa (i.e., an indigenous savings and loan society, similar to tontines), researchers are studying the feasibility of designing South African village banks similar to those in Senegal, but based on the stokvel form of organization, in which they meet with the end user.

The study's preliminary conclusion is that policymakers should drop a long-standing focus on microcredit (whether from abroad or local formal-sector institutions) as the sole vehicle of financial intermediation for the poor. Policy should be oriented toward promoting the deposit-credit circuit within low-income communities, and developing transfers and, ultimately, national financial intermediation from that base. Villagers are willing to pay high interest rates to borrow from each other, and government should not treat such behavior as an issue of national policy.

The study's preliminary conclusion is that policymakers should drop a long-standing focus on microcredit (whether from abroad or local formal-sector institutions) as the sole vehicle of financial intermediation for the poor.

This EAGER/PSGE article was written by Eric Nelson, Senior Country Economist at the World Bank (ernelson@worldbank.org).

FINANCIAL SECTOR Reform and Savings Mobilization in GHANA

This study provides a detailed examination of the problems of Ghana's banking sector that led to the formulation and implementation of the Financial Institutions Sector Adjustment Program (FINSAP) in 1988. Researchers reviewed other Ghana banking sector studies to determine questions on which to base hypotheses testing and policy formulation. These questions included:

1. **What are the remaining reform issues and constraints to banking efficiency and savings mobilization in Ghana?**
2. **How did commercial banks react to financial sector reform?**
3. **What regulatory changes were instituted, and how did policy reform affect banking efficiency and savings mobilization?**
4. **How did the public, especially depositors, react to the policy changes after financial reform?**

Field research is being conducted in Ghana to answer these questions. The research is taking several forms, including the administration of survey questionnaires to bank managers; staff and employees; examiners and regulators; and depositors. Other methodologies include statistical analysis of prudential, audited bank data, and other macro-financial and macroeconomic data over the study period.

Preliminary results reveal that financial sector reform has had considerable impact on the capacity of the Ghanaian banking sector to mobilize financial savings. The post-FINSAP era witnessed the establishment of seven new banks, other non-bank financial institutions, and so-called "magic banks," which offered very attractive rates to depositors. Predictably, the public reacted favorably to these high deposit rates.

The results also show that reform produced greater financial asset holdings (i.e., financial deepening) by the Ghanaian public. A greater part of the assets, however, was in high-yield, short-term government treasury bills. Consequently, the increased financial deepening did not result in greater savings mobilization by the traditional banking sector. The study shows that, despite the emergence of new banks, the macroeconomic imbalance of the government budget deficit tends to constrain savings mobilization. This high deficit, accompanied by monetary expansion, resulted in negative real interest rates and further erosion of public confidence in the banking system. Frequent and excessive devaluation of the Ghana cedi has caused Ghanaians to increase their savings in foreign denominated currencies as a hedge against constant devaluation and perennial inflationary pressures.

The Ghanaian experience supports the general notion that financial reform implemented in countries with unstable macroeconomic environments and high inflationary pressures has less chance of success than in countries in which macroeconomic stability prevails. In Ghana, the partial liberalization of interest rates in the face of high inflationary pressures resulted in a negative real rate of interest, producing a disincentive for financial saving. In addition, liberalization of the exchange rate in an inflationary environment has led to constant depreciation of the cedi and created a volatile foreign exchange market. This is evident by the increasing process of "dollarization" in Ghana.

Preliminary policy implications of this study—which researchers are emphasizing to the Ministry of Finance and Bank of Ghana—are that financial reform must be accompanied by judicious fiscal and monetary policies that ensure overall macroeconomic stability. It should be noted that this is precisely the message that USAID/Accra has been conveying to the government of Ghana under its Trade and Investment Program (TIP). Researchers hope that this study's recommendations may be implemented to harness the potential impact of financial sector reform on greater savings mobilization for growth and poverty alleviation in Ghana.

In addition, this study may be reinforced by the effort *Restarting and Sustaining Growth and Development in Africa*, which tackles the challenge of how to raise rapid and sustained rates of economic growth and development to the top of the Ghanaian government's agenda.

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AFRICAN INVESTMENT, TRADE, and GROWTH: Obstacles and Opportunities in the 21st Century

Despite substantial economic policy reforms over the past decade, the performance of most African countries has been poor. In the 1980s, GDP per capita declined by 1.3 percent per annum—about 5 percentage points below the average for low-income developing nations. From 1990 to 1994, the decline increased to 1.8 percent and the gap increased to 6.2 points, although there was some improvement in 1995 and 1996. From 1971 to 1991, about one-third of the shortfall in economic growth was due to lower investment rates, and the rest to lower growth of productivity.[1]

EAGER research is currently investigating why this disparity exists and how it is associated with Africa's failure to participate fully in the global economy. Preliminary results suggest that policy reforms leading to increased openness to world markets have increased growth in Africa, but have been offset by less favorable factors, such as low levels of health and education, and the absence of well-functioning legal and judicial systems. Africa's inability to increase rates of investment from both domestic and foreign sources of savings has meant less capital creation and reduced access to the world's ever-improving technology.

Foreign direct investment (FDI) is no longer attracted to protected domestic markets, but now moves to countries that are open to the global economy. In the past, FDI was first directed towards exports of primary products, and subsequently towards production of import-competing goods for local markets. Today, FDI is increasingly attracted to footloose industries in countries that serve as a platform for exporting to the world market. With reductions in costs of transportation, telecommunications, and information processing and exchange, companies can optimize their global production, distribution, and marketing. Countries that have been successful in attracting FDI do so through a combination of political stability, sound fiscal and monetary policy, favorable trade and exchange rate incentives, strong financial and commercial institutions, and well-established legal, regulatory, and judicial environments.

Africa has had limited success in participating in this dimension of global economic growth. Progress has been frustrated by incomplete and unsustained reforms that have not been fully implemented or have been partially reversed by special interest groups. There is still a strong perception that production should be oriented towards domestic or regional markets, often behind high protective trade barriers. Macroeconomic stability has been difficult to sustain, leading to inflation, rising interest rates, deteriorating balance of payments, increased indebtedness, and appreciating real exchange rates. This has often been exacerbated by political turmoil and uncertainty. Even where there is political and economic stability, lack of physical infrastructure and managerial and technical skills have frustrated the reallocation of resources. Most of Africa still lacks legal, financial, commercial, and administrative structures required for participation in the global economy.

Many argue that Africa is already part of the global economy through its exports to the industrial world and to more rapidly developing countries. These exports are important, but continued dependence on primary product exports will frustrate Africa's attempts to join the global economy as a full partner. One reason is deteriorating terms of trade, which declined for all of sub-Saharan Africa by one-third from 1980 to 1996.[2] Another reason is that primary product prices tend to fluctuate on world markets much more than those of industrial goods. Finally, empirical evidence suggests that specialization in exports of primary products has a negative effect on economic growth,[3] possibly due to the fact that exports of manufactured goods are linked more to foreign direct investment and transmission of technology than are exports of bulk agricultural commodities.

To avoid overdependence on exports of bulk commodities and to benefit from the effects of trade on investment and technology transfer,

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[1]Paul Collier and Jan Willim Gunning. "Explaining Economic Performance," WPS/97-2. Center for the Study of African Economies, University of Oxford, January 1997, p.2.

[2]World Bank, African Development Indicators 1997.

[3]Jeffrey D. Sachs and Andrew Warner, "Natural Resource Abundance and Economic Growth," Harvard Institute for International Development discussion paper No.517a; J. Dirck Stryker and Selina Pandolfi, "Impact of Outward-Looking, Market-Oriented Policy Reform on Economic Growth and Poverty - Technical Paper," CAER II Discussion Paper No.7, AIRD, June 1997.

AFRICAN INVESTMENT, TRADE, and GROWTH: Obstacles and Opportunities in the 21st Century

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Africa must develop comparative advantage across a broader and more diversified range of exports, expanding overall trade and investment. EAGER has identified the following areas as high priorities for achieving this goal:

- **Open trade and exchange rate policies are fundamental to investment, trade, and growth. Although many African countries are committed to these policies, there are problems in their implementation. For example, trade tax reduction is constrained by the need for public tax revenue. Possible solutions are improved tax policy and administration, involving a broadening of the tax base; a reduction in tax rates; and more honest and efficient tax collection.**
- **Although most African countries have abandoned quantitative import restrictions, informal restrictions have been introduced, related to health and safety requirements, customs valuation, and other regulations not intended to serve as barriers to trade. Constant vigilance must be maintained to guard against these trade distortions.**
- **Cross-border trade is subject to numerous barriers involving delays in payments, complex customs procedures, etc. These should be publicized so that there is general awareness of the problems and pressure can be initiated to overcome them.**
- **Although foreign exchange restrictions have been reduced, they can creep back in when there is a shortage of foreign exchange. Most countries do not allow free access to foreign exchange for capital account transactions, which can interfere with the use of foreign exchange on current account.**
- **Fiscal deficits leading to inflation often result in central bank interventions in the foreign exchange market to dampen depreciation and contain price increases of goods and services. This inevitably leads to appreciation of the real exchange rate and reduces export profitability.**
- **Absence of a viable legal, regulatory, and judicial environment constrains investment. Identifying the constraints on business expansion and implementing temporary measures to alleviate these constraints would provide a solution. The EAGER project is helping to identify such constraints in African countries.**
- **The high cost of transport is cited again and again as a constraint to export expansion, partially due to infrastructural deficiencies as well as transport monopolies. Costs of external transportation in Africa may be 20 percent higher than in other developing countries.[4]**
- **Africa lags behind the rest of the world in ensuring quality standards, adapting just-in-time delivery, and maintaining flexibility of production lines.**

Transaction costs associated with conducting business in the global economy are continually decreasing with improved transportation, telecommunications, and information processing. Yet transaction costs in most African countries are rising, in relation to those elsewhere in the world, which inhibits Africa's ability to compete in a diversified range of exports and as a locus for foreign direct investment. Continued dependence on exports of bulk commodities and production of nontradable goods and services for the local market has resulted in a lack of capital and technology transfer as well as slower economic growth.

Despite these obstacles, Africa faces enormous opportunities. The global economy is expanding rapidly, and barriers to trade, investment, and technology are being reduced. Fortunately, Africa has a growing number of entrepreneurs who look not to government but to themselves to solve these problems through individual and collective action. They will need help, however, in identifying Africa's evolving comparative advantage, and exploiting that advantage with investment, knowledge, and skills.

J. Dirck Stryker (dstryker@aird.com) of AIRD is Chief of Party, EAGER/Trade.

[4] Thomas W. Hertel, William A. Masters, and Aziz Elbehri, "The Uruguay Round and Africa: A Global General Equilibrium Analysis," Department of Agricultural Economics, Purdue University, May 30, 1997.

NEW DISCUSSION Paper Series

As a result of a collaborative effort between the EAGER/PSGE and EAGER/Trade projects, and with the assistance of BHM, EAGER's communications dissemination contractor, we are pleased to announce the launch of a new discussion paper series to provide researchers around the world with immediate access to EAGER research results.

The first papers in the series are:

1. Kahkonen, S. and P. Meagher. June 1998. Contract enforcement and economic performance.
2. Bolnick, B. and J. Haughton. June 1998. Tax policy in sub-Saharan Africa: Re-examining the role of excise taxation.
3. Wadhawan, S.C. and C. Gray. June 1998. Enhancing transparency in tax administration: A survey.
4. Phillips, L.C. June 1998. The political economy of trade policy reform: Exploring an African paradigm.
5. Metzel, J. and L.C. Phillips. June 1998. Bringing down barriers to trade: The experience of trade policy reform.
6. Salinger, B.L., A.M. Amvouna, and D.M. Savarese. June 1998. New trade opportunities for Africa.
7. Goldsmith, A. June 1998. Institutions and economic growth in Africa.
8. Flaherty, D.P. and B.L. Salinger. June 1998. Learning to compete: Innovation and gender in the South Africa clothing industry.

"Most of these first papers are the result of literature surveys conducted at the onset of the EAGER project. We expect the series to rapidly expand with country studies and final research reports," said Clive Gray, Chief of Party for EAGER/PSGE. "It is an excellent way to document the growing body of EAGER research. The series is only one tool for disseminating the results of EAGER research, however. We also hope to fund advocacy efforts to enable EAGER researchers to work closely with policy reform customers."

If you wish to be added to the EAGER electronic mailing list and receive announcements of future discussion papers, please send e-mail to: lmatt@EAGERProject. com.

You can find the latest list of available papers, with abstracts and an order form, on the EAGER website (www.eagerproject.com). You may also download future discussion papers from this website. There is no charge to send hard copies of papers to addressees on the African continent. For destinations outside of Africa, a fee of $7.50 per paper will cover costs of production, shipping, and handling. To order, send your name, address, and the numbers and titles of papers you wish to receive to: Discussion Paper Series, EAGER/CLC, 1800 North Kent Street, Suite 1060, Arlington, VA, 22209, USA. You may also order via fax (703-741-0909), or send e-mail to lmatt@EAGERProject.com.

The GLOBAL TRADE Analysis Project (GTAP): A Dynamic New Resource

The Global Trade Analysis Project (GTAP) provides a powerful new set of publicly accessible tools for quantitative modeling of international trade policy. GTAP is an analytical resource for EAGER-supported research, and enjoys institutional links to the EAGER project through Purdue University's participation in the EAGER/Trade Cooperative Agreement consortium. Its website (www.agecon.purdue.edu/gtap) provides a gateway to data and software for quantitative modeling of trade issues.

Will Masters, professor of economics at Purdue and member of the GTAP and EAGER teams, attended the EAGER Country Workshop at Muldersdrift and participated in research presentations which made use of GTAP's capabilities. Mr. Masters demonstrated GTAP software, and described its application to research questions regarding global trade analysis in southern and South Africa.

The GTAP model is capable of disaggregating global production and trade for 45 countries or regions and 50 commodities or sectors. Under the application for southern Africa, the dataset was grouped to show impacts to the Southern Africa Customs Union (SACU) and the rest of South Africa (SADU-SACU), under simulations of changes in policies, resources, and technologies. The database was sourced from country governments (i.e., input/output tables, Social Accounting Matrixes [SAMS], National Accounts), U.N. COMTRADE (a U.N. database of trade flows among countries), and the United Nations Conference on Trade and Development's (UNCTAD) Trade Analysis and Information System (TRAINS). With similar additions of data, the model could address other countries or country groups, such as the Common Market of East and Southern African States (COMESA) and the Central African States (ECCAS).

Inyambo Mwanawina, of the University of Zambia, used the model to examine impacts on South Africa and the region regarding capital flows to South Africa in the context of subregional integration. Rob Davies, University of Zimbabwe, used the model to study impacts by free-trade agreements between South Africa and the European Union, and between South Africa and Southern Africa Development Community (SADC).

These disparate applications of the GTAP model and the usefulness of the simulation results demonstrated to workshop attendees GTAP's power with respect to EAGER objectives. Quantitative estimates of the impacts of policy changes can help focus policymakers' attention, especially when economic benefits can be shown in the results. Similarly, the economic costs of maintaining policies that restrict trade can be shown through applications of this model, and help generate greater interest in policy reform.

The GTAP model is implemented using GEMPACK-based software, which can be downloaded from the GTAP website. A complete description of the model structure is provided in the book, *Global Trade Analysis: Modeling and Applications*, edited by T.W. Hertel (available through Cambridge University Press; see GTAP website for ordering information). The book provides data requirements, shows how the software works, and provides examples of applications, including the effects of economic growth on factor markets; trade policy liberalization; and applications to resources, technology, and the environment.

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Quantitative estimates of the impacts of policy changes can help focus policymakers' attention, especially when economic benefits can be shown in the results. Similarly, the economic costs of maintaining policies that restrict trade can be shown through applications of this model, and help generate greater interest in policy reform.

EAGERReport

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EAGER

USAID

PROMOTING MALIAN RICE EXPORTS to Regional Markets

Throughout the 1980s and early 1990s, Mali experienced severe economic difficulties, which led to declining per capita income. The agricultural sector was particularly affected by the lackluster economy, caused in part by an overvalued CFA franc and highly regulated internal market. This contributed to poverty because agriculture provides employment to more than three-quarters of the growing population and contributes almost half of the GDP.

To respond to this crisis, Mali tried to liberalize its export sector, which depended on livestock, cotton, and mining. Thanks to structural adjustment programs and subsequent devaluation of the CFA franc, the competitiveness of exports has improved markedly. Malian policymakers are now eager to diversify the export base and markets. With its substantial but untapped production potential, rice may fit their objective.

Rice production has increased during the past decade, owing to a host of factors, including :

- **The Cereal Market Reform Program, designed, among other things, to liberalize the rice market and help both producers and traders better allocate resources;**
- **The introduction of small hullers, intended to reduce processing costs; and**
- **Public investments, to rehabilitate the crumbling irrigation infrastructure.**

These factors helped to enhance farm level productivity, lower production unit costs and improve rice competitiveness in domestic and external markets. Mali even exported some rice to neighboring countries.

This study attempts to shed some light on Mali's comparative advantage in domestic and external rice markets. It also evaluates the sustainability of rice exports to regional markets. Finally, it assesses institutional, technical, and infrastructural constraints to rice exports and proposes measures to alleviate them.

According to study results, Mali has a strong comparative advantage in domestic markets, which extends to proximate markets in neighboring countries. This advantage diminishes, however, as one moves away from the border, due to high regional transport costs, high import tariffs on utility vehicles,

CONTINUED ON PAGE 3

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EAGER—Equity and Growth through Economic Research—is a six-year activity, concluding in September 1999, that is sponsored by the U.S. Agency for International Development (USAID), Bureau for Africa, Office of Sustainable Development, Strategic Analysis Division.

EAGER supports economic and social science policy analysis in sub-Saharan Africa (SSA). Its primary objective is to increase the availability and use of analytical research by decision-makers in both the public and private sectors to promote the adoption and implementation of policy reforms that foster rapid, equitable, and sustainable growth. The research addresses two key constraints that inhibit the implementation of more appropriate policies. First, EAGER seeks to expand indigenous capacity in SSA countries to undertake policy analysis, and then attempts to improve the positive impact of the analysis on economic performance.

EAGER policy analysis is guided by two basic principles. First, outstanding American and African institutions and analysts work side-by-side on collaborative investigative teams. Second, stakeholders and decision-makers are involved in selection, design, implementation, and dissemination of EAGER research.

EAGER research activities are comprised of the following two components:

- **Public Strategies for Promoting Growth and Equity (EAGER/PSGE), implemented by the Harvard Institute for International Development (HIID)**
- **Trade Regimes and Growth (EAGER/Trade), implemented by Associates for International Resources and Development (AIRD)**

EAGEReport provides periodic updates on EAGER activities. It is published in English and French as part of EAGER's Communications and Logistics contract with BHM International Inc. This newsletter may be quoted and reproduced if proper credit is given. *EAGEReport's* Managing Editor is Sytske Braat-Campbell (Abt Associates); Associate Editor is Linda Klinger (Abt consultant); and French translation is by Catherine Utz (Abt consultant). KINETIK Communication Graphics Inc. produces both the English and French editions.

PROMOTING MALIAN
RICE EXPORTS
to Regional Market

FROM PAGE 1

high taxes on fuel, and illicit taxation by public officials. Past studies have shown that transport costs are two to four times higher in West Africa than in Asia for comparable distances, and account for over two-thirds of marketing costs in West Africa. Thus, policies that reduce transport costs will improve Malian comparative advantage in regional markets, especially in coastal markets, and enhance food security in the regional markets.

The study indicates that Mali has a chronic deficit in rice under current production and demand conditions, thus raising questions about the sustainability of Malian rice exports. This requires that investments in irrigation schemes be made to boost production. If paddy producers bore the full cost of these investments, the competitiveness of rice produced under the new irrigation systems would be doubtful. Yet, Mali could not compete internationally. Mali could still export rice seasonally to regional markets, provided that a coherent strategy coupling export and import policies were put in place. Mali should produce and export rice to neighboring countries before they harvest their crop so that Malian traders can take advantage of high prices. Imports must also be allowed throughout the year to avoid the high prices recorded during the past years. Import duties on rice should be curtailed to give incentives to traders to ensure rice availability and set the stage for more competitive rice markets.

Rice exports could be encouraged by installing a drawback system, whereby rice produced for exports is exempt from taxes on inputs. Mali's ability to export rice is also contingent on overcoming several constraints:

Protective policies in individual countries: Because regional organizations do not treat rice as an unprocessed agricultural commodity, countries can levy high tariffs on it. Malian policymakers should attempt to induce these organizations to categorize rice as an unprocessed agricultural commodity and reduce tariff barriers for increased intraregional trade.

Difficult bank transfers: Financial transfers are known to be difficult and very slow between banks and their subsidiaries within the same country, as well as between banks in different countries. Simplification of transfer procedures needs to be addressed to facilitate seasonal rice transactions.

Lack of useful market information: Market data has focused only on prices. Yet, traders are eager to have available information on quantities traded. One solution may be to reduce the number of markets covered for data collection and limit resources to the most important ones in order to yield knowledge of market conditions. Information collected should be shared across countries to enable foreign traders to have accurate regional information. Centralization of national information at the West African Enterprise Network, a regional organization designed to enhance business opportunities among its members, should be encouraged.

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Studies have shown that transport costs are two or four times higher in West Africa than in Asia for comparable distances…Thus, policies that reduce transport costs will improve Malian comparative advantage in regional markets, especially in coastal markets…

Modeling Electricity Trade in Southern Africa

As part of an EAGER/Trade-funded project, Purdue University's State Utilities Forecasting Group (SUFG) is helping the 12-nation Southern Africa Power Pool (SAPP) assess the benefits of trading electricity among members. Their task has blended economic and engineering analyses of the complex web of interactions affecting the cost and reliability of the region's electricity supply. The project has attracted widespread attention, and should yield substantial benefits throughout the region.

"Electricity use and economic development rise together," says Tom Sparrow, director of SUFG and professor of engineering and economics at Purdue. With southern Africa's enormous hydro-power potential in the north and vast electricity demand in the south, electricity trade could fuel economic growth in the region for decades, provide a source of foreign-exchange revenue for exporters, and keep power prices low in importing countries. Replacing fossil fuels with hydro-power may also reduce greenhouse gas emissions and benefit the global environment.

In 1996, Sparrow and Will Masters, associate professor of agricultural economics at Purdue, proposed that EAGER apply SUFG's electricity-modeling skills to SAPP. Their objective: To collaborate with SAPP professionals in tailoring computer models to local needs, and build national models for each member country and link them together into a comprehensive regional model of the entire power pool.

...Electricity trade could fuel economic growth in [southern Africa] for decades, provide a source for foreign-exchange revenue for exporters, and keep power prices low in importing countries.

"To help SAPP predict the effects of new trade agreements among members and new transmission infrastructure, we proposed constructing an engineering model of the region's electricity grid, linked to an economic model of costs and benefits," says Sparrow. The model would simulate the effects of any change in SAPP's trading or transmission systems, and evaluate its impact on SAPP members. Engineers in each national utility could use the model while they negotiated with one another to achieve the most mutually beneficial combination and sequencing of changes.

The Purdue team was a good match for the SAPP because of their technical expertise and their collaborative work style, developed during many years of using similar models to advise state government and utility regulators. The model they constructed for the SAPP incorporates four submodels that simulate the interaction of customer demand, system generation, total revenue requirements, and customer rates. By providing varying sets of assumptions, it addresses the uncertainty of such factors as economic growth, construction costs, and fossil fuel prices.

With EAGER funds, SUFG staff traveled throughout southern Africa to initiate the modeling work, and then continued to develop the models at Purdue, using e-mail, phone, and fax to exchange data with SAPP collaborators. In August 1997, delegates from eight SAPP countries traveled to Purdue to evaluate the models and learn how to manipulate them. SUFG members and industrial engineering graduate students provided technical support.

"It's been helpful to look at the national models and see what factors affect electricity generation costs," says Roland Lwiindi of the Zambia Electricity Supply Corporation. "I know (which factors) to concentrate on." Because trade in electricity had been conducted with a long-term perspective, the Purdue sessions were helpful in demonstrating opportunities for short-term trading, especially since drought information can be incorporated.

For countries that depend on hydro-power but are vulnerable to drought, the reliability of the electricity supply is particularly crucial. Zimbabwe's 1992 drought caused electricity shortages that cost it US$235 million in lost export earnings—nearly 10 percent of its gross domestic product.

Michael Stohl, Purdue's dean of international programs, sees parallels between SAPP's activities now and those of the European Coal and Steel Community in the 1950s. "Like steel in 1950, power in the 1990s is crucial for economic development," he says.

Through this project, EAGER brought Purdue's strengths in engineering and economics to bear on similar problems in Africa, with excellent results. This year, SAPP will begin implementing its coordination center for electricity trading in Harare. Researchers are working on a follow-on study involving longer-term decisions regarding large transmission and generation facilities. The modeling workshop for that project will take place in Cape Town, South Africa, in July 1998.

Will Masters (masters@agecon.purdue.edu) is the principal investigator for this EAGER/Trade project.

MEMBERS OF THE SOUTHERN AFRICA POWER POOL

Country	% of population with access to electricity	Population (millions)
Angola	—	—
Botswana	3.0	1
Lesotho	2.0	1
Malawi	2.5	8
Mozambique	2.7	14
Namibia	—	—
South Africa	45.0	38
Swaziland	8.5	0.7
Tanzania	13.0	22.0
Zaire	2.0	28.0
Zambia	7.5	6.0
Zimbabwe	16.0	9.0

AVERAGE ELECTRICITY PRICES IN SOUTHERN AFRICA

Country	1995 U.S. cents/ kilowatt-hour
Angola	0.5
Botswana	10.3
Lesotho	4.5
Malawi	3.0
Mozambique	4.5
Namibia	3.7
South Africa	3.0
Swaziland	4.3
Tanzania	9.0
Zaire	—
Zambia	1.0
Zimbabwe	3.0

Malagasy Workshop on Tax Administration

The EAGER/PSGE study, "Enhancing Transparency in Tax Administration," held a national workshop in Antananarivo, Madagascar on April 16, 1998 to discuss findings with the Malagasy government, private sector, civil society representatives, and the media. Opened by the Vice-Prime Minister of Budget and Decentralization, Pierrot Rajaonarivelo, and USAID Director, Karen Poe, the workshop was well attended and included all top officials in the Malagasy tax administration.

Researchers presented a brief summary of the study's scope, purpose, and principal findings. These findings show an estimated evasion of 1994 taxes by type of tax, which amounted to 805 billion FMG, or 8.8 percent of GDP. The study included a survey of taxpayer and tax authorities' perceptions of taxes. Participants discussed challenges caused by the lack of effective tax enforcement and sanctions, the public's lack of understanding of their civic duty to pay taxes, and the lack of political will to enforce tax compliance among large, well-connected offenders.

Participants produced several specific follow-on recommendations and formulated actionable measures for implementing them. Discussions were also conducted regarding tax exemptions, and whether or not the 1998 Loi de Finances had, in fact, abolished them. Considered a distinct success, the workshop drew comments on the value of the work done, and hope that it would be followed by further studies, informed debate, and concrete measures to increase tax transparency and compliance in Madagascar.

Mary Norris (mnorris@usaid.gov) is Program Economist, USAID Tanzania.

Modern Africa Growth and Investment Company Fund Launched

In December 1997, the Overseas Private Investment Corporation (OPIC) announced the launch of the $150 million Modern Africa Growth and Investment Company Fund. OPIC is an independent U.S. Government agency that assists U.S. companies in business investment in developing countries, newly emerging democracies, and freemarket economies. The Modern Africa Fund responds to proposals initiated by both Congress and the Clinton Administration, and forges a new economic relationship between the United States and Africa. OPIC has approved a $100 million loan guarantee for the fund, which will supplement $50 million in equity from private sources. Once capitalized, the fund will be eligible to make equity investment in companies located in 29 sub-Saharan African countries, excluding South Africa, Namibia, and Botswana, which are currently covered by the New Africa Opportunity Fund, and supported by OPIC.

Joining the Honorable George Munoz, President and CEO of OPIC, were the Honorable Rodney Slater, Secretary of Transportation; Congressmen Phillip Crane, William Jefferson, and Charles Rangel (by telephone); Stephen Cashin, Managing Director, Modern Africa Fund; and the Honorable Amos Bernard Muvengwe Midzi, Zimbabwe Ambassador to the U.S.

In their addresses, speakers and principal sponsors of the fund insisted that this initiative would not mean any discontinuation of aid for participating countries. To underscore U.S. commitment, Congressman Rangel headed a December 1997 Presidential mission that attempted to engage the private sector during visits to Côte d'Ivoire, Botswana, Uganda, Eritrea, and Mauritius.

For the initial stage, the fund will focus on three main areas: manufacturing, natural resources, and telecommunications. To qualify for funding, businesses must demonstrate a solid management track record, good local associations, and a level of capitalization that shows commitment. The fund will also conduct outreach programs to reach minority- and women-owned firms.

Stephen Cashin, previously a vice president at Equator Bank in Nairobi, Kenya and now the fund's managing director, emphasized the importance of OPIC's guarantee, as Africa is still considered as a high risk investment. While the current fund of $150 million was expected to be allocated by early 1998, another fund with a total capitalization of approximately $500 million is expected to follow, and will focus on infrastructure, particularly transportation. Mr. Cashin added that, while these funds are targeted at key sectors, both will have discretionary portions that can be used to raise returns and for other strategic interests, such as tourism. He indicated that the fund would look to international financial organizations, such as the World Bank and African Development Bank, for assistance in key projects.

Lucie C. Phillips (lcphillips@ibicorporation.com) is chief executive of International Business Initiatives (IBI) and senior advisor to EAGER/Trade.

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Contracting in Tanzania: Stronger Enforcement May Contribute to Growth

Low-cost and impartial contract enforcement procedures provide a critical incentive for trade and exchange, and facilitate economic growth. Such procedures enhance system predictability, decrease cost of exchange, and promote transactions by restraining opportunism among contracting parties.

Using a survey of Tanzanian manufacturing firms and a review of legal and policy documents, this study analyzed company behavior in purchasing and selling supplies, and the relationship of this behavior to Tanzania's legal and policy environment. The team found that Tanzanian law provides very weak support for complex, intertemporal transactions, a diversity of potential business partners, specialization, and use of commercial finance in supply relations between firms. These findings indicate that institutional reforms to strengthen commercial contracting and enforcement would augment supply markets and contribute to growth.

THE TANZANIAN APPROACH

For Tanzanian companies, supply agreements emphasize long-term, repeated interaction with the same firm. Relationships with partner firms are usually characterized as friendly or trustworthy, and established through recommendations or personal interaction. Agreements are often documented by an invoice or purchase order, without involving lawyers. Exchanges tend to occur with less than a month's delay, and commercial credit is virtually non-existent. When problems arise, parties address them through bilateral negotiation. Courts are generally avoided for fear of damaging business relationships or subjecting oneself to corruption. Indeed, bureaucratic concerns are believed to be potential obstacles to business growth.

The firms surveyed did not rank weaknesses in contract enforcement as important obstacles to their development, however. Most were satisfied with their ability to sort out disputes without third-party intervention. The need to preserve stable relationships appears to dictate informal bargaining, compromise, flexibility, and sometimes recourse to alternative market options. Respondents were reluctant to characterize any problem as a dispute, preferring to regard delays, damage, and nonconformity as normal occurrences to be worked out in the most non-disruptive way. This is consistent with the traditional African approach, as well as the old rhetoric of "African socialism" in Tanzania, in which solidarity prevails over insistence on personal rights, escalation is avoided, and differences are resolved at the lowest level. The system appears to break down in cases of nonpayment, where creditor firms are more willing to insist on legal rights and seek redress through courts.

These informal reciprocal relations provide some basis for joint risk-taking, as they do in all societies. Findings in Tanzania, however, indicate that these relationships act as more of a substitute than a complement to formal legal recourse, since state legal institutions are generally considered illegitimate. This has two corollaries. First, in an ethnically and culturally heterogeneous country such as Tanzania, strong reliance on trusted partners constrains the possibility of anonymous exchange across potential business partners. Second, reliance on informal relations in the absence of legal accountability contributes to "spot-market" or "bazaar" exchange among enterprises. Long-term relations create trust, but can also create reluctance by creditor firms to enforce their agreements with debtors. Firms reduce their risk by insisting on absolute or nearly contemporaneous exchange. Durations are short, and credit is tight to nonexistent. While these strategies may not be determined entirely by weaknesses in legal institutions, improved legal accountability is one necessary condition for enlarging exchange networks, increasing the depth and complexity of transactions, and enhancing private sector growth.

POLICY IMPLICATIONS AND RECOMMENDATIONS

The study's broadest policy implication is the urgent need to establish, or re-establish, the rule of law and transparent public sector governance. Its vast scope includes placing the independence of the judiciary on a firmer foundation; upgrading judiciary skills and image; strengthening administrative procedures; implementing civil service reforms that change incentives and outlook of the bureaucracy; and ensuring legal and policy stability through checks and balances between the chief of state and parliament.

There are a number of legislative needs, some more immediate than others. One priority is updating legislation on court structure and procedure, arbitration, and other forms of alternative dispute resolution (ADR). Because the Tanzanian legal system fails to channel disputes into the most efficient forums for adjudication, it overtaxes its judges, strains capacity of the courts, increases costs to litigants, and undermines investment values. Serious consideration should be given to making specialized commercial tribunals available for resolution of business disputes, and to changing the culture and economic orientation of jurists handling disputes, to ensure that the process is above reproach.

Commercial arbitration and ADR are also of critical importance. The Arbitration Ordinance must be revised to reduce the discretion of the courts with respect to stays of judicial proceedings and enforcement of arbitral awards. Another priority involves changes to commercial legislation. Residual controls from the socialist period that affect contracting should be eliminated as soon as possible. Commercially reasonable warranty and consumer protection provisions should be embedded in a context of market-oriented law.

One critical area that will need private action with public support is the development of more extensive business networks and information systems. In the absence of a greater level of regional market integration in Africa, the size of the Tanzanian market is unlikely to allow for the emergence of indigenous financial rating and credit reporting services. Business network facilities will need to take up the slack.

Reforming a legal system, especially the judiciary, faces difficult obstacles. Society is comfortable with the status quo, and alternatives appear risky and ill-defined. Costs of reform are clear and concentrated, while benefits are spread across society. Groups that may lose from reform include court system personnel and others who profit from expediting (or corrupting) the judicial process; providers of substitutes such as trade intermediaries and informal mediators; the bar; and firms that benefit from a dysfunctional system, such as entrepreneurial cronies of powerful officials, monopolies, and those seeking to avoid taxes, rent payments, and so forth. There are hopeful signs in Tanzania of reform commitment in the government, as well as interest articulation by the private sector. The former must be more firmly established and extended; the latter must include newer firms and entrepreneurs. These two processes must increasingly interact to build a law-based economy.

Some additional research is underway to re-interview firms in the sample. The objective is to find out how the weakness of the contracting mechanism has prevented them from expanding their markets, including exports. The earlier results revealed the variety of strategies that firms were using in order to deal with the problem. It did not show how significant were the costs incurred using these strategies. The new interviews will highlight these costs.

This study was jointly conducted by the Center on Institutional Reform and the Informal Sector (IRIS) at the University of Maryland and the Economic and Social Research Foundation of Tanzania. Its findings were aired at a Dar es Salaam workshop in February 1998, attended inter alia by representatives of business firms and associations, the Prime Minister's Office, judiciary, and Ministry of Justice. A broad consensus on the need for the proposed reforms was noted.

This EAGER/PSGE article summarizes a paper by Patrick Meagher (meagher@iris.econ.umd.edu) of IRIS.

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Discussion Paper No. 1: Kahkonen, S., and P. Meagher. June 1998. Contract enforcement and economic performance.
In developed and developing countries, contracts are governed by a multitude of state and non-state institutions. Different societies have different institutions, depending on their history, culture, and political system. What is the relative importance of state and non-state institutions regarding contract enforcement for economic activity? In particular, what is the role of state institutions in governing transactions? Contrary to conventional wisdom, exchange governed by the state is not necessarily more efficient than exchange governed by non-state mechanisms. The efficiency of the contract enforcement mechanism depends on the characteristics of the good exchanged, cost of the use of the mechanism, and predictability of the outcome. In addition, state legal institutions can facilitate exchange among anonymous individuals and firms and provide impartial and predictable enforcement of contracts.

Discussion Paper No. 2: Bolnick, B., and J. Haughton. June 1998. Tax policy in sub-Saharan Africa: Re-examining the role of excise taxation.
Excise taxes, notably on tobacco and petroleum products and alcoholic beverages, raise revenue equivalent to 1.9 percent GDP in sub-Saharan Africa. Their importance varies widely and inexplicably across countries, and shows no trends over time. In principle, excise taxes are good revenue sources, inexpensive to administer, and potentially efficient, especially when applied to goods that cause negative externalities or face price-inelastic demand. They are consistent with a fair tax system, and complement broad-based taxes such as VAT. Before one may confidently advocate greater reliance on excise taxes, however, gaps in knowledge regarding demand elasticities, extent of externalities, equity effects, administrative and compliance costs, and best practices need to be addressed.

Discussion Paper No. 3: Wadhawan, S.C., and C. Gray. June 1998. Enhancing transparency in tax administration: A survey.
Uneven tax administration in Africa contributes to revenue shortfalls, which augment inflationary pressure and deprive governments of resources with which to provide public goods. It also prompts countries to depend on the more easily collected taxes on foreign trade, with associated efficiency losses. Reducing tax evasion should ease the burden on economic agents who currently pay high proportions of their tax liabilities, as well as increase allocative efficiency; enhance incentives for agents to invest and produce; and promote growth with equity. This paper outlines a framework for research on the issue of whether enhanced transparency in tax administration might increase compliance significantly, or enough to yield a positive return on research cost. The subject goes well beyond the domain of economics, and raises questions of whether a heightened understanding on the part of economic agents about non-compliance and its implications for economic stability and growth might enhance the willingness of agents to meet their legal liabilities; increase the effectiveness of the tax services in enforcing the law; and guide policymakers on directions for tax reform.

Discussion Paper No. 4: Phillips, L.C. June 1998. The political economy of trade policy reform: Exploring an African paradigm.
This paper offers a new theory of the political economy of African trade reform, based on an analysis of transition in economic and political culture. Economic culture includes mental paradigms about how an economy operates; goals of economic management; and the decision-making process. African policymakers operate in highly corporatist socioeconomic structures in which most people view economic management differently from economic reformers. Major goals of market-oriented economic management are: Make GDP grow; keep inflation low; maintain a favorable current

account balance; and keep unemployment low. In contrast, African economic management focuses on: Achieving growth in a loyal community of followers; ensuring that all members work and produce food; producing a food surplus and local specialities (i.e., minerals and cash crops); trading communal surplus for luxuries; and exchanging gifts and offering generous hospitality. This disparity in goals explains why certain reforms have been resisted, notably those that involve loss of jobs, privatization of parastatals, speedy administrative procedures, or liberalization of food exports.

Discussion Paper No. 5: Metzel, J., and L.C. Phillips. June 1998. Bringing down barriers to trade: The experience of trade policy reform.

For most countries of sub-Saharan Africa (SSA), self-sufficiency, nationalization, and centralization were policy priorities in the 1970s. By the 1980s, these policies had reduced economic growth and brought about reforms which stressed liberalizing internal markets and trade, promoting private initiatives and investment, and decentralizing power. Real export earnings, however, stagnated or continued to fall for 25 of 33 countries in the region. There is an increasing consensus that this poor performance was due to the economic policy environment. This survey explains why trade policy reform in Africa has not yielded greater results. This paper does not revive the debate over the merits of trade liberalization, but assumes that trade liberalization is the objective of policy reform efforts in Africa. It presents definitions of trade liberalization and examines the record of reform. The study also reviews the liberalizing effects of these reforms, the extent to which the liberalization events changed the economic environment, and the impact of liberalization on SSA economies.

Discussion Paper No. 6: Salinger, B.L., A.M. Amvouna, and D.M. Savarese. June 1998. New trade opportunities for Africa.

This paper explores new products, markets, and modes of trade of which African businesses must be aware to successfully compete in the global marketplace. It also addresses market analysis techniques; literature on competitiveness; trade and investment promotion experiences, including export promotion zones; export and investment promotion services; and entrepreneurship or private sector development projects. The paper explores expected effects of international trade agreements on sub-Saharan Africa's (SSA) new trade opportunities, concluding that SSA participation in the Uruguay Round of international trade negotiations produced mixed results. New agreements regarding trade-related investment measures and trade-related aspects of intellectual property rights will affect how SSA does business in the future. The survey concludes that SSA must undergo extensive changes in its economic and business thinking to take advantage of trade opportunities.

Discussion Paper No. 7: Goldsmith, Arthur. June 1998. Institutions and economic growth in Africa.

Institutional shortcomings contributed to dismal sub-Saharan Africa economic performance in the 1970s and 1980s, and are still restraining Africa's current economic revival. In these "non-market" failures, African governments often try to do too much, and do many things poorly. They must improve their behavior toward citizens and create a market-augmenting institutional framework. Public institutions, however, have hardened around personalized power, arbitrary decision-making, widespread dishonesty, and repression of dissent. Three factors are critical to improve public institutions in sub-Saharan Africa and support economic reform: Wider interest group representation, more democratic political and bureaucratic processes, and better leadership.

Discussion Paper No. 8: Flaherty, Diane P. and B.L. Salinger. June 1998. Learning to compete: Innovation and gender in the South Africa clothing industry.

This study explores the relationship between international pressures of globalization and competitiveness and innovation patterns in one segment of the manufacturing sector in South Africa. In 1997, the authors surveyed over 100 textile and clothing firms in three provinces. The economic environment in which the South African textile and clothing sectors operate encompasses two interlinked phenomena. The end of apartheid brought South Africa back into the international economic community, and led to its commitment to tariff reduction and trade policy liberalization. For its textile and clothing industries, the result has been elimination of export subsidies, reduction of tariff protection, and introduction of export promotion measures. The Uruguay Round will prompt the transition to liberal trade conditions under the Agreement on Textiles and Clothing. During this transition, the attitude of South African firms toward innovation will be critical. This discussion paper highlights the pivotal role of gender in labor/management relations. Differential attitudes by men and women managers toward incremental process innovation and their implications for improving manufacturing efficiency may be a key to the success of South African textile and clothing firms as they learn to compete in the global marketplace.

Dakar Workshop:
RESTARTING GROWTH

"Restarting Growth" is the theme of EAGER's sixth semi-annual Africa-wide workshop. Scheduled for November 2–4, 1998 at the Meridien President Hotel in Dakar, Senegal, the workshop is another opportunity for researchers and policymakers to discuss research goals, findings, and policy implications.

In addition to EAGER researchers from all over Africa and the U.S., the conference expects a healthy representation from Senegal's private and public sectors to spark discussion concerning Senegal's specific situation. Centre de Recherche Economiques Appliques (CREA), the Senegalese sponsor of this workshop, is conducting EAGER-sponsored research on the economic and political factors that must be addressed for sustained growth in Senegal. Results of their work will be presented at the workshop.

Several panels will address Senegal in context of the region. Participants will have the opportunity to discuss issues regarding "Comparative Competitiveness," "The Role of the Private Sector and Growth," "The Future for the Franc-Zone," "Financial Intermediation for the Poor," and how electricity trade in southern Africa might apply to western Africa. New research results from other countries will also be available at the workshop. Featured research will include studies from Ghana, Uganda, Madagascar, and South Africa.

Alternative themes for the panel sessions include: "Exchange Rate Management in Africa," in light of the establishment of UEMOA and other recent developments, why has structural adjustment not brought about the expected growth in most African countries; "Issues of Governance and Economic Growth in Africa," how "enabling" is the current environment for private investment, employment, and output in Africa; and "Joining the Global Marketplace," how African countries can reorient their economies away from traditional primary product exports towards a more diversified range of exports of labor-intensive manufactures, high-value marine and horticultural products, and information technology services.

For further information about the workshop or to make suggestions, please reference the EAGER website, or send e-mail to lmatt@eagerproject.com.

EAGEReport

ISSUE 8 / AUTUMN 1998

IN THIS ISSUE

Small Enterprise GROWTH through BUSINESS Linkages in SOUTH AFRICA

Around the world, modern, forward-looking businesses interact with other enterprises through a complex web of commercial relationships. Many efficient managers find it cost-effective not to do everything themselves "in-house." Instead, they purchase some goods and services required for production activities from other enterprises which specialize in particular aspects of the production process. These purchases and sales—which we refer to as business linkages—are pervasive characteristics of efficient and productive economies.

South Africa is expanding the scope of these commercial transactions. Many large corporations are moving towards a lower degree of vertical integration; many are reaching beyond their traditional corporate partners, sometimes to smaller suppliers. While there is a long tradition of support for small business in South Africa, much of the energy in the past has been devoted to the promotion of small, white-owned businesses. In recent years, there has been considerable discussion of the ways in which that process can be opened up to newly established enterprises which had been excluded under the old Apartheid regime.

In this EAGER/PSGE research project, the University of Natal and the University of the North, in cooperation with Michigan State University, recently examined the nature of these business linkages, the extent to which they currently provide opportunities for improvement for historically disadvantaged small enterprises, and the steps that can be taken to expand such opportunities. The major findings of the study follow.

Many business linkages are currently in place involving transactions between major corporations and historically disadvantaged small suppliers. Interviews with about 75 large enterprises indicated that virtually all did some purchasing from small, historically disadvantaged suppliers. Most bought from only a few, but some buyers had ongoing commercial relationships with 20 or more small, disadvantaged suppliers, many in the service areas that included catering, office cleaning, transport, manufacturing, or construction-related activities. In some cases, the suppliers were close to the core activity of the large partner. The clearest example of this was in footwear, where several steps in the production process were routinely outsourced. Among service activities, several appeared to be quite efficient, growing rapidly, and generating good returns for workers and owners.

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To comment on articles in *EAGEReport*, submit topics or articles for review, request copies of EAGER's publications list, discussion papers, or articles, or suggest additions to the mailing list, contact:

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EAGER—Equity and Growth through Economic Research—is a six-year activity, concluding in September 1999, that is sponsored by the U.S. Agency for International Development (USAID), Bureau for Africa, Office of Sustainable Development, Strategic Analysis Division.

EAGER supports economic and social science policy analysis in Sub-Saharan Africa (SSA). Its primary objective is to increase the availability and use of analytical research by decision-makers in both the public and private sectors to promote the adoption and implementation of policy reforms that foster rapid, equitable, and sustainable growth. The research addresses two key constraints that inhibit the implementation of more appropriate policies. First, EAGER seeks to expand indigenous capacity in SSA countries to undertake policy analysis, and then attempts to improve the positive impact of the analysis on economic performance.

EAGER policy analysis is guided by two basic principles. First, outstanding American and African institutions and analysts work side-by-side on collaborative investigative teams. Second, stakeholders and decision-makers are involved in selection, design, implementation, and dissemination of EAGER research.

EAGER research activities are comprised of the following two components:

- Public Strategies for Promoting Growth and Equity (EAGER/PSGE), implemented by the Harvard Institute for International Development (HIID)
- Trade Regimes and Growth (EAGER/Trade), implemented by Associates for International Resources and Development (AIRD)

EAGEReport provides periodic updates on EAGER activities. It is published in English and French as part of EAGER's Communications and Logistics contract with BHM International Inc. This newsletter may be quoted and reproduced if proper credit is given. *EAGEReport's* Managing Editor is Sytske Braat-Campbell (Abt Associates); Associate Editor is Linda Klinger (Abt consultant); and French translation is by Catherine Utz (Abt consultant). KINETIK Communication Graphics Inc. produces both the English and French editions.

Opinions expressed in *EAGEReport* are those of the authors and do not necessarily reflect the views of USAID.

Small Enterprise GROWTH through BUSINESS LINKAGES IN SOUTH AFRICA

FROM PAGE 1

Buyers established linkage contracts with three principal motivations: to improve their businesses; to serve the community; and to avoid payment of taxes, rules, and regulations. While the latter was clearly true in many cases, a number of suppliers paid all relevant taxes and fees while employing workers who were members of unions and covered by standard labor benefits. These were generally the most efficient of the small suppliers and growing the most rapidly.

Some linkage contracts were more helpful than others to historically disadvantaged small suppliers. The key determining factors were the contract characteristics (size, period covered, stability), and the degree to which the contract provided a channel for the supplier to learn how to improve. When the motivation for the contract was community service, these factors were much less likely to be present. In such cases, linkages generally resulted in frustrations for the buyer and little developmental impact for the supplier. Where the motivation was commercial, by contrast, the buyer had an incentive to serve as mentor to suppliers, helping them improve their efficiency and productivity. Unfortunately, the interviews uncovered relatively few cases where the buyers played a significant role in mentoring their suppliers.

There is considerable interest on the part of both buyers and suppliers in expanding the involvement of historically disadvantaged small enterprises in business linkages. Several initiatives are currently under way, and others are just starting. To be most effective, institutional support for the promotion of linkages needs to start from several principles:

i) The driving force must be economic, not a paternalistic goal of community service. All promotion activities must have an orientation that starts from markets, working back to suppliers to help them take advantage of these identified opportunities.

ii) The institutional structure must be cost-effective, taking into account the limited resources available to support this activity. Specialization and focus among promotion agencies can be important in helping achieve this objective. Buyer mentoring, a key factor in many successful linkages, also contributes to cost-effectiveness.

iii) There are three building blocks for the promotion of linkages: Information, capacity-building, and capital. While each may be needed to bring a contract to successful fruition, in general, one organization should not attempt to supply all three.

iv) Issues of imbalance of power between buyers and sellers are important and must be addressed in establishing programs for linkage promotion. The study discusses some approaches to this issue.

Much has already been achieved in the expansion of business linkages involving historically disadvantaged small enterprises in South Africa. The interviews make clear that there is a strong will on all sides to do more. With stronger institutional support, there is much more that can be done.

Donald C. Mead (mead@pilot.msu.edu) is principal investigator of this EAGER/PSGE study.

Impact of Outward-Looking MARKET-ORIENTED Policy Reform on Growth, Trade, and Investment in Sub-Saharan Africa

Since the 1980s, most African countries have implemented policy reforms to increase economic growth. Many reforms have been directed at eliminating distortions in African markets to allow for their integration into the world economy. Although these reforms have been designed to increase growth through more efficient allocation of economic resources, the experience of many African countries has been unsatisfactory. In fact, in the past 15 years, per capita GDP has fallen in a significant number of sub-Saharan African (SSA) economies.

Early econometric analyses suggested that there are characteristics peculiar to the African continent that explain its weak economic performance. More recent empirical studies have tried to determine specific characteristics of African economies that contribute to their slow growth. Sachs and Warner (1996) identify some characteristics as structural factors, such as natural resource dependency and geographical location, as well as lack of policy reform. Other analyses (Thomas and Nash 1991; Dean, Desai, and Riedel, 1994; Olson, 1996; Baumol, Nelson, and Wolff, 1994) suggest that African countries often lack the necessary conditions for the economy to respond positively to policy reforms. Such conditions include (1) quality of reform implementation, (2) flexible markets that allow reallocation of resources, (3) adequate physical infrastructure, (4) capacity to circulate information, (5) availability of human capital, and (6) a stable and efficient public sector.

Recent empirical results for a broad sample of developing countries (Stryker and Pandolfi, 1996) suggest a positive correlation between trade and economic growth over the long run, and also show that policy reforms have an influence on growth, independent of their impact on trade. Much of the impact occurs because of its effect on raising the ratio of investment to GDP.

Application to Africa

As part of the EAGER/Trade component, AIRD has been investigating the relationship between policy variables and trade, economic growth, and investment for SSA economies. The study analyzes a cross-section of 109 countries, using averages for each variable over 5-year periods from 1970 to the most recent observation, usually between 1992 and 1996. Since each observation is treated as independent—not specifically linked to a particular region or time period—"dummy variables" are introduced for SSA countries, and different time periods allow for unexplained regional or time-specific effects.

Determinants of Growth

African countries are growing at a slower pace than most other economies. Modern economic theory assumes that economic growth is a function of the rate of change of capital, labor, and total factor productivity (TFP). Study results confirm that growth of capital and labor have a positive impact on economic growth, and show that larger and poorer economies tend to grow at a faster rate, other things being equal. Although larger fiscal deficits often have a positive impact on growth in many developing countries, possibly because of high levels of public investment, this conclusion does

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Impact of Outward-Looking MARKET-ORIENTED Policy Reform on Growth, Trade, and Investment in Sub-Saharan Africa

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not hold for SSA economies where the effects of deficits are, if anything, negative. Evidence also shows that a healthy legal and administrative environment and the implementation of policies which open the economy to outside markets have a positive impact on economic growth. SSA's slow growth is at least partially the result of the lack of such an environment.

Determinants of Trade

SSA countries have experienced higher levels of trade than most other economies, partly because many of their markets are small. The study indicates that larger markets are less oriented to trade than smaller ones, because of more active intra-economy market exchange. While pressure on existing resources enhances trade in many developing countries, higher population density in SSA countries has a negative effect on trade. This may be because SSA countries are highly dependent on primary commodity production for domestic consumption and exports; therefore, as less pressure is put on primary product resources because of lower population density, greater volumes can be allocated for trade. Policies that open the economy to external markets, such as reduction of import/export restrictions, and the level of financial intermediation of the economy are important determinants of trade in SSA, as elsewhere. Geographical location of an economy can also influence its capacity to trade with external markets. Countries that are located between the two tropics tend to trade more than do others, while direct access to ports does not seem to have a significant impact.

Determinants of Capital Growth and the Investment Rate

Evidence shows that, other things being equal, SSA economies have experienced increasing capital flows and investment rates, while in most other economies the trend has been reversed. Economy size usually has a positive impact on growth of capital and investment rates, but not for SSA economies, where investment rates are negatively related to economy size, probably because size is not matched by the level of infrastructural development. In addition, health standards of the population often have a positive effect on capital and investment growth rate, but this does not hold in SSA countries, possibly because of Africa's dependence on investment related to the exploitation of natural rather than human resources.

Consistent with the theory that asserts that poorer economies tend to grow at a faster rate, lower levels of initial income per capita are associated with higher rates of capital growth and rates of investment. Countries with greater fiscal deficits, more exposure to trade, and lower prices of capital goods tend to experience faster capital growth and higher investment rates. Investment rates in SSA economies appear to be vulnerable to the capacity of the government to create a sound economic environment. In SSA countries, the transparency of the legal and administrative system as well as lower budget deficits have a significant positive impact on GDP.

Finally, although access to the sea appears not to be a determinant of capital growth or investment rates for the rest of the world, the geography of landlocked SSA countries negatively affects their economies.

Determinants of Foreign Direct Investment (FDI)

FDI is positively related to a sound institutional and market-oriented environment. Holding this effect constant, SSA economies have experienced higher levels of FDI in relation to GDP than other countries, possibly because most investment has come from foreign companies involved in the exploitation of natural resources. For SSA countries, economy size does not have a positive impact on FDI. Economies that are more open to trade, such as those in SSA countries, experience higher levels of foreign direct investment.

This EAGER/Trade article was written by J. Dirck Stryker (dstryker@aird.com) and Selina Pandolfi (spandolfi@aird.com).

EAGER Researchers and Their Connectivity to the Internet

Djime Adoum, with support from BHM International, Inc., is currently conducting a study to explore how well technology and the Internet support EAGER research. The project is entitled, "The Connectivity of African Researchers and Factors Affecting the Adoption of Internet Technologies." The purpose of the research is twofold: (1) to investigate the extent to which EAGER researchers are connected to the Internet, and (2) to determine constraints experienced as researchers work within technical environments, and how these constraints can be alleviated within the framework of EAGER.

This research began in February 1998 with a preliminary needs assessment conducted at the EAGER Workshop in Johannesburg, South Africa. To investigate the extent to which researchers are connected to the Internet, a short survey was developed and administered to 18 participants. The results were compiled and presented at the workshop. These results indicate that most researchers do have access to the Internet and can receive e-mail as well as some attachments. Results show, however, that Internet connections for the African researchers do not satisfy technical requirements necessary to efficiently transfer large files. Phone connections are generally poor, and are not sustainable for the long periods needed to download large files. Some of the researchers indicated that even when the files could be downloaded, it generally cost significant sums of money. In one case, a researcher paid $100 for a file that was very fragmented.

Workshop participants also discussed the issue of software compatibility. It became apparent that even if the Internet connections were good, lack of compatibility in word processing software presented severe handicaps. It is not easy to download files that were created in MS Word if the researcher's computer is running WordPerfect, and vice versa. Variations within software versions can also cause problems. For example, some researchers are using MS Word version 6, whereas others are using versions 7 or 8. The same discrepancies apply to files created for spreadsheets and database management.

The discussions clearly demonstrated the need to use a single software for word processing, one software for spreadsheets, and another for database management. The adoption of such a format would significantly reduce the difficulty in transferring files. Those attending the discussions agreed to explore the possibility of using a single software to alleviate incompatibility within the framework of EAGER. This issue will be discussed at the next coordinating committee meeting.

A much larger survey instrument has been developed and implemented within the EAGER community to determine the extent of connectivity (and its corollary of software, hardware, and training) and, to a large extent, the preferred means through which EAGER-generated research results could be disseminated for maximum impact. These results will be presented at the EAGER Workshop in Dakar, Senegal.

Djime Adoum may be contacted at dadoum@eagerproject.com.

Update on EAGER Research

As EAGER Trade and PSGE teams progress in their research efforts, many of EAGER's studies have recently been completed or are near completion. EAGER/PSGE will begin field work and research this fall on five new studies, adding several members to the consortium of EAGER's collaborating institutions. Contact Lisa Matt to request copies of documents (available at no cost to addresses in Africa). Contact researchers through their respective consortium leader (i.e., Trade or PSGE). See "EAGER Contacts" in this newsletter for details. The following list updates the status of EAGER's Trade and PSGE studies.

Trade Regimes and Growth (EAGER/Trade)

Barriers to Cross-Border Trade

Promotion of Mali's Rice Exports Towards the West African Regional Market
Principal Investigator: Abdoul Barry, Associates for International Resources and Development (AIRD)
Collaborating Institution(s): Consultants Etude et Formation, Mali; Ministries of Finance and Agriculture, Market Information System, Mali
Status: Completed

Impact of Adjustment on Agricultural Competitiveness and Regional Trade in Sahalian West Africa
Principal Investigator: Abdoul Barry, AIRD
Collaborating Institution(s): Comité Permanent Inter-Etats de Lutte contre le Sécheresse dans le Sahel (CILSS), Burkina Faso
Status: Completed

Prospects for Developing Malian Livestock Exports
Principal Investigator: Jeffrey Metzel, AIRD
Collaborating Institution(s): Compagnie Malienne pour le Développement des Textile, Mali; Cellule des Planification et de la Statistique, Ministère de Développement Rural et de l'Environnement, Mali; Economie des Filières Group de Recherche, Institut d'Economie Rurale, Mali
Status: Completed

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Update on EAGER Research

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Gemstone and Gold Marketing for Small-Scale Mining in Tanzania
Principal Investigator: Lucie Phillips, International Business Initiatives (IBI)
Collaborating Institution(s): Economic and Social Research Foundation, Dar es Salaam, Tanzania; The Business Center, Tanzania
Status: Completed

Cross-Border Trade in Ghana
Principal Investigator: Gayle Morris, IBI
Collaborating Institution(s): University of Ghana, Legon, Accra, Ghana
Status: First draft expected Oct. 1998

Domestic Marketing of Vanilla Exports in Madagascar
Principal Investigator: Jeffrey Metzel, AIRD
Collaborating Institution(s): Centre d'Etude et de Recherche Economique pour le Développement, Madagascar
Status: First draft expected Oct. 1998

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

Monetary and Exchange Rate Policy in Ghana
Principal Investigator: Charles Jebuni, Center for Policy Analysis (CEPA), Ghana
Collaborating Institution(s): AIRD
Status: First draft expected Oct. 1998

Monetary and Exchange Rate Policy in Uganda
Co-Principal Investigators: Marios B. Obwona, Economic Policy Research Center (EPRC); Polycarp Musinguzi, Research Department, Bank of Uganda, Uganda
Status: First draft expected Oct. 1998

Efficiency of Trade Tax Regime: Kenya
Principal Investigator: Graham Glenday, Harvard Institute for International Development (HIID)
Collaborating Institution(s): Ministry of Finance, Kenya
Status: First draft expected Jan. 1999

Fixed Versus Flexible Exchange Rates in Africa
Principal Investigator: Anatolie Amvouna, University of Cameroon, Yaounde
Collaborating Institution(s): AIRD
Status: Completed

New Opportunities for African Trade and Investment

Structure of Incentives and Manufacturing Competitiveness in Mali
Principal Investigator: John Cockburn, Centre de Recherche en Economie et Finance Appliquées, Université Laval (CREFA-LAVAL), Canada
Collaborating Institution(s): Ecole Nationale d'Administration, Mali; Centre Invoirienne pour la Recherche Economique et Sociale, Ivory Coast
Status: Completed

International Trade Policy for Development of South Africa
Principal Investigator: Siphiwe Cele, Development Bank of Southern Africa
Status: First draft expected Jan. 1999

South Africa: Potential Constraints and Comparative Advantage in the Cotton/Textile/Garments Subsector
Principal Investigator: B. Lynn Salinger, AIRD
Collaborating Institution(s): Development Policy Research Unit, University of Cape Town, South Africa
Status: Completed

Promoting New Trade Opportunities for Africa
Principal Investigator: B. Lynn Salinger, AIRD
Status: Completed

Foreign Direct Investment in Kenya and Uganda
Principal Investigator: Lucie Phillips, IBI;
Collaborating Institution(s): EPRC, Uganda; University of Nairobi, Kenya
Status: First draft expected Oct. 1998

Structure of Incentives and Manufacturing Competitiveness in Kenya and Uganda
Principal Investigator: Eckhard Siggel, CREFA-LAVAL
Collaborating Institution(s): Economics Dept., Makerere University, Uganda; Economics Dept., University of Nairobi
Status: First draft expected Oct. 1998

Regional Integration in East and Southern Africa

Global Trade Analysis for Southern Africa: Zimbabwe, Zambia
Principal Investigator: Will Masters, Purdue University
Collaborating Institution(s): Economics Dept., University of Zimbabwe, Zimbabwe; Economics Dept., University of Zambia, Zambia
Status: Completed

Promoting Trade Through Regional Integration
Principal Investigator: Steven Radelet, HIID
Status: Completed

Modeling Electricity Trade in Southern Africa
Principal Investigator: Tom Sparrow, Purdue University
Collaborating Institution(s): Southern African Power Pool; Zimconsult, Zimbabwe
Status: Completed

Challenges to Trade

Lessons of East Asia for Promoting Trade in Africa
Principal Investigator: Karen Engel, AIRD
Status: Completed

Bringing Down Policy Barriers to Trade in Africa
Principal Investigator: Jeffrey Metzel, AIRD
Collaborating Institution(s): IBI
Status: Completed

Political Economy of Policymaking in Africa
Principal Investigator: Lucie Phillips, IBI
Status: Completed

Promoting and Sustaining Trade and Exchange Reform in Africa
Principal Investigator: Malcolm McPherson, HIID
Status: First draft expected Autumn 1998

Structural Barriers to Trade
Principal Investigator: Joseph Stern, HIID
Status: Completed

Determinants of Foreign Direct Investment in Africa
Principal Investigator: Saskia Wilhelms, AIRD
Status: Completed

Effects of Policy Reform on Investment, Trade, Growth, and Poverty
Principal Investigator: Dirck Stryker, AIRD
Status: First draft expected Jan. 1999

Transshipment of Textiles and Clothing through Africa
Principal Investigator: B. Lynn Salinger, AIRD
Status: Completed

Other Survey Papers and Desk Studies

Trends in African Trade
Principal Investigator: Abdoul Barry, AIRD
Status: Completed

Emerging World Trade Order in Financial Services
Principal Investigator: Michael Isimbabi, IBI
Status: Completed

Public Strategies for Growth and Equity (EAGER/PSGE)

Legal, Regulatory, and Judicial Reforms and Governance

The Cost of Doing Business: Laws and Regulations Affecting Labor and Capital in Madagascar
Principal Investigator:
Dirck Stryker, AIRD
Collaborating Institution(s): Société d'Assistance Technique et de Gestion, Madagascar; JURECO Etudes et Conseils, Madagascar
Status: Final draft expected Dec. 1998

Contract Enforcement in Tanzania
Principal Investigator:
Patrick Meagher, Center for Institutional Reform and the Informal Sector (IRIS), University of Maryland
Collaborating Institution(s): Economic and Social Research Foundation, Tanzania
Status: Final draft expected Oct. 1998

Governance and Economic Regulation in Ghana
Principal Investigator: Fred Boadu, MayaTech
Collaborating Institution(s):
Institute of Statistical, Social, and Economic Research, Ghana
Status: Final draft expected Autumn 1998

Competition Policies for Growth: Legal and Regulatory Framework for Sub-Saharan African Countries
Principal Investigator:
Cynthia Clement, IRIS
Collaborating Institution(s):
National University of Benin; Centre d'Etudes Economiques, Madagascar; institution in Senegal to be determined
Status: Final design expected Autumn 1998

Barriers to Business Expansion in a New Policy Environment in Senegal and Malawi
Co-Principal Investigators: Dirck Stryker, AIRD; Ndaya Beltchika-St. Juste, AIRD
Collaborating Institution(s): Millenium Consulting Group, Malawi; Assistance et Conseil aux Enterprises, Senegal
Status: Final draft expected summer 1999

Perceptions of Governance in Africa: A Survey of Business and Government Leaders
Co-Principal Investigators:
Arthur Goldsmith, HIID; Sara Sievers, HIID
Collaborating Institution(s): African Economic Research Consortium; Millenium Consulting Group, Malawi; Makerere Institute of Social Research, Uganda; Economic and Social Research Foundation, Tanzania; Federation of Kenya Employers; Ghana Export Promotion Council; Association of Ghana Industries; NOK International
Status: Final draft expected Sept. 1999

Macroeconomic Management

Tax Policy in Sub-Saharan Africa: The Role of Excise Taxes: Madagascar and Tanzania
Principal Investigator:
Jonathan Haughton, HIID
Collaborating Institution(s):
Centre d'Etudes Economiques, Madagascar; Dept. of Economics, University of Dar es Salaam, Tanzania
Status: Final draft expected March 1999

Enhancing Transparency in Tax Administration: Madagascar and Tanzania
Principal Investigator: Clive Gray, HIID
Collaborating Institution(s):
Howard University; Centre d'Etudes Economiques; Dept. of Economics, University of Dar es Salaam
Status: Final draft expected Dec. 1998

Improving the Framework for Monetary Programming: Tanzania and Malawi
Co-Principal Investigators:
Clive Gray, HIID; Bruce Bolnick, HIID
Collaborating Institution(s): Economic Research and Policy Dept., Directorate of Economics and Statistics, Bank of Tanzania; Economic Research Bureau, University of Dar es Salaam; Reserve Bank of Malawi; Economics Dept., Chancellor College, University of Malawi
Status: Final draft expected June 1999

Restarting and Sustaining Growth and Development in Africa
Principal Investigator:
Malcolm McPherson, HIID
Collaborating Institution(s): IRIS; AIRD; Howard University; Mwaniki Associates, Ltd. Consulting Group, Kenya; Makerere Institute of Social Research, Makerere University, Uganda; Centre de Recherches Economiques Appliquées, Université Cheikh Anta Diop, Senegal; Center for Economic Policy Analysis, University of Ghana; Research on Poverty Alleviation, Tanzania
Status: Final draft expected June 1999

International Lessons on Property Taxation and Implications for Structuring Property Taxes in South Africa
Principal Investigator: Roy Kelly, HIID
Collaborating Institution(s):
To be determined
Status: Final design expected Autumn 1998

Reputation, Regulation, and Institutional Barriers to Investment Supply in Ghana
Principal Investigator: Fred Boadu, MayaTech
Collaborating Institution(s): Institute of Statistical, Social, and Economic Research, Ghana; Ghana Investment and Promotion Centre; Ministry of Finance and Economic Planning, Ghana
Status: Final draft expected July 1999

Financial Markets

Financial Intermediation for the Poor: Senegal and South Africa
Principal Investigator:
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Collaborating Institution(s): MayaTech; University of Stellenbosch, South Africa; Bureau d'Etudes REMIX, Senegal
Status: Final draft expected Autumn 1998

The Impact of Financial Sector Reform on Bank Efficiency and Financial Deepening for Savings Mobilization: Ghana
Principal Investigator:
Sam Ziorklui, Howard University
Collaborating Institution(s): Dept. Of Economics, University of Ghana; Bank of Ghana; Merchant Bank of Ghana; CDH Group, Ghana
Status: Final draft expected Autumn 1998

The Development of Capital Markets and Growth in Sub-Saharan Africa: Ghana and Tanzania
Principal Investigator:
Sam Ziorklui, Howard University
Collaborating Institution(s):
School of Administration, University of Ghana, Legon; Economic and Social Research Foundation, Tanzania
Status: Final draft expected March 1999

Financial Development for Micro-Enterprises in Kenya: The Transformation of K-Rep from NGO to Commercial Bank
Co-Principal Investigators:
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Collaborating Institution(s):
To be determined
Status: Final draft expected Aug. 1999

Labor Markets

Increasing Labor Demand and Productivity in South Africa
Principal Investigator:
Dirck Stryker, AIRD
Collaborating Institution(s):
University of the Witwatersrand; University of Natal/Durban; University of Cape Town, South Africa
Status: Final draft expected Dec. 1998

Increasing Labor Demand and Productivity in Ghana
Principal Investigator:
George Gyan-Baffour, Howard University
Collaborating Institution(s):
University of Ghana; Center for Economic Policy Analysis, Ghana
Status: First draft expected Dec. 1998

The Contribution of Business Linkages to the Growth of Productive Employment Among Micro- and Small Enterprises in South Africa
Principal Investigator:
Donald Mead, Michigan State University
Collaborating Institution(s):
University of Natal/Pietermaritzburg; University of Natal/Durban; University of the North, South Africa
Status: Completed

SENEGAL AND MALAWI: Barriers to Business Expansion IN A New Policy Environment

Barriers to business expansion in Senegal and Malawi are being investigated by AIRD and four collaborating institutions—the West African Enterprise Network (WAEN) and Assistance et Conseil aux Entreprises (ACE) in Senegal, and Millenium and Malawi Investment Promotion Agency (MIPA) in Malawi. The study, which is an outgrowth of similar studies in Cameroon, Ghana, and Madagascar and part of the third round of studies under EAGER/PSGE, will assess and prioritize a wide range of constraints confronting firms. To assess the severity of constraints, researchers will use a small survey of firms to rank the constraints and quantify costs imposed by those constraints in terms of management time, capital tied up, and cash outlay.

The study starts with the premise that, in many developing countries, the policy environment has undergone substantial changes introduced by Structural Adjustment programs. Countries have embraced these programs to liberalize their economies and promote development through private sector growth. The reform programs have included elimination of price controls, reduction and simplification of trade taxes, elimination of quantitative restrictions on trade, privatization of public enterprises, and restructuring of the financial sector. Still, firms find it difficult to take advantage of new opportunities. Constraints cited include lack of working capital and medium-term finance; restrictive hiring and firing procedures; inadequate telecommunication infrastructure; slow, costly, and often uncertain legal, regulatory and judicial environments; inadequate transportation services; high taxes; and inadequate access to reliable power and water.

Many obstacles affect small and large firms differently, and not always in the same direction. For instance, research indicates that larger firms are often able to gain ad hoc and discretionary—but essentially legal—tax concessions. Smaller firms, however, do not benefit from such preferential treatment and have to secure their own deals with lower-level officials in ways that involve considerable harassment, time, and money (Stryker, Beltchika, and Thiam, 1997). Larger firms, on the other hand, often encounter more problems with trade unions and labor regulations than smaller firms, because they are more visible and therefore subject to more scrutiny.

Market Barriers

One primary objective of the policy reforms featured in Structural Adjustment programs is to reorient business away from excessive concentration in the local market. In West Africa, firms which were established during the era of import substitution often have a hard time making the transition from local to overseas markets (Stryker, Beltchika, and Thiam, 1997). At best, these firms export regionally because they are ill-equipped to compete in a less protected market, and lack managerial resources, market information, and know-how. In addition, the transition to overseas exports can be fraught with difficulties regarding customs regulations, procedures associated with the use of duty-free inputs, export financing, quality standards, timing of delivery, inadequate telecommunications, and other impediments.

Relationship Between Government and Firms

Public agencies and institutions should not intervene in the daily operations of firms. Research, however, has shown that, when given the opportunity, governmental institutions harass firms and use discretionary power to implement impromptu controls and levy undocumented fines. These may result from complicated tax codes which promote tax evasion and incite firms to reach personal agreements with mid-level officials, as well as lack of transparency and discretionary implementation of laws and regulations.

Relevance for Senegal and Malawi

In an effort to diagnose the nature and extent of impediments in its business environment, USAID/Senegal plans to use the study results as a basis for defining priorities for reform. As part of the African Trade and Investment Initiative Program (ATRIP), USAID/Malawi will use the research results to enhance the public-private policy dialogue on investment issues.

Preliminary findings suggest that, in Malawi, problems may be associated with issuance of temporary employment permits for foreign nationals, lack of reliable telecommunication services, high labor turnover rates, and lack of efficient mechanisms to secure duty-free inputs for exports. In contrast to Senegal, arbitrary intervention by government does not seem to pose a problem. In Senegal, on the other hand, various public agencies interfere frequently in the daily activities of firms, particularly in the case of customs and fiscal administrations. Other impediments to business include lack of transparency; the perception that the playing field is uneven (between formal/informal, foreign-owned/Senegalese firms); congestion and obsolescence of infrastructure; and lack of information on overseas opportunities. In both countries, people complain about lack of skilled workers and term finance, although this appears to be less of a problem in Malawi. In Senegal, people stress that firms lack the necessary human capacity, market information, and technical expertise to successfully take advantage of the new opportunities created with the advent of reforms.

Dirck Stryker (dstryker@aird.com) and Ndaya Beltchika-St. Juste (nbeltchika@aird.com) are co-principal investigators of this study.

EAGEReport

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IN THIS ISSUE

Are AFRICA'S Excise Tax Rates TOO HIGH?

When Ministers of Finance need to raise more revenue, they are often tempted to increase taxes on beer, cigarettes, and motor fuel. A low tax rate yields little revenue and, in this case, an increase in the rate will bring in much additional revenue. But it is also possible to push the tax rate up too far, beyond the revenue-maximizing point into the zone where so many consumers are deterred by the high tax rate, the total tax revenue actually drops.

If a tax rate exceeds the revenue-maximizing point, a political "grand-slam" could occur; by lowering tax rates, one would generate more revenue for the Treasury (Bolnick and Haughton 1998). Even if tax rates are below the revenue-maximizing point, it is important to determine how close they are to that point. If they are very close, this implies that further hikes in the tax rate are unlikely to yield much extra revenue.

Excise taxes, particularly those imposed on such "traditional" items as cigarettes, alcoholic beverages, and petroleum products, are frequently set at very high rates. For instance, Kenya imposes a 135 percent tax on cigarettes, Madagascar levies a 90 percent tax on rum, and many western European countries tax gasoline at rates of 300 percent or more.

The EAGER/PSGE study of African excise taxes developed a methodology for estimating the revenue-maximizing tax rate on an item (Haughton 1998), and applied it to a number of important taxable goods in Kenya and Madagascar. The results are summarized in the following table.

The revenue-maximizing tax rate on a product depends on two factors:

a) The elasticity of demand for the product, or the degree to which demand responds to a change in its price. When there are adequate substitutes, demand will be more elastic (so the revenue-maximizing tax rate will be lower). If consumers have to pay more for the product, they can easily shift their spending elsewhere. Demand for addictive goods is typically unresponsive to price, and this helps explain the inelastic demand for cigarettes (and perhaps alcohol). The elasticity of demand for a taxed good will be low if there is potential for smuggling or an active black market.

b) The tax rate on close substitutes. If the tax on diesel fuel is low, a higher tax on gasoline will prompt consumers to switch to diesel fuel and significantly limit how high the tax on gasoline can go before revenue would decline. If the tax on diesel fuel were high, however, then the revenue-maximizing tax on gasoline would be higher, too.

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EAGER—Equity and Growth through Economic Research—is a six-year activity sponsored by the U.S. Agency for International Development (USAID), Bureau for Africa, Office of Sustainable Development, Strategic Analysis Division.

EAGER supports economic and social science policy analysis in sub-Saharan Africa (SSA). Its primary objective is to increase the availability and use of analytical research by decision-makers in both the public and private sectors to promote the adoption and implementation of policy reforms that foster rapid, equitable, and sustainable growth. The research addresses two key constraints that inhibit the implementation of more appropriate policies. First, EAGER seeks to expand indigenous capacity in SSA countries to undertake policy analysis, and then attempts to improve the positive impact of the analysis on economic performance.

EAGER policy analysis is guided by two basic principles. First, outstanding American and African institutions and analysts work side-by-side on collaborative investigative teams. Second, stakeholders and decision-makers are involved in selection, design, implementation, and dissemination of EAGER research.

EAGER research activities are comprised of the following two components:

- **Public Strategies for Promoting Growth and Equity (EAGER/PSGE), implemented by the Harvard Institute for International Development (HIID)**
- **Trade Regimes and Growth (EAGER/Trade), implemented by Associates for International Resources and Development (AIRD)**

EAGER also provides capacity building for African-based policy analysis, including support through institutions such as the African Economic Research Consortium, the Secretariat for Institutional Support for African Economic Research, the Programme Troisieme Cycle Interuniversitaire en Economic, the Reseau de Recherche sur Les Politiques Economique, and the African Regional Program of the International Center for Economic Growth.

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Are AFRICA'S Excise Tax Rates TOO HIGH?

FROM PAGE 1

Estimating Revenue-Maximizing Excise Tax Rates

Country	Product	Elasticity[a]	Cross-elasticity[b]	Actual tax rate	Rev-max tax rate: 1 market	Rev-max tax rate: 2 market	Data frequency	Source
Kenya	Guinness	-5.49	3.88	60%	53%	88%	monthly	Okello
	Other beer	-1.11	0.30	100%	174%	200%	monthly	Okello
	Filter cigarettes	-0.85	–[c]	135%	123%	-	monthly	Okello
	Plain cigarettes	-0.38	–[c]	135%	377%	-	monthly	Okello
Madagascar	Gasoline	-0.93	0.28	56%	78%	104%	annual	Haughton
	Diesel fuel	-1.06	0.15[d]	27%	61%	81%	annual	Haughton
	Rum	-0.42	0.24[d]	90%	119%	-	annual	Andrianomanana et al.

Notes: [a]Own price elasticity of demand, defined as the percentage change in quantity demanded of a good, divided by the percentage change in the price of the good that has caused this change in demand. [b]Cross-price elasticity of demand, with close substitute listed here. [c]Calculated elasticities not plausible. [d]Based on assuming symmetry.

Two sets of revenue-maximizing tax rates are shown in the table. The "one-market" rates are based on the assumption that the tax rates of close substitutes do not change. Thus, for instance, the revenue-maximizing tax rate on gasoline in Madagascar would be 78 percent, assuming that the tax on diesel fuel remains at its current level of about 27 percent. On the other hand, if tax rates on gasoline and diesel fuel are jointly set with the intention of maximizing revenue, the revenue-maximizing tax on gasoline in Madagascar would be 104 percent. These are the "two-market" rates shown in the table.

Several taxes are at—or not far from—their revenue-maximizing level. They include taxes on filter cigarettes and Guinness beer in Kenya, and on rum in Madagascar. Both goods are considered luxuries, and there are close substitutes to which consumers can easily turn if the products are taxed too steeply. Indeed, a few years ago, the Kenyan authorities lowered the tax on Guinness from 75 percent to its current 60 percent, a rate below the tax on other beers. They recognized that the higher tax rates would not yield as much revenue.

Over the past two decades, the weight of taxation in Madagascar has declined, to the point where revenue now accounts for a mere eight percent of GDP (Andrianomanana et al. 1998). Could higher excise taxes boost this revenue significantly? Results suggest that a higher tax on rum would not yield much more revenue, although a higher tax on motor fuels may have considerable potential to bring in more revenue, provided the taxes on gasoline and diesel fuel are raised together. If gasoline tax were increased alone, however, revenue would not increase significantly.

Estimates are in the process of being refined and extended. Details about the methodology, data used, and estimation techniques may be found in the papers listed here:

Andrianomanana, Pépé, et al. 1998. *Les Droits d'Accises à Madagascar: Rapport Final.* EAGER/PSGE, Harvard Institute for International Development, Cambridge, MA (draft in French).

Bolnick, Bruce and Jonathan Haughton. 1998. *Tax Policy in Sub-Saharan Africa: Examining the Role of Excise Taxation.* EAGER/PSGE, Harvard Institute for International Development, Cambridge, MA (available from BHM).

Haughton, Jonathan. 1998. *Calculating the Revenue-Maximizing Excise Tax.* EAGER/PSGE, Harvard Institute for International Development, Cambridge, MA (available from BHM).

Okello, Andrew. 1997. *An Analysis of Excise Taxation in Kenya.* EAGER/PSGE, Harvard Institute for International Development, Cambridge, MA (draft).

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POLICY FOLLOW-UP and Dissemination: ENHANCING TRANSPARENCY in TAX ADMINISTRATION in Madagascar

An article in Issue 7 of the *EAGEReport* described the April 16, 1998 workshop in Antananarivo, Madagascar, which discussed and disseminated findings of the PSGE study on enhancing transparency in tax administration. A local team, headed by Prof. Pépé Andrianomanana of the University of Antananarivo Economics Department, conducted the workshop. One of the study's recommendations, supported by the workshop participants, was that the government publicize names of recipients of exemptions from import duties and other taxes, as well as names of flagrant tax evaders.

In late June, the government issued a series of such lists, which immediately appeared in the national press. The release inspired a vigorous debate. Many industrialists expressed astonishment at the exemptions, which they criticized as undermining the protection accorded them by import duties established by law. The primary employers' association, Groupement des Entreprises Malgaches, described the government's action, in principle, as positive, reflecting "good governance and strengthening of the public finances." The association complained, however, that the lists omitted some important exemptions and defaulters, and confused some law-abiding taxpayers with defaulters. The debate continues.

Meanwhile, Professor Andrianomanana has undertaken a number of steps to further disseminate the conclusions of the study and workshop. As a result of these steps, the following actions were taken:

1. **A summary of workshop recommendations was sent to all participants and appended to the policy brief described in the following item (2);**
2. **A policy brief was sent to the ministers concerned with taxation, various tax directorates, the Technical Secretariat for Adjustment, and a high-level commission on tax reform;**
3. **A short article appeared in the June issue of an upscale magazine called *Revue de l'Océan Indien*;**
4. **The team's final report was issued as a soft-cover monograph by a local publisher;**
5. **An article was prepared for the forthcoming issue of the scientific journal, *Revue Economique de Madagascar*, and**
6. **The August issue of the periodical, *BRIEF*, published by the accounting and management consulting firm which organized the workshop, was devoted to tax transparency. It contained *inter alia* items (1) and (2) previously noted, and a summary of item (5).**

At the November EAGER workshop in Dakar, Professor Andrianomanana tabled a paper containing these items or extracts from them, and described in the concluding plenary session the Malagasy team's dissemination program, as well as the government's follow-up on publication of taxpayer lists. This discussion followed a statement by Dr. Kwesi Botchwey, former Finance Minister of Ghana from 1983 to 1995 and currently Director of Africa Research and Programs at the Harvard Institute for International Development. He urged EAGER researchers to make every effort to publicize their findings so that not only policymakers would review them, but also stakeholders and the public at large.

Clive Gray, EAGER/PSGE Chief of Party, can be reached at cgray@hiid.harvard.edu.

EAGER and CODESRIA LINKED

at Sixth Semi-Annual Country Workshop

Held in Dakar, Senegal, from November 4 through 6, EAGER's Africa Workshop provided not only a forum for discussing EAGER research findings and potential directions for the final stage of EAGER-sponsored research, but also an opportunity to interact closely with a leading African policy research organization.

Concurrently with the EAGER workshop at the Hotel Méridien, the Council for the Development of Social Science Research in Africa (CODESRIA) organized an "International Symposium on The Future of the Franc Zone" at Dakar's Novotel. CODESRIA is an international network of policy-oriented organizations, especially strong in francophone Africa. Because the future of the Franc Zone is a vital issue facing 15 African countries, the opportunity to link the EAGER Workshop with the CODESRIA Symposium was welcome, and the two groups held joint sessions on the first two mornings of both meetings.

Some studies for the CODESRIA symposium were undertaken by African researchers who are also associated with the EAGER Project. Presenters at the symposium provided a range of views on the current arrangement between France and the CFA Franc Zone countries, under which those countries' currencies are pegged to the French franc. There was consensus that, regardless of the costs and benefits of the current relationship, recent developments have prompted African policymakers to reassess this relationship. Of critical importance is France's membership in the European Monetary Union, which holds important but uncertain implications for Franc Zone countries, including those in the CFA zone, whose policymakers must assess and prepare for all possible outcomes. Another critical issue addressed at the CODESRIA Symposium was whether the Bank of France and French Treasury will be able to maintain the support that they have been providing for over 50 years, underwriting the CFA Franc Zone countries' exchange rate and monetary policies.

The EAGER workshop's local sponsor, Centre de Recherches Economiques Appliques (CREA) of Dakar's Cheikh Anta Diop University, worked closely with BHM organizers and the two Cooperative Agreement Recipients (AIRD and HIID) to present a productive conference. CREA publicized the meeting widely among Senegalese academics, government officials, and other stakeholders, achieving the highest level of local attendance and participation in the debates of any of the workshops held thus far.

The research theme "Restarting and Sustaining Growth and Development in Africa" loomed large as a topic of discussion. This theme is currently being undertaken by EAGER researchers in five African countries: Uganda, Kenya, Senegal, Tanzania, and Ghana. On average, seven researchers and five other individuals in each country are supporting the effort. The study's principal investigator, Malcolm McPherson of HIID, launched the workshop discussion with an overview of the study. Professor James Duesenberry of Harvard University outlined key elements of macroeconomic management. Dirck Strycker of AIRD discussed work in progress entitled, "Effects of Policy Reform on Investment, Trade, and Growth." Cheikh Niang of the Institute for the Sciences of the University Cheikh Anta Diop, summarized the approach and methodology for a study now under way, entitled, "Social Elements of Growth and Sustainable Development in Senegal."

Abdoulaye Diagne (CREA, Senegal); Charles Jebuni (CEPA, Ghana); Aidan Eyakuze (MA Consulting Group, Kenya); Waswa Balunywa (MISR, Uganda); and Servacius Likwelile (REPOA, Tanzania) presented the methodology and preliminary results of those segments of the study concerning their respective countries.

The *African Competitiveness Report*, prepared by HIID and published jointly with the World Economic Forum in February 1998, was the subject of another panel discussion. The report's coordinator, Sara Sievers of Harvard's Center for International Development, summarized its findings, and Paul Kwengwere of the Malawi Investment Promotion Agency and Mabousso Thiam of the West African Enterprise Network, Senegal discussed the pros and cons of the study as it ranked their countries according to various criteria of competitiveness.

Other workshop sessions featured papers on Barriers to Cross-Border Trade; Labor and Tax Issues; EAGER and the Internet; Governance and Growth in Africa; Effects on Trade of Monetary, Fiscal, and Exchange Rate Policy; Monetary Reform and Growth in Africa; New Opportunities for African Trade and Investment; Barriers to Business Expansion in Africa; and the dissemination of EAGER research findings.

Robert Weiland (IntEconWRW@aol.com) is an economist who contributes to the EAGER project through ISTI.

Alternative Institutions
for Promoting Government Accountability, Transparency, and OPENNESS in GHANA

The history of Ghana's macroeconomic policy adjustments and microeconomic reform reveal inefficiencies imposed on the economy by underlying institutional imperfections, especially in the functioning of government institutions. The business community, donors, and multilateral agencies are demanding greater accountability, transparency, and informational openness in the government to reduce inefficiencies. These inefficiencies are especially evident in the form of public sector principal-agent problems, regulatory capture, public sector moral hazard problems, and private rent-seeking behavior. Good governance is contingent on the processes of both formulating and applying rules. This EAGER/PSGE study focuses on the process in Ghana, that is, the legislative or Parliamentary procedure or regulatory process.

Using tools of economics and law, EAGER researchers are exploring how Ghana's elected officials and public bureaucracy originate, structure, and present legislation and rules that affect private sector activities. Roles played by business associations, journalists, and the broader civil society are especially important. The study also examines the prospects for employing identifiable thresholds in the rule-making process, such as benefit/cost tests, performance standards, open records, rules, time limits, and comment periods. Case studies are being prepared regarding the legislative histories of Ghana's value-added tax and public utilities legislation.

With information from a survey instrument administered to Parliamentarians, business associations, journalists, and the civil society in Ghana, the study is investigating the role of economists and capacity of parliamentarians to analyze the economic impact of legislation and use of economic analysis in law-making. In addition, the EAGER team is examining alternative institutional mechanisms to increase the degree of accountability, transparency, and information openness vis-à-vis the legislative process in the private sector.

Information from the survey shows that, while Ghana has fairly well-defined procedures in the Constitution and statutes to encourage participation of the private sector in the regulatory process, there still remain considerable rigidities in the legislative and regulatory processes that must be eliminated for efficient public-private sector interaction. The ability of Parliament to conduct rigorous economic analyses of the impact of legislation is weak. The public sector continues to be the major source of new legislation, indicating that "voice" opportunities for the private sector are still poor. Third parties, especially bilateral and multilateral agencies, are major sources of new legislation to support the private sector, and play a key role in legitimizing the government's commitment to private sector-led growth. While journalists and the media are critical in promoting openness and accountability in government behavior, the survey found their capacity to perform this role to be weak.

Survey respondents support the introduction of the following: Transparent and formalized procedures for lobbying for new legislation to support the private sector; institutional mechanisms to increase governmental accountability in policymaking; and an economics education program to improve the capacity of Parliamentarians, business associations, and key stakeholders to conduct assessments of the impact of legislation and regulations on the private sector.

A dissemination workshop involving representatives of these groups is planned for early 1999. The research has been conducted by Associate Professor Fred Boadu of Texas A&M University, on contract to the EAGER/PSGE subcontractor MayaTech; Professor Seth Bimpong-Buta, director of the Ghana Law School; and economist Victor Nyanteng, deputy director of ISSER, Accra.

Fred Boadu (fob@ag-eco.tamu.edu), Associate Professor at Texas A&M University, is principal investigator of this EAGER/PSGE study.

Competition Strategies
for Sub-Saharan AFRICA

Many countries in sub-Saharan Africa whose economies are considered developing or in transition may potentially benefit from competition-promoting strategies. An EAGER/PSGE study involving Benin, Madagascar, and Senegal begins from the premise that governments can augment markets by providing a set of laws, regulations, and implementing institutions to both facilitate private sector commercial activity and mitigate private and public restraints on commerce. From this premise, the question logically follows: Which laws and institutions are most important and useful at promoting competition? The study addresses this question in several ways.

Much of the earlier research on competition policy in developing economies or those in transition explicitly or implicitly equated competition policy with the enactment and enforcement of Western-style "antitrust" laws. Defined in this way, competition policy would consist of challenging "restrictive business practices" adopted by private business operators. In the history of Western economies, narrowly defined antitrust laws were introduced relatively late in the process of development and were designed to police already functioning market economies, not to facilitate or create them. The so-called competition laws now used in developed market economies may be inappropriate and even counter-effective when applied to economies in transition or under development, particularly if grafted onto an existing institutional framework that is weak.

A principal hypothesis underlying the study's research plan is that countries in transition and under development have accorded too high a priority to drafting Western-style competition laws and creating competition law enforcement agencies similar to those found in more developed countries. Restrictive business practices adopted by private sector actors—the issues addressed by Western-style antitrust laws—are posited to be relatively inconsequential when compared to barriers to entry and growth stemming from the lack of market-augmenting laws and institutions.

To evaluate the legitimacy of the principal hypothesis, the study is attempting to empirically assess the relative size of various anti-competitive features of each economy. Interviews during the final design phase suggest that both restrictive trade practices and gaps in the facilitating legal infrastructure exist; the question to be answered during the implementation phase then becomes, how much of each?

The study's corollary hypothesis is that efforts to create competitive forces would be more effective if directed at the design of a long-term strategy for building a full legal and institutional infrastructure. For example, creation of a focal point within the government for informed competition advocacy may be a first step in eliminating the most usual types of barriers to entry, namely inappropriate government regulation. Such an advocacy function could be a precursor to the Western-style enforcement agencies, and expand at a later point in time to address restraints on trade that arise from the private sector.

The policy implication of this study is that recommendations for Western-style competition law systems for developing economies or those in transition should be based on a broad analysis of both the barriers to competition and the full range of options for addressing those barriers. In particular, decision-makers must recognize the opportunity cost of building the institutional structure needed for effective implementation of Western-style competition laws. Policy options not usually associated with the label "competition" may actually provide a larger impetus to competitive forces than a so-called competition law, and therefore should be considered either in conjunction with or as substitutes for such laws. Predicate reforms might include price deregulation, the elimination of licensing-related entry barriers, and the disruption of established collusive habits, such as those fostered by laws mandating membership in industry associations.

Within the class of developing countries and those in transition, there is a great deal of variance in the conditions just elaborated, suggesting that certain treatments may be most effective at particular stages of the reform process. One goal of the study is to suggest a prioritization methodology that would assist developing countries and those in transition in identifying optimal sequencing of competition-related reforms. Such a methodology would take into account the specific situation of any one country.

This study is being coordinated by the IRIS Center at the University of Maryland, a subcontractor under EAGER/PSGE. Four researchers fielded by IRIS are Dr. Cynthia Clement, IRIS associate director; Professor Andrew Gavil, Howard University Law School; Dr. Georges Korsun, Chemonics International; and Professor William Kovacic, George Mason University Law School. Local collaborators involved thus far are Djossinou Ahouandjinou, assistant professor of law at the National University of Benin, and Professor Pepe Andrianomanana of the University of Antananarivo, Madagascar. Field work is scheduled to get under way early in 1999, and it is hoped that findings and recommendations of the study will be available at the EAGER All-Africa Conference scheduled for summer 1999.

Cynthia Clement (clement@iris.econ.umd.edu), Associate Director of the IRIS Center, is coordinating this EAGER/PSGE study.

UPDATE on the 1999 ALL-AFRICA Conference

At EAGER's most recent regional workshop, held in Dakar in November 1998, conference planners reviewed the agenda for the upcoming concluding project conference during the summer of 1999. This conference will include a discussion of key policy issues relating to the promotion of growth and equity in Africa, and take into consideration the findings of EAGER research. The themes of the conference sessions, however, will not be limited to the topics of specific EAGER studies.

Issues under consideration include: (1) an overall theme for the conference; (2) the topics of individual sessions; (3) the conference format (extent of parallel sessions, etc.); and (4) the invitees. EAGER will soon be forming a conference preparatory committee with a majority of African participants to discuss these issues. In order to continue requisite planning for the conference, EAGER project managers initiated a discussion of conference strategy and themes via the Internet following the Dakar conference.

At press time, a travel ban had been issued for Addis Ababa, formerly the site of the conference. Other sites on the African continent are currently being considered and a final decision has not yet been made. Information on the new location will be disseminated by Lisa Matt, Senior Advisor at BHM International, as soon as it is available.

The United Nations Economic Commission for Africa (UNECA) agreed to co-host the conference. USAID agreed to fund expenses of 100 participants from Africa. Other organizations will fund additional participants from Africa and abroad. Several Ethiopian policymakers and researchers, new to the project, will also attend.

Clive Gray (cgray@hiid.harvard.edu), Institute Fellow at HIID and Chief of Party, EAGER/PSGE, is helping to plan the All-Africa Conference.

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EAGER

USAID

Results of the EAGER Evaluation: The RIGHT PROJECT at the Right Time

As prescribed by the original design, an evaluation of the EAGER project was initiated at the start of its final year. A draft report summarizing the findings was presented to USAID on January 19 by members of the evaluation team.

Between September 1998 and January 1999, Alan Batchelder and Jeffrey Fine, working through Nathan Associates Inc., reviewed EAGER activities through its first three years, assessed the lessons learned, and made recommendations for a subsequent project. To better understand how the project carries out important activities, such as a semi-annual workshop and its efficacy, the evaluators attended the EAGER Country Workshop in Dakar and visited seven African countries where EAGER research has been undertaken. They discussed EAGER objectives, operations, and outcomes with the widest practical sample of researchers, policymakers, USAID staff, and other involved parties.

This evaluation is important to both the current EAGER project and to any potential follow-on activity. A summary highlighting the lessons learned and the evaluators' recommendations for follow-on activities is provided here. Interested readers are encouraged to download the report from EAGER's website, or request the complete EAGER Project Evaluation report from the Communications Logistics Contractor, BHM International. Send e-mail requests to Lmatt@EAGERProject.com.

Lessons Learned

The evaluators introduced their discussion by noting that the EAGER project has conducted excellent research that has been used by African policymakers in undertaking a number of important policy improvements. This was the primary objective of the project.

One policy change at least partly attributable to EAGER research is the Government of Mali's revoking of an export tax on raw hides and skins, after an EAGER-funded study publicized the costs of the tax to both the hides and skins industry and the national economy. The Government of Madagascar eliminated the export tax on vanilla following the recommendations of a study conducted under EAGER. In Tanzania, the Minister of Energy and Minerals abandoned plans to launch a police attack on gold and gem smugglers after a Tanzania minerals marketing study demonstrated that high taxes led to the high occurrence of smuggling activities. The Minister further eliminated almost all taxes for the miners because the study demonstrated the enormous size of the small-scale mining sector.

Because research is still under way, it is not yet possible to point out the policy effects of all EAGER research components. In addition, some effects might not be realized until after the project is completed because of the long-term nature of actions taken in response to recommendations. In general, the work, research, and results produced by the cooperative agents have been excellent. At the same time, the evaluators identified some areas for improvement in an EAGER follow-on project, which are outlined on page 3.

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EAGER—Equity and Growth through Economic Research—is sponsored by the Office of Sustainable Development in the Bureau for Africa of the U.S. Agency for International Development. EAGER has recently received a no-cost extension until September 2001, to enable research already under way to be completed and the results adequately disseminated.

EAGER supports economic and social science policy analysis in Sub-Saharan Africa (SSA). Its primary objective is to increase the availability and use of analytical research by decision-makers in both the public and private sectors to promote the adoption and implementation of policy reforms that foster rapid, equitable, and sustainable growth. The research addresses two key constraints that inhibit the implementation of more appropriate policies. First, EAGER seeks to expand indigenous capacity in SSA countries to undertake policy analysis, and then attempts to improve the positive impact of the analysis on economic performance.

EAGER policy analysis is guided by two basic principles. First, outstanding American and African institutions and analysts work side-by-side on collaborative investigative teams. Second, stakeholders and decision-makers are involved in selection, design, implementation, and dissemination of EAGER research.

EAGER research activities are comprised of the following two components:

- Public Strategies for Promoting Growth and Equity (EAGER/PSGE), implemented by the Harvard Institute for International Development (HIID)
- Trade Regimes and Growth (EAGER/Trade), implemented by Associates for International Resources and Development (AIRD)

EAGER also provides capacity building for African-based policy analysis, including support through institutions such as the African Economic Research Consortium, the Secretariat for Institutional Support for African Economic Research, the Programme Troisieme Cycle Interuniversitaire en Economie, the Reseau de Recherche sur Les Politiques Economique, and the African Regional Program of the International Center for Economic Growth.

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Opinions expressed in the EAGEReport are those of the authors and may not always reflect the views of USAID.

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Results of the EAGER Evaluation: The RIGHT PROJECT at the Right Time

FROM PAGE 1

Lesson 1: EAGER's scope and U.S.-based decision-making led to some serious conflicts between African and U.S. researchers.

In the absence of strong African research centers whose staff could coordinate research under the project, there were some instances in which African ownership of the design and implementation of research suffered. Towards the end of the project, however, it became increasingly apparent that a number of recently created African research centers were gaining experience and could shoulder increasing research responsibility.

Lesson 2: Lead cooperating agencies required considerable time to identify acceptable research topics.
Because they worked through large consortia based in North America, and because of their desire to vet research proposals widely, identifying research topics was a slow process. As implied in Lesson 1, the process sometimes lacked full concurrence from African partners. The time-consuming topics assessment within the consortia and approval by USAID contributed to the delay.

Lesson 3: African researchers generally choose to work only on research they view as incorporating their own ideas.
Skilled and experienced social science researchers are in high demand in Africa and can be selective in the research assignments that they undertake. Given this flexibility, researchers tend to choose research that they view as incorporating their own ideas. The greater the degree of ownership, the greater the commitment on the part of the researcher.

Lesson 4: Bringing policymakers into the research process early, such as through the Policy Advisory Committees (PACs) or Research Supervision Committees (RSCs), delivers big benefits.
The use of PACs was deemed by the evaluators to have been an outstanding success with respect to local ownership of the research and policy impact. This took a good deal of effort on the part of the researchers, however. There were also problems associated with the complexity of communicating all the rules and decisions regarding the PACs to the hundreds of EAGER participants.

Lesson 5: African researchers and their institutions resented being denied information about the total budget for each study.
Africans felt a sense of unequal treatment because they were not supplied with complete contract cost information for research activities, since they recognize and accept that American salary rates are higher than African rates.

Lesson 6: USAID staff welcome EAGER research, but most have little time to give to oversight.
Mission staff approved every research topic and supported each research effort strongly. They were content to work with EAGER at the policymaking level without being involved in direct supervision. Missions lack time for direct involvement and believe more frequent visits by researchers would have benefited EAGER research.

Lesson 7: The assumption that there are many researchers and policymakers in Africa who are interested in policy research has been borne out by the project.
Africa now has many competent researchers and policymakers who are interested in policy research. EAGER research has resulted in greater involvement by policymakers in the research process and greater African ownership of research results.

Lesson 8: African researchers resented having to adapt to the travel schedules of expatriates, while American researchers complained of African over-commitments.
Delays were caused by waiting for visits from the expatriate partners. When visits did take place, they sometimes occurred on short notice and local researchers were expected to adapt accordingly. American researchers, however, complained that their African partners were over-committed and delayed work on their EAGER research until just before a scheduled workshop or expatriate researcher visit.

Lesson 9: For much of the research, faxes, e-mail, and the telephone could not substitute for face-to-face conversations.
This fact poses a problem for prime contractors who deal with a large number of researchers simultaneously. By early 1998, about 150 researchers were at work on EAGER research activities, and face-to-face conversations were difficult to arrange.

Lesson 10: If they are to remain sufficiently involved, PAC members must be kept informed of research progress and delays.
Researchers postponed communication with PAC members at their own peril. Some PAC members who were left uninformed over months became disinterested and convinced that timeliness had been lost.

Lesson 11: Expatriates can make mistakes in their choice of research partners, and need flexibility to make changes.
Leading cooperative agencies should, and did, specify in advance how to deal with non-performance.

Lesson 12: Without budgets and work plans for travel and continuous exchange of work, African researchers conducting similar research in different countries do not share in the intercountry comparisons and analysis.
On request from USAID, PSGE researchers focused on multi-country analysis but, because time and money commitments of coordinating such research were underestimated, African researchers have not been able to be as involved in their intercountry comparisons.

Lesson 13: Some African institutions may provide effective research management.
USAID support of African research institutions has resulted in five or six institutions that have the capability to play a leading role in managing the African end of joint research.

Lesson 14: African researchers are eager to work with foreign experts.
African researchers are well aware of the

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Results of the EAGER Evaluation: The RIGHT PROJECT at the Right Time

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advantages of working with outsiders who share their interests and who can bring different kinds of expertise and experience to research projects.

Lesson 15: If African researchers do not have a strong reputation at home, their research results will not be credible to policymakers.
Though the evaluators admit a limited sample for this lesson, they report only three cases of research suffering from a researcher's poor reputation with other researchers in the partner country.

Lesson 16: To be effective, policy research must be timely.
While rapid change is not apparent in every EAGER country or topic area, policymakers need to have relevant research completed and delivered so that they can use it. The economic environment is changing so fast in many African countries that tardy research is sometimes completed after relevant policy choices have been made.

Lesson 17: Policy briefs are an essential product, but contractors have been slow to finish them.
Policy briefs appear to be a powerful tool for disseminating research results, but researchers have been slow to produce them. Delays are due in part to undetermined lines of responsibility regarding their preparation. Where such delays are unavoidable, cooperative agents should consider producing an interim policy brief for the PAC. This can provide a leg up on policy change and help keep PAC members involved.

Lesson 18: Many researchers have successfully used the media to disseminate their results.
Many researchers, often assisted by PAC members, have made local workshops as well as radio, television, and press interviews highly effective for disseminating research results to policymakers and the public.

Lesson 19: Semiannual workshops have been very successful.
EAGER's semiannual workshops have brought together current and prospective researchers and have been highly effective in helping these researchers improve their own work and understand the work of their colleagues on other projects. On the other hand, evaluators found that the length and variety of workshop agendas made it difficult for host country policymakers to attend the session of greatest interest to them.

Recommendations for EAGER Follow-on Activities

Evaluators agree that, despite or because of the lessons learned, EAGER was nonetheless "the right project at the right time." They also note the experimental nature of the project, and the need to now move further along the continuum from expatriat toward African researcher control. Their recommendations for EAGER follow-on activities related to policy research serve this goal by seeking to ensure:

- **More meaningful involvement by African-based researchers and stakeholders,**
- **More cost-effective communication and dissemination of research findings and policy recommendations,**
- **Greater likelihood of changes in public policies toward accelerating growth with equity, and**
- **A higher probability of sustaining appropriate policies after USAID support has ended.**

The evaluators suggest these outcomes could be ensured by the following:

Large-scale policy research
Large-scale research under the project should be contracted to a consortium led by a U.S.-based firm or institution. Research should be managed and directed through program advisory and technical committees (TCs), however, and the role of African partners in these committees should be substantial. This would provide a decentralized approach to deciding and implementing research under the project with a pivotal role assigned to African institutions. To facilitate this larger role for African institutions, the project would support technical assistance regarding accounting and contracting requirements under U.S. government rules.

Small grants research
In addition to large-scale research, EAGER follow-on activities should allow for smaller grants to research specific topics. Small-scale research grants might serve to validate, qualify, and enrich large-scale research or undertake country-specific research that is not easily accommodated within a multi-country framework. Small-scale research, overseen by institutions with large-scale activities, would be managed through their PACs and TCs, and funded through block grants to African partners.

Collaborative research with networks
Evaluators recommended that funding continue through EAGER follow-on activities for collaborative research with such African networks as the African Economic Research Consortium, the Secretariat for Institutional Support for Economic Research in Africa, and newer networks such as the Agricultural Policy and Enterprise Networks in West, East, and Southern Africa.

Research opportunities and dissemination
African partners should take a larger role in publicizing both research opportunities and research results under the follow-on activity. Their capacity to do so should be strengthened through the project. Semiannual workshops should continue under the follow-on activities and management should be provided by a reliable U.S.-based professional agency.

In addition to funding for institutional support to several African economic institutions, the evaluators recommended continued support for masters-level training, contingent in some instances upon some managerial and administrative adjustments.

Robert Wieland (IntEconWRW@aol.com) is an economist who contributes to the EAGER project through ISTI.

Constraints to Capital Market Development IN GHANA, TANZANIA

Lack of long-term investment capital is the major constraint to market growth and development in Ghana and Tanzania, according to this EAGER/PSGE study. This problem, however, is not restricted to these two countries; it is common throughout Sub-Saharan Africa (SSA) and has been traced to the underdevelopment of capital markets, such as stock and security markets, and financial institutions that serve capital markets. The study also identified various policy, institutional, and structural impediments that constrain capital markets development in Ghana and Tanzania.

Survey questionnaires used in the research provided a guide for formulating and testing hypotheses related to capital market development in both countries. Primary data were collected through interviews and comprehensive questionnaires completed by various private financial and regulatory institutions in Ghana and Tanzania, including: (1) listed and unlisted companies; (2) stockbrokers; (3) the Ghana Stock Exchange (GSE) and Dar es Salaam Stock Exchange (DSE); (4) commercial banks; (5) the Bank of Ghana and Bank of Tanzania; (6) institutional investors; (7) insurance companies; (8) other non-banking financial institutions; (9) financial non-governmental organizations; and (10) employees of private enterprises.

Researchers in Ghana and Tanzania are analyzing secondary and primary data in collaboration with researchers in the U.S. Preliminary results based on field interviews and literature reviews show that, although the two countries have had some important success in reforming their economies, many challenges remain in developing their capital markets.

One drawback has been fiscal deficits related to high-yielding government securities. This has adversely affected the demand for securities being issued by private firms to raise long-term capital, especially in Ghana, where the problem is particularly serious. Because of the high yields, many potential investors prefer to hold short-term government Treasury bills. This has shifted resources from the securities markets to the government bill market, leaving the securities market both thin and illiquid, and "crowding out" many small and medium-sized enterprises from the capital market.

The limited number of instruments traded on the stock exchanges reduce their attractiveness to investors. The poor quality of both accounting information and disclosure provisions by listed firms has not helped. It has constrained the discovery price and distorted the valuation of companies listed on the exchanges.

Fiscal imbalances in Ghana have generated inflationary pressures, which have increased the foreign exchange risk of investing in the Ghanaian capital markets. Few foreigners have been willing to take the risk. The absence of a hedging mechanism through financial derivatives, futures, and options adds to investor exposure. The thin market and small number of shares traded on the stock exchanges in the two countries limit the potential for diversification. Lack of automation of trading practices leads to inefficient trading and settlement practices, and has raised the costs of intermediation through the securities markets.

Researchers found that the capital market structures in Ghana and Tanzania made it difficult for small and medium-sized firms to raise capital. Absence of investment banks, underwriters, and venture capital firms constrain development of the primary and secondary capital markets for raising long-term capital through initial public offerings.

The role of the stock exchanges in deepening capital markets has been hampered by the government's divestiture programs, which emphasize privatization through strategic investor financing rather than sale through the stock exchanges.

Policy implications indicate that the respective governments need to provide an enabling environment for

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Highlights of study findings:

- Lack of long-term investment capital constrains market growth in Ghana, Tanzania, and throughout Sub-Saharan Africa
- High-yielding government securities have shifted resources from the securities markets to the government bill market
- Absence of investment banks, underwriters, and venture capital firms constrain development of capital markets for raising long-term capital through initial public offerings
- Capital market structures make it difficult for small and medium-sized firms to raise capital
- Incentives to induce firms to list on the stock exchanges should be introduced; a broader range of financial instruments and automated trading practices on the exchanges should be encouraged; and securities information should be upgraded

Constraints to Capital Market Development IN GHANA, TANZANIA

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the development of their capital markets. Taxes and other incentives to induce firms to list on the stock exchanges would be useful. Encouraging the issue of a broader range of financial instruments and automating trading practices on the exchanges should be given priority in the two countries. Uniform accounting, disclosure rules, and regular auditing of corporate accounts would improve the quality of information about the securities being traded. Privatization and divestiture programs should be geared towards floating shares of divested firms through the primary markets and stock exchanges.

Government fiscal policies could be influential through improvements in the efficient management of public debt and public expenditures. The objective should be to sharply reduce the budget deficits that continue to adversely affect capital market development in the two countries. The move to cash budgeting and control of public sector spending represents a positive change. The Tanzanian approach offers an example to Ghana (and other SSA countries) in how public debt and expenditure might be better managed as a means of providing a stable basis for financial and capital market development. With such policies in place, both Ghana and Tanzania can begin to deal with their growth and poverty problems on a firmer, more sustainable foundation.

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Increasing Demand for Labor in SOUTH AFRICA

As African economies move in the direction of more outward-oriented policies, national labor markets have increasingly become linked into a broader world market. Internal segmentation of the labor market, however, impedes this process, diminishing gains from international specialization, inhibiting the expansion of employment, and resulting in inequality in the distribution of income.

The labor market in South Africa is characterized by enormous segmentation, resulting in very high levels of unemployment and underemployment in the black population. Much of this is a legacy from apartheid. Today, South Africa faces the formidable task of absorbing over one-third of the working-age population into productive employment. This process is complicated by trade union activism inherited from the period during which the apartheid South African government refused to recognize the African National Congress (ANC) and trade unions were the only channel for political activity. Yet trade unions are only part of the picture. There are many unanswered questions regarding South Africa's labor market and the reasons for its segmentation.

The most important potential solutions to expanding employment and decreasing labor market segmentation in South Africa involve the following initiatives:

- **Increase the overall rate of economic growth so as to absorb more labor into the economy**
- **Promote faster growth in more labor-intensive sectors of the economy, such as the service sector and small and medium-scale enterprises**
- **Improve labor productivity through capital investment, technological innovation, and increased training and education**
- **Remove distortions in the labor market that inhibit employment expansion, such as incentives that encourage capital intensive investment, artificially established wage and benefit rates, and costly labor regulations enforced by the government**

EAGER research is shedding light on a few of these avenues for increasing employment.

Growth of Employment in the Services Sector

Like many countries in the industrial world, South Africa has witnessed an increasing trend towards service sector employment while employment in the primary and manufacturing sectors has declined. Trade, catering, and accommodation have consistently accounted for the largest share of employment in the service sector. Employment growth has also been particularly rapid in the finance, insurance, and business services subsector. The fastest growth, however, appears to be in government services, though there are doubts concerning whether this can be sustained with the government's commitment to fiscal stability. While the tertiary sector has expanded as a whole, some tertiary jobs have decreased over time. These losses are mainly concentrated in the transport and domestic services sectors.

Part of the decline of manufacturing and rise in tertiary sector employment has occurred because services are increasingly being "contracted out." Boundaries between the manufacturing and tertiary sectors are being reshaped. As the tertiary sector increasingly merges with the manufacturing and agricultural sectors, new linkages, companies, and industries are appearing. Despite the decline of its direct contribution to employment, the manufacturing sector can play a vital catalytic role in expanding employment opportunities in the tertiary sector through interindustry demand for service inputs and income-induced demand for various types of services.

In expanding its capacity to create jobs, South Africa has a number of opportunities in tourism. Linked to tourism is the entertainment industry, which also shows potential for growth. South Africa can also take advantage of the revolution in technology, communications, and transportation, which has dramatically expanded the range of services that can be traded internationally. Moreover, as technological progress reduces communication costs, trade in

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services is expected to grow. Provision of these services is important not only because it creates the potential for new exports, but also because it is a critical determinant of productivity and competitiveness.

Much of the growth of employment in services, however, is concentrated to jobs for low-skilled and unskilled workers. This is partly because levels of labor productivity are low. Over the last 25 years, fixed capital productivity in the economy as a whole and labor productivity in manufacturing have fallen by roughly half. While productivity performance in the service sector has been far from impressive, it has been much better in comparison with other sectors of the economy. These trends are particularly disconcerting, since greater openness of the South African economy to international trade was supposed to be accompanied by an increase in productivity in the traded goods sectors. Instead, manufacturing growth has been driven more by additions to the capital stock than through increases in productivity.

Job Creation in Large and Small Firms

In addition to creating employment by encouraging efficient development of a modern service sector, attention has also been focused on the size of firms and its effect on employment. In June 1996, the government announced the macroeconomic framework for growth, employment, and redistribution (GEAR). The promotion of small, medium, and micro-enterprises (SMMEs) was considered to be a key element in the government's strategy for employment creation and income generation.

This notion is based on the perception that the employment intensity in SMMEs is higher than in large firms. To examine this hypothesis, an analysis was undertaken using a provisional input–output table for the year 1995, which was used to estimate the indirect and the direct employment effects resulting from changes in output for large and small firms. Results suggest that small enterprises are on average more employment-intensive and generate more GDP per job than large firms. It is also clear, however, that the average wage per job in small firms is lower than in large enterprises. If we account for backward linkages, relative employment intensity of small enterprises is enhanced. Thus a strategy of promoting smaller firms should result in increased employment.

Expanding Employment Within the Firm

Data from the second round of the South African Labour Flexibility Survey (SALFS2) permit estimation of the influence on employment of factors such as firm size, formal training, unionization, wages and benefits, and other factors. Other important findings are also discussed here.

Larger firms engaged in production work tend to employ workers from the historically disadvantaged population in semi-skilled positions, while smaller firms have a larger percentage of white professional employees. Industrial action due to disputes in the form of strikes, demonstrations, "go slows," and "lock-outs" are more frequent in larger establishments compared to smaller ones. This is expected, as the degree of unionization is significantly higher in larger firms. Larger firms are also somewhat more likely to participate in industrial councils, giving them less flexibility than smaller firms in wage negotiations. Because they are more subject to restrictive labor practices and wage and benefit agreements for permanent labor, larger firms are more likely to use temporary and casual labor. Despite this, formal training of newly recruited production workers is more likely in larger firms, though smaller firms may engage in informal on-the-job training. Results suggest, in fact, that a relatively small increase in the absolute level of expenditures on training could have a very significant impact on employment.

Average wages, average remuneration, and the ratio of benefits to wages all have a highly significant negative impact on employment. Elasticities of total employment and of employment of African unskilled and semi-skilled workers with respect to wages and total remuneration range from -0.66 to -0.85. These estimates are relatively close to the average wage elasticity estimates for all industries from the 1993 SALDRU household survey of approximately -0.71. This suggests that upward pressure on wages and benefits has a very detrimental effect on employment.

Supply of Labor

Nevertheless, the corollary that unemployment could be seriously reduced by decreasing wages and benefits ignores many of the realities of the South African labor market—even aside from the political impossibility of decreasing the power of trade unions. For example, even informal sector wages are considerably higher than in countries such as Madagascar and Bangladesh, where labor-intensive exports such as clothing could easily compete in the South African market if there were no tariff protection.

The same is true with respect to wages in neighboring countries, whose labor often migrates to South Africa. Why this large wage differential in the informal labor market exists is unclear, but it seems to relate to the supply side of the market. Some suggest that it is due to the high cost of basic wage goods such as food because of price rigidities elsewhere in the economy. Others note the importance of welfare and pension payments in South Africa, which may set a reservation price. The same may be true of profits from crime, which is rampant in South Africa. It is clear, in any case, that little is known about how South African households relate to the labor market and how they would react to changes in that market.

Although the correlation between employment and poverty alleviation in South Africa tends to be quite high, it is far from 100 percent. The relationship between household income and employment is quite complex. Recent household surveys reveal remarkable diversity of situations regarding employment, union membership, and dependency status across most households. This raises serious questions regarding the viability of alleviating poverty by reducing wages in the formal sector so as to expand employment.

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FIXED EXCHANGE RATES Increase Growth in the 1980s: TREND REVERSED in the 1990s

In the past two decades, exchange rate regimes in Africa have demonstrated a trend toward greater flexibility, with 19 countries switching from fixed to some kind of floating regime, whereas only two countries did the reverse. In 1995, only 27 countries were operating under fixed regimes, of which 14 were members of the French franc zone. This EAGER/Trade study assesses the performance of African countries with respect to trade and economic growth in relation to their exchange rate regimes, whether fixed or floating, over the past 20 years. The study is particularly pertinent given the recent establishment of the euro, to which the CFA franc is now rigidly pegged by virtue of its fixed parity with the French franc.

The study examines the pros and cons of alternative exchange rate regimes under conditions of weak local currency and domestic capital markets, as well as persistent fiscal deficits. Most other research suggests that flexible rates are more effective in overcoming the effects of macroeconomic disturbances and increasing the rate of economic growth. Unfortunately, these studies do not take into account the instability associated with switching to new regimes. At least 15 African countries shifted their exchange rate regimes three or more times from 1980 to 1995.

Preliminary analysis shows that countries with fixed exchange rate regimes generally had higher growth and investment rates than those with flexible regimes during the early 1980s. This situation, however, was reversed by the early 1990s as a result of increasing overvaluation of the fixed regime currencies and efforts of governments to control inflation and eliminate balance of payment deficits through restrictive monetary and fiscal policy.

Effects of the exchange rate regime on the rate of growth of real per capita GDP were also estimated using an econometric model controlling for the ratio of gross domestic investment to GDP, rate of growth of total population, changes in the terms of trade, changes in the real effective exchange rate, and per capita GDP at the beginning of the period examined. Membership in a specific class of exchange rate regime was represented in this model by a dummy variable. Within fixed exchange rate regimes, distinctions were made between monetary unions, currencies pegged to a single currency, and currencies pegged to a basket of currencies or to the SDR. Floating exchange rate regime countries were divided into two groups: Managed floating and independently floating. The model was estimated across 52 African countries using rates of change from 1980 to 1994.

Results of this analysis reveal the costs of fixed exchange rate regimes, and especially monetary union membership, in terms of lower rates of growth of real GDP. This cost occurred because the benefits of low inflation in these regimes did not offset the cost of overvalued exchange rates, especially in the period after 1987. Countries with currencies that floated benefited from adjustment in the real effective exchange rate, especially the managed floating regime countries for which the benefits were felt well after the regime was initially in effect.

A modified group control approach was also used to control for the effects of external shocks and initial conditions on changes in the rate of growth of real GDP, changes in the rate of growth of export share in GDP, and changes in the ratio of the current account balance to GDP. The shocks were measured as decreases in real interest rates and improvements in the terms of trade. Initial conditions included growth of GDP, current account balance, and export share, each in 1980. The effects of shocks and initial conditions were highly significant in most cases. In addition, countries that shifted to floating exchange rate regimes during the 1980s experienced a rise in the rate of growth of export share, but no change in the rate of growth of real GDP or in the current account balance.

Highlights of study findings:

- **By the 1990s, countries with fixed exchange rate regimes generally had lower growth and investment rates than those with flexible rate regimes, as a result of increasing overvaluation and efforts to control inflation and eliminate balance of payment deficits**
- **Countries with managed floating currencies benefited from adjustment in the real effective exchange rate**
- **Countries with fixed rates that allow rate flexibility may increase their rate of economic growth**

The analysis suggests that fixed exchange rates weakened the ability of African countries to insulate themselves from external disturbances without imposing distortionary taxes and quantitative restrictions that contributed to overvaluation of the real exchange rate. Furthermore, countries with fixed exchange rates outside of monetary unions experienced better economic performance than countries within such unions, probably because they had more freedom to vary the fixed rate. It is therefore recommended that African countries with fixed exchange rate regimes might allow some flexibility in their exchange rates to increase their rate of economic growth. This could occur through either a managed floating rate or appropriate devaluation.

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EAGER

USAID

VIABLE OPTIONS to Africa's Fixed Exchange Rate Regime Include "DOLLARIZATION"

Recent changes in the global economy are likely to impact Africa's exchange rate regimes in the near future. Events such as the Asian financial crisis; overvaluation and subsequent devaluation of the CFA franc; and sharp fluctuations of the Brazilian real suggest that maintaining a fixed exchange rate regime is difficult in a global environment characterized by major disturbances and/or a relatively free flow of capital.

Broadly speaking, major alternatives that have been proposed are:

Capital controls

Why should developing countries leave their economies open and vulnerable to the vicissitudes of the world capital market? Because Japan, China, and western Europe have achieved substantial rates of growth without capital account convertibility, capital controls would seem to be the solution. But these controls are increasingly difficult to enforce in an age of advanced information technology, where funds can be moved from currency to currency without regard for physical location. The question may not be whether to impose capital controls, but whether these controls can be imposed.

Strengthening of banking regulation and establishment of an international lender of last resort

Creating an international lender of last resort—either the International Monetary Fund (IMF), Bank for International Settlements (BIS), or a new institution—may prevent a substantial segment of the banking sector from going under in the event of a crisis. Aside from the magnitude of resources that would be required—far beyond the current capacity of the IMF—a lender of last resort would require regulatory power over the banking systems to which it may lend. It would need the ability to call in collateral, which might be difficult if it infringes on national sovereignty. Furthermore, in this age of technology, banking regulation is becoming increasingly difficult given the competitive pressures that exist, especially in developing countries. The banking community asserts that the only effective regulation takes place within large banks, which are rapidly becoming larger and more consolidated.

Unfettered capital market

Some argue that if capital markets are allowed to develop without the uncertain specter of public, national, or international interventions, they will become more efficient and less risky. There is some truth to this. Speculative pressures are hard to

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EAGER—Equity and Growth through Economic Research—is sponsored by the Office of Sustainable Development in the Bureau for Africa of the U.S. Agency for International Development. EAGER has recently received a no-cost extension until September 2001, to enable research already under way to be completed and the results adequately disseminated.

EAGER supports economic and social science policy analysis in Sub-Saharan Africa (SSA). Its primary objective is to increase the availability and use of analytical research by decision-makers in both the public and private sectors to promote the adoption and implementation of policy reforms that foster rapid, equitable, and sustainable growth. The research addresses two key constraints that inhibit the implementation of more appropriate policies. First, EAGER seeks to expand indigenous capacity in SSA countries to undertake policy analysis, and then attempts to improve the positive impact of the analysis on economic performance.

EAGER policy analysis is guided by two basic principles. First, outstanding American and African institutions and analysts work side-by-side on collaborative investigative teams. Second, stakeholders and decision-makers are involved in selection, design, implementation, and dissemination of EAGER research.

EAGER research activities are comprised of the following two components:

- **Public Strategies for Promoting Growth and Equity (EAGER/PSGE), implemented by the Harvard Institute for International Development (HIID)**
- **Trade Regimes and Growth (EAGER/Trade), implemented by Associates for International Resources and Development (AIRD)**

EAGER also provides capacity building for African-based policy analysis, including support through institutions such as the African Economic Research Consortium, the Secretariat for Institutional Support for African Economic Research, the Programme Troisieme Cycle Interuniversitaire en Economie, the Reseau de Recherche sur Les Politiques Economique, and the African Regional Program of the International Center for Economic Growth.

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VIABLE **OPTIONS** to Africa's Fixed

Exchange Rate Regime Include "DOLLARIZATION"

FROM PAGE 1

resist when a government tries to maintain an increasingly overvalued exchange rate or when there is uncertainty as to whether the IMF may enter the picture. If we carry this argument to its logical conclusion, countries should maintain flexible exchange rates so as to avoid situations in which speculators are sure to win.

There are at least two major problems, however, with this type of exchange rate regime. First, flexible rates lead to uncertainty and high transaction costs associated with currency exchange. Second, they are often associated with fewer constraints on governments running inflationary fiscal deficits. For many countries, however, these problems are less severe than those posed by trying to maintain fixed exchange rates in a relatively free capital market with large external disturbances and fiscal pressures threatening to undermine the economy.

Currency Substitution

Another alternative is currency substitution, or adoption of a major foreign currency as the local currency. This may occur gradually within the private sector, as it has in Latin America and eastern Europe through the process of "dollarization." Initially, the public holds dollars as a store of value to protect against inflation and depreciation of local currency, but ultimately the dollar begins to be used as a unit of account or a medium of exchange. Since good money replaces bad, some have called this "monetary reform carried out by the private sector."

Most governments and central banks do not like currency substitution because they lose some of their rights to seigniorage and it makes the conduct of independent monetary and exchange rate policy unpredictable. Others view it as a way to strengthen economies. One example is the CFA franc, which has for four decades been rigidly pegged to the French franc, with one notable exception—a 50 percent devaluation in 1994. The CFA franc, which was backed by the French Treasury through the "Operations Account," was considered to be the virtual equivalent of the French franc. As it became apparent that the CFA franc was overvalued during the early 1990s, however, convertibility was suspended for cash transactions. With the creation of the euro, many within the zone are wondering what path to pursue.

The increase in the demand for dollars throughout the world is the counterpart of large current account deficits that the U.S. has experienced over the past two decades. These deficits are approaching $300 billion annually in 1999, and led to the U.S. owing the rest of the world $1.2 trillion in 1997. But the rest of the world has been in no hurry to cash in their U.S. dollars because the currency is considered the safest currency to hold.

The paper, "Dollarization and Its Implications in Ghana," addresses the implications of dollarization—or "euroization"—for African countries:

"First, it decreases the government's ability to gain control over resources through non-inflationary seigniorage, or the running of a non-inflationary deficit that increases the supply of money in proportion to the increase in demand for it. Second, it limits the capacity of the government

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Study highlights include:

- Africa's attempt to maintain its fixed exchange rate regimes may no longer be realistic. Alternatives proposed include:
  - Capital controls;
  - Enforcing banking regulations;
  - Creating an international lender of last resort;
  - Freeing up capital markets; and
  - Making a transition to a full "dollarization" system
- Dollarization involves short- and long-term disadvantages (e.g., governments and banks may lose rights to seigniorage); unpredictable independent monetary and exchange rate policy; and external or private financing for fiscal deficits
- Advantages that make full dollarization a viable possibility include:
  - Constraints on government access to revenue;
  - Inflation limits;
  - Potentially reduced interest rate premiums;
  - Reduced transaction costs; and
  - Curtailed capital flight

VIABLE OPTIONS to Africa's Fixed Exchange Rate Regime Include "DOLLARIZATION"

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to assess an inflation tax resulting from a deficit in excess of the public's willingness to hold additional money balances or to lend to the government for the purpose of financing the deficit. Third, it makes it more difficult for the monetary authorities to stabilize the economy through the use of monetary policy. Fourth, it increases the risk of government intervention to reduce dollarization through elimination of foreign exchange accounts and other measures that increase inefficiencies in financial markets. Fifth, it increases the transactions costs associated with market exchange compared with a situation in which there is a single, stable currency. Sixth, it makes the banking system more vulnerable to capital flight and to fluctuations in the exchange rate. Finally, it makes it more difficult for the government to tax all sources of its residents' income."

If the country is under a fixed exchange rate regime and there is free movement of capital, there is no loss of control over monetary policy because there is no such control in the first place. Dollarization may, however, increase the speculative forces at work with respect to anticipated changes in the exchange rate.

Some disadvantages of currency substitution apply only to the period of transition in which convertible currencies are held along with the local currency. If the transition is fully made, the situation changes substantially, but some disadvantages persist. The government loses its access to resources through non-inflationary seigniorage or an inflation tax, and fiscal deficits must be financed either externally or by the private sector. Authorities have no control over monetary policy. In addition, full dollarization facilitates capital flight and may make it difficult for the government to tax all sources of resident income. What are the potential advantages for African countries?

- **There is no possibility of the government gaining access to resources over and beyond its fiscal revenues unless the external or private sectors are adequately compensated.**
- **Inflation is limited to the rate prevailing in the country of emission, plus or minus some slight deviation, which is likely to be transitional in nature.**
- **There is reduced uncertainty regarding movements in exchange rates and interest rates, which could greatly reduce the interest rate premium.**
- **Transaction costs are substantially reduced because there is only one currency unit.**
- **There is less motivation for capital flight than when there is more than one currency in circulation, which helps to strengthen the banking sector and facilitates government taxation.**

The weakness of fixed exchange rate regimes may mean that the developing world is moving towards one of two choices: Fully flexible exchange rates or full dollarization/euroization. While much has been written about flexible exchange rates, less is known about the effects of full dollarization for developing countries, other than that there may be some loss of national pride in adopting such a system. Questions include, what empirical impact might full dollarization have on the magnitude and composition of trade and investment? What are the costs of balance of payments adjustment where monetary and exchange rate policy tools are not available? What are the consequences for the magnitude and quality of public expenditures when governments have no recourse to central bank borrowing? What are the negative incentive effects of higher taxation versus inflation? How does full dollarization contribute to the development of local capital markets—or to access to foreign capital markets? Is banking system regulation facilitated or complicated by full dollarization?

Other questions relate to the transition to full dollarization. Is a country better off passing through the intermediate stage of a currency board with 100 percent reserve backing, or moving directly to adopt a reserve currency as the official local currency? What should determine which currency to adopt (e.g., reserve holdings, direction of trade)? How is this currency to be acquired (e.g., run persistent balance of payments surpluses, borrow dollars on the open market)? Should the Federal Reserve System (or other central bank) serve as a lender of last resort, and what would this mean for regulation of the local banking system?

Although full dollarization may be considered unusual today, given the spectrum of currency and exchange rate regimes that exists worldwide, the evolution of the global financial system is pointing in that direction. It may be time to look carefully at this alternative, the experience of countries which have undertaken it, and the likely consequences for African countries that follow this path. EAGER is currently exploring this topic.

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Perceptions of GOVERNANCE in Africa

Signs are encouraging that Africa could be on the verge of economic revival, reversing years of stagnation and decay. From 1986–95, the IMF reports the pace of economic policy reform in Sub-Saharan Africa increased when compared with the previous decade. Business confidence on the continent may be growing more buoyant, too, according to a major new study, "The Africa Competitiveness Report," carried out by HIID and the World Economic Forum (1998).

In their answers to survey questions, African managers expressed their perception that important aspects of the business environment had recently improved. More significantly, the respondents anticipated business conditions will get even better in the next several years.

Major challenges remain before Africa will realize any of this economic promise, however. Among the more daunting problems are those that fall under the rubric of governance and institutions. As the most recent World Development Report reminds anyone who may have forgotten an obvious truth, the state plays a pivotal role in growth and development by supporting an enabling environment for private enterprise. Tragically, many African societies face serious instances of government or "non-market" failure, which are the corollaries of market failures in the private sector. Governments fail by sins of commission and of omission. They do things government should not do, and they omit doing things government should do; in both cases, they hinder economic progress.

Pointing out government failure does not disregard other grave impediments to development in Africa—factors such as harsh climate, tropical diseases, or geographical isolation. Still, because governance problems are manmade and therefore correctable by human effort, they are particularly important to understand. There is pressing need to disengage the state from some arenas, and to reengage it in others.

With the goal of further understanding these issues of governmental action, HIID researchers Sara Sievers and Arthur Goldsmith are collaborating with researchers in eight African countries to survey a large sample of individuals representing firms, business associations, and the civil service. The objective of the study is to go beyond past analysis of non-market failure in Africa, which has hitherto relied mainly on anecdotes and case studies. It builds on two recent pioneering surveys that have begun to produce a much sharper picture of how investors feel about dealing with the state in Africa.

World Bank researchers have analyzed questionnaires returned by nearly 1,300 entrepreneurs in 22 African countries. Investors report major problems with corruption, regulations, and high taxes (Brunetti, Kisunko, and Weder 1997). The Africa Competitiveness Report draws on a similar-sized sample of business leaders in 23 African countries, who voiced similar complaints about their relationships to their national governments. These two surveys mark a significant step in our understanding

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Issues to be addressed by this EAGER/PSGE study:

- Although business conditions have improved in Africa and economic revival is forecast, significant government actions continue to impede economic progress
- Based on the results of recent surveys, the project will examine specific sectors of businesses and entrepreneurships and their relationships with the government
- The project will also study the impact of commercial and trade associations on the implementation of African public policy
- Researchers will assess how African bureaucrats and politicians view economic needs differently than businesspeople

Perceptions of GOVERNANCE in Africa

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of how the private sector perceives the public sector in Africa.

Survey methods have not yet been used to investigate three other important aspects of African governance, however. The first unexplored issue is differences between large and medium-sized businesses. Earlier surveys do not always cover representative samples of companies. By working in seven countries also surveyed in the Africa Competitiveness Report (i.e., Ghana, Kenya, Malawi, Senegal, Tanzania, Uganda, and Zambia), the Perceptions project plans to improve on that study by systematically covering more sectors, particularly medium-sized businesses. These smaller firms likely have different attitudes when compared with the large corporations and multinational enterprises that are apt to be over-represented. The addition of Madagascar as a case study is also advantageous, as it helps to round out the African Competitiveness Report with one more francophone country.

The second issue is the role of business associations in African policymaking. While larger companies can represent themselves with decision-makers, smaller firms may lack the resources to do so. Thus they may join various umbrella organizations to press for common interests. This is something new for much of Africa, where the most important groups in civil society have been traditionally based on ethnic and family loyalties. Modern interest groups that cut across ethnic and regional divisions have seldom played a central role in pressing public policy positions.

The Perceptions project includes representatives of commercial and trade associations in their survey. Do the groups exist mainly on paper, or are they making meaningful contributions to the creation and implementation of public policy? Is their contribution helpful or harmful to economic reform? While we know a lot about African managers' complaints, we know less about how they have been trying to remedy the situation. How do their associations monitor government activity? What lobbying do they do in support of favorable public policies? What legal remedies do they pursue when official rules are applied arbitrarily?

The third set of unexplored issues concerns perceptions and attitudes of African bureaucrats and politicians, not just business leaders. Accordingly, this research project is expanding the survey to include representatives of the public sector. It will assess the extent to which these participants in policy debates see the world differently than business people. Do they communicate with the business community? Do they share similar views about the needs of business and the economy? What gaps exist between the top of government agencies and workers in the field?

This project will illuminate several poorly understood but critical aspects of economic policy reform in Africa. The questionnaires are currently being administered in the eight host countries. The Cambridge-based staff will be analyzing the data this summer, and local researchers in four of the countries will analyze in greater detail the relevant data for those sites. Each participating country also has a research supervisory team to ensure that the findings of the Perceptions study are presented to local policymakers and opinion leaders.

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President Clinton Addresses U.S. Gathering of AFRICAN MINISTRIES

A major intergovernmental conference, which brought together ministries from 46 African countries and their U.S. counterparts, was hosted by the United States on March 15 to 18, 1999. Initially intended as a follow-up to President Clinton's trip to Africa a year ago, the event created impetus for passage in 1999 of the Africa Growth and Opportunity Act to enhance African access to U.S. markets. President Clinton addressed the gathering, as did United Nations Secretary General Kofi Annan, Organization for African Unity (OAU) Secretary General Salim Salim, Secretary of State Madeleine Albright, and Assistant Secretary Susan Rice.

President Clinton stressed his desire for a new positive relationship based on partnership between the U.S. and Africa. Since his trip to Africa, he indicated that the U.S. had been encouraged by successful elections in Nigeria, but disappointed by wars in Congo, Sierra Leone, Angola, Sudan, Ethiopia, and Eritrea; ethnic conflict in the Great Lakes Region; and the terrorist attacks in Nairobi and Dar es Salaam.

He reported that his administration had moved forward with partnership in tangible ways, citing:

- **A $120 million educational initiative to link African schools to U.S. schools;**
- **The Great Lakes Justice Initiative to attack the culture of impunity;**
- **The Safe Skies Initiative to increase air links between Africa and the rest of the world;**
- **A $30 million contribution to food security in Africa, with more to come in 1999;**
- **Debt relief totaling $245 million this year, and a budget request before Congress for another $237 million in the year 2000;**
- **Shuttle diplomacy, $75 million in humanitarian aid, and a request to Congress to triple U.S. support to the Economic Community of West African States' Monitoring Observer Group (ECOMOG); and**
- **Military aid in the form of the African Crisis Response Initiative and $8 million in aid to the OAU's Conflict Management Center.**

The President's agenda for the immediate future stressed debt relief, passage of the African Growth and Opportunity Act, and appropriate increases in assistance. This Act passed in the House of Representatives in 1998, but stalled in the Senate. There was some opposition from textile-producing states fearing job losses. Proponents are seeking to get it passed in the Senate in the next few months.

Regarding debt relief, the President indicated that he is taking a new proposal to the G-7 Cologne Summit in June 1999. It would offer early relief by international financial institutions, which now reduce debt only at the end of the Highly Indebted Poor Countries (HIPC) program, ongoing forgiveness of cash flows by the Paris Club, forgiveness of all bilateral concessional loans to the poorest countries, and deeper and broader reduction of other bilateral debts. To avoid recurring debt, he will ask donor countries to commit to providing at least 90 percent of new development assistance on a grant basis. With the notable exceptions of military aid and economic assistance from the former Soviet Union and France, this is already being practiced.

U.S. policy was spelled out in a blueprint for a U.S.–Africa Partnership for the 21st century. The full document is available on the Internet at www.state.gov/www/regions/africa/blueprint.html.

Mr. Annan praised the conference for addressing all of the core issues for Africa: Integration into the world economy; trade and market access; debt relief; linked political and economic liberalization; good governance and transparency; and human capacity building. He urged African leaders to seize the opportunity to benefit from U.S. partnership, pointing to the success thus achieved over the last half-century by Europe and Asia.

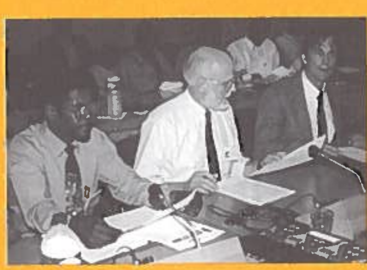
President Clinton's proposal includes early relief by international financial institutions..., ongoing forgiveness of cash flows by the Paris Club, forgiveness of all bilateral concessional loans to the poorest countries, and deeper and broader reduction of other bilateral debts.

Lucie C. Phillips of IBI is Senior Advisor for EAGER/Trade.

Roundtables Prompt Mali to Launch Studies, Committees to Spur ECONOMIC GROWTH

Highlights of the event include:

- **November EAGER/Trade roundtables presented results of studies of factors inhibiting Malian manufacturing, livestock exports, and rice exports**
- **To foster competitiveness in Mali's manufacturing sector, recommended research includes assessments of low Malian worker productivity; overall impact of new UEMOA agreements; and review of certain manufacturing subsectors and the transport sector**
- **Although Malian rice exports hold a comparative advantage, competitiveness is obstructed by high transport costs, scarcity of rice surpluses, and the need for classifying rice as an unprocessed commodity**
- **Malian livestock exports also have a relative advantage, but growth of this export depends on increasing production to meet demand; reducing transport costs; organizing exporters; and making animal health data available to stakeholders**



Djimé Adoum, Robert Young, and Robert Wieland, participants of the EAGER Country Workshop in Dakar, November 4-6, 1998.

EAGER/Trade held a very successful three-day series of roundtables in Bamako, Mali on November 17 through 19, 1998. Dirck Stryker, President of Associates for International Resources and Development (AIRD) and Chief of Party of EAGER/Trade, and Jeff Metzel and Abdoul Barry, both senior economists at AIRD, organized the series in collaboration with the Malian Ministry of Commerce, Industry, and Handicraft (MCIH) and the Groupe de Réflexion en Economie Appliquée et Théorique, headed by Massa Coulibaly.

The opening ceremony presented and disseminated the results of three studies which focused on Malian manufacturing, livestock exports, and rice exports, and was presided by Fatou Haidara, Minister of MCIH, and David Rawson, U.S. Ambassador to Mali and representatives of the United States Agency for International Development (USAID). The government-owned television and radio stations and private radio stations covered the ceremony, which was attended by nearly 100 Malian participants from both the public and private sectors.

The first roundtable focused on the study, "Manufacturing Competitiveness and the Structure of Incentives in Mali," whose principal investigator is Mr. Coulibaly. This study showed that the competitive performance of the Malian industrial sector is hampered by a host of factors, including poor management and an external environment that is hostile to firms. When Malian industrial firms were compared to those of Côte d'Ivoire, the study found that the lack of competitiveness of the Malian manufacturing sector in its domestic market can be attributed mainly to poor infrastructure, excessive taxation, poor delivery of public services (power and water), and an unproductive labor force.

After a very lively debate among Malian public and private policymakers, the first roundtable recommended undertaking the following:

- **Explore why the productivity of Malian manufacturing workers is relatively low;**
- **Assess the impact of the new Union Economique et Monetaire Ouest Africaine (UEMOA) agreements on the Malian economy, including Malian investment opportunities, manufacturing production, and government revenue;**
- **Review in depth the manufacturing subsectors in which Mali appears to hold a comparative advantage—i.e., textile and leather products; and**
- **Determine the fiscal burden on the transport sector.**

The second roundtable, held on November 18, focused on the results of the study, "Promotion of Malian Rice Exports towards the West African Regional Markets," whose principal investigator is Mr. Barry. This study showed that Mali's domestic markets hold a strong comparative advantage. Competitiveness of Malian rice in the large urban markets of coastal countries is hindered by high transport costs, however. Though Mali exports small quantities of rice to regional markets, its export potential is hampered by the lack of sizable rice surpluses in Mali and, more importantly, by the fact that rice is not classified among unprocessed commodities, enabling neighboring countries to tax Malian rice to protect their domestic production.

Because of the constraints identified by the study, the roundtable recommended the following initiatives:

- **Undertake a study of the constraints to private sector investment in the "Office du Niger;"**
- **Encourage the Government of Mali to negotiate listing rice as an unprocessed commodity with regional organizations such as UEMOA and Economic Cooperation of West African States (ECOWAS); and**
- **Launch a study to assess the fiscal and regulatory burden of the transport sector.**

The last roundtable concentrated on the livestock sector study by Mr. Metzel, "Prospects for Developing Malian Livestock Exports." Results of the study showed that Mali has a strong comparative advantage in livestock and that live animal exports are somewhat more profitable than exports of meat to coastal markets. Prospects for expansion of livestock and meat exports hinge on intensifying production to meet increasing domestic demand, lowering transport costs between Mali and coastal markets, organizing ex-porters, and putting at their disposal all animal health information and regu-lations required by importing countries.

The roundtable made the following recommendations:

- **Launch a study to assess the fiscal and regulatory burden on the transport sector;**
- **Undertake a study of the cottonseed cake market to reduce policy distortions;**
- **Undertake a feasibility study of frozen meat exports to coastal and overseas markets;**
- **Better organize animal and meat exporters; and**
- **Negotiate animal health accords with importing coastal countries and make information available to the livestock subsector stakeholders.**

The EAGER/Trade roundtables yielded tangible recommendations endorsed by the MCIH. As a result, the Malian Government took steps to initiate actions that included drafting an action plan in each of the three study areas and launching new studies to explore: Factors inhibiting trade and investment in Mali; fiscal burden on the Malian transport sector; prospects for developing Mali's textile/garment industry; policy reform in the oilseed industry; and constraints to private sector investment in the "Office du Niger." The Government also established steering committees to identify constraints in other subsectors of the Malian economy. Each committee comprises major public and private stakeholders of the subsector, and meets on a regular basis to design concrete action plans to help make the Malian economy more competitive and put it on a sustainable growth path. Thus, this objective of the EAGER Project, which the Government, USAID, and the donor community now share, is being institutionalized and ownership is being assumed by the Malians.

The roundtables have proven to be an effective dissemination strategy for EAGER results. They mobilized Malian public and private policymakers around a central theme of common interest and generated lively debate centered on bringing about the necessary policy reforms for a more competitive economy. To yield maximum benefits, however, roundtables need to be complemented by more frequent contacts with different stakeholders. To heighten these benefits, the right mix of participants dedicated to sustainable economic growth must be selected and research topics of major concern to both public and private policymakers must be chosen. This is the role of the Policy Advisory Committee, which has done an outstanding job in Mali, thanks to Chairperson Mrs. Nafissatou Konaré and her dedication to achieving EAGER objectives.

Abdoul Barry (abarry@aird.com) has worked on EAGER/Trade studies in Mali and in Sahelian and coastal countries.

Increasing Labor Demand and PRODUCTIVITY in Ghana: Preliminary Findings

Research into factors impacting Ghana's employment growth and productivity was recently concluded by George Gyan-Baffour's EAGER/PSGE study. Preliminary findings suggest that, while productivity and demand for labor are influenced by firms' production functions and technologies used, exogenous factors such as labor laws and regulations also contribute significantly.

Labor productivity in manufacturing is lower in Ghana than in competitor countries. At the same time, Ghana's formal sector employment has grown very slowly, if at all, during the last decade. In examining the causes of these two observations, researchers asked whether there is a causal connection between low productivity and retarded growth of formal sector employment and, if so, what policies could enhance productivity and thereby accelerate employment growth.

The results of the study were derived from two data sets. The first was panel data from the annual returns of manufacturing firms covering five industries over a period of ten years between 1975 and 1985. The second set was survey data collected in 1996.

Five primary conclusions were reached. First, it was found that a major determinant of employment in firms, holding gross output constant, is the average wage paid to the total workforce, excluding management. As expected, the higher the average wage, the smaller the workforce for a given value of output.

A disaggregation of labor suggested that firms studied tend to substitute skilled for unskilled labor when there is an increase in the wage of unskilled labor and vice-versa. Data also showed, however, that the rate at which skilled labor is substituted for unskilled labor when the wage of unskilled labor rises exceeds the rate at which unskilled labor is substituted for skilled labor when the wage of skilled labor rises.

This implies that an increase in the minimum wage rate will result in the substitution of skilled for unskilled workers more than the substitution of unskilled for skilled workers, generated by an increase in the wage of skilled workers. The policy implication is that minimum wage hikes have a tendency to increase employment of the higher-paid skilled workers, with an associated increase in production cost. Unless the use of more skilled workers results in higher productivity, the higher cost of production may have to be absorbed by the firms or passed on as higher prices to consumers. Either case may make the firms less competitive.

The second finding suggests that a firm's demand for labor is significantly influenced by how the firm is operated. For instance, firms that produced near-capacity employed more workers than those operating well below capacity when gross output was held constant. The ability of firms within a given industry to operate at levels of capacity higher than competitors depends on the resourcefulness of the firms' management. The policy implication of this finding is the benefit of increased training of current and future managers.

Third, researchers discovered that the managers' propensity to hire more labor is in large measure constrained by two different and unrelated factors: (1) access to affordable long-term credit, and (2) labor laws that make it difficult to fire workers. Policy implications here are self-evident, for one must bear in mind the trade-off between enhanc-

Study highlights include:

- In Ghana, a firm's productivity is influenced by internal components (e.g., technology) as well as by outside factors (e.g., labor laws)
- Minimum wage increases tend to boost skilled labor employment; decrease employment of unskilled workers; and raise production costs, impeding many firms' competitiveness
- Increased training of managers and investment in newer equipment can positively impact productivity
- A firm's skilled–unskilled ratio corresponds with total employment per unit of output
- A company's access to affordable credit and laws that ensure employee job security can impact the firm's ability to hire labor

ing job security and increasing formal-sector employment.

Fourth, the study confirmed that higher-productivity firms in a given industry tend to have larger gross output, pay higher wages to production workers, and use relatively more capital-intensive technologies.

Further analysis showed that differences in value added per worker between high and average productivity firms as well as between average and low productivity firms correlate positively with differences in the wage rate, scale of operation, capacity utilization, and capital labor ratio.

These findings suggest that to increase value-added per worker in Ghana, firms have to pay workers better, take advantage of economies of scale, operate at higher capacity levels, and deploy relatively more capital-intensive technologies.

Policy objectives should help firms compete by supporting expansion of their markets through productivity enhancement, while increasing their level of employment over the long term. Consequently, policy should encourage investment in technologies with moderate intensities in both capital and skills, which will ensure the competitiveness of unit costs of Ghanian firms with producers elsewhere, and simultaneously generate more employment.

George Gyan-Baffour, Ph.D. (baffg@aol.com) is Assistant Professor of Management at Howard University and the principal investigator of this EAGER/PSGE study.

All-Africa Conference RESCHEDULED for OCTOBER in Botswana

The EAGER All-Africa Conference has been rescheduled to take place at the Bostwana Conference and Exhibition Center, Gaborone, Botswana on October 18–20, 1999. The United Nations Economic Commission for Africa (UNECA) has graciously agreed to co-host the conference.

USAID will fund expenses for 100 African participants and it is expected that other organizations will fund additional participants from Africa and abroad. A number of South African policymakers and researchers who are new to the project will attend.

Participants will discuss key policy issues relating to the promotion of growth and equity in Africa, particularly those issues influenced by the findings of EAGER research. Session themes will not be limited to specific EAGER study topics, however.

Issues that remain to be decided include an overall conference theme; individual session topics; conference format; and invitees. A preparatory committee comprised of a majority of African members has been formed to provide input into these matters.

EAGER welcomes feedback from all colleagues associated with the EAGER network, and will host an open Internet discussion on the outstanding conference issues. Please forward suggestions to Lisa Matt (lmatt@EAGERproject.com) or Selina Pandolfi (spandolfi@aird.com).

USAID Dakar Economist Kifle Negash with BHM's Djimé Adoum at the Dakar EAGER Country Workshop.

HOUSTON TRADE SUMMIT
Features NOTABLE African and U.S. LEADERS

The Corporate Council on Africa's summit on trade and investment with Africa brought together several hundred top corporate and government leaders from the U.S. and Africa. Held in Houston on May 24 to 28, 1999, the event focused on policies and business ideas that may stimulate African economic growth and trade with the U.S. Houston was chosen as the venue for this year's event because of the importance of petroleum in U.S.–African investment.

Similar to a very successful premier summit in Virginia in 1997, the event presented distinguished speakers at lunches and dinners and several days of educational panels and small meetings on specific projects. Presidents, vice presidents, and prime ministers from ten African countries participated, together with the top executives of Economic Community of West African States (ECOWAS), Southern Africa Development Community (SADC), Common Market of Eastern and Southern Africa (COMESA), West African Monetary Union (WAMU), African Development Bank (AfDB), African Export–Import Bank, United Nations Development Programme (UNDP), United Nations Industrial Development Organization (UNIDA), two U.S. members of Congress, three Cabinet members, and the U.S. Trade Representative.

Participants also included heads of United States Trade and Development Agency (USTDA), the EXIM Bank, and Overseas Private Investment Corporation (OPIC), those responsible for Africa in the Department of State and USAID, and about 50 African Ministers.

The Corporate Council on Africa is a non-profit, non-partisan membership organization of American corporations and individuals that are committed to developing the African private sector and strengthening the commercial relationship between the United States and Africa.

EAGEReport

ISSUE 12 / AUTUMN 1999

IN THIS ISSUE

EAGEReport Special Issue:

A Compilation of EAGER Research by PSGE and TRADE Teams

Articles in *EAGEReport* Issue 12 summarize current and completed research by EAGER teams, and demonstrate the collaborative efforts of African and U.S. researchers in identifying and developing approaches to many critical economic issues confronting African nations. This presentation of research findings complements the agenda of the October 18–20 All-Africa Conference, "Africa in the Third Millennium: Trade and Growth with Equity." The Conference, hosted by the United Nationals Economic Commission for Africa and USAID at the Botswana Conference Center in Gabarone, brings together researchers, policy-makers, and stakeholders for thoughtful, creative discussion of more than a dozen broad topics.

Topics of All-Africa Conference Break-Out Sessions

The following topics, grouped under three primary themes, will be discussed in the break-out sessions on October 19 and 20. Articles in this newsletter are keyed to many of these agenda items.

Public Policies for Accelerating and Sustaining Growth and Development

1. Implementing and Managing Post-Reform Growth Policy: The Role of Leadership
2. Developing African Financial Markets
3. Public Sector Saving and Debt Reduction
4. Reducing Poverty by Expanding Employment
5. Economic Impact of HIV/AIDS

Expanding the Private Sector

1. Overcoming Barriers to Increased Productivity and Competitiveness
2. Opportunities for African Trade and Investment, Foreign and Domestic
3. Strengthening Family-Owned and Other Local Businesses
4. Enhancing Corporate Governance: Transparency and Accountability

Africa in the Global Economy

1. Lessons for Africa from Recent Asian Experience
2. Implications for Africa of Initiatives by the WTO, EU, and U.S.
3. Reducing Barriers to Cross-Border Trade in Africa
4. Regional Integration and Cooperation in Africa

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EAGER—Equity and Growth through Economic Research—supports economic and social science policy analysis in Sub-Saharan Africa (SSA). A six-year project recently extended to enable research to be completed and the results adequately disseminated, EAGER is sponsored by the U.S. Agency for International Development's (USAID) Office of Sustainable Development in its Bureau for Africa.

EAGER's primary objective is to increase the availability and use of research by decision-makers in both the public and private sectors to promote the adoption and implementation of policy reforms that foster rapid, equitable, and sustainable growth. The research addresses two key constraints that inhibit the implementation of more appropriate policies. First, EAGER seeks to expand indigenous capacity in SSA countries to undertake policy analysis, and then attempts to improve the positive impact of the analysis on economic performance.

EAGER policy analysis is guided by two basic principles. First, outstanding American and African institutions and analysts work side-by-side on collaborative investigative teams. Second, stakeholders and decision-makers are involved in selection, design, implementation, and dissemination of EAGER research.

EAGER research activities are comprised of the following two components:

- **Public Strategies for Promoting Growth and Equity (EAGER/PSGE), implemented by the Harvard Institute for International Development (HIID)**
- **Trade Regimes and Growth (EAGER/Trade), implemented by Associates for International Resources and Development (AIRD)**

EAGER also provides capacity building for African-based policy analysis, including support through institutions such as the African Economic Research Consortium, the Secretariat for Institutional Support for African Economic Research, the Programme Troisieme Cycle Interuniversitaire en Economie, the Reseau de Recherche sur Les Politiques Economique, and the African Regional Program of the International Center for Economic Growth.

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Interested in learning more about the EAGER Project? Visit our website at www.EAGERPROJECT.com.

Post-Reform Growth Policy:

The Role of Leadership

An important subtheme in the studies conducted under EAGER/PSGE has been charting the progress or regression of economic reform. It is widely believed that, had reform been implemented and sustained at the time that the economies of Africa began experiencing serious economic imbalances, the course of development history across the continent would have been different. Instead of lamenting the consequences of economic stagnation and decline, observers would be trying to explain the "African miracle." Instead of worrying how to rescue African countries from unsustainable levels of external and internal debt, they would be debating how to sustain Africa's "emergence" and avoid setbacks such as the 1997 Asian crisis. Why didn't this scenario materialize?

Lamentably, with the exception of Mauritius, no African country has sustained an economic reform program. Every government has engaged in some form of recidivism; many have abandoned reform efforts altogether, only to revive them in the face of threatened or actual cuts in donor support or a major crisis, such as the 1992 drought in southern Africa. At the same time, no African country has benefited from abandoning economic reform. Most have sought to rationalize their defection or abandonment of reform in terms of the high costs of adjustment, but few have paid adequate attention to the even higher costs of not adjusting. These costs are evident in stagnant real GDP, declining real per capita income, excessive levels of debt, capital flight, currency substitution, and general decline in social welfare.

Working within the framework of EAGER/PSGE's "Restarting and Sustaining Growth and Development in Africa" study,[1] researchers asked why, in the face of such economic devastation, African leaders have not done more to eliminate these costs. Specifically, they wondered why African leaders (unlike their Asian counterparts in the 1960s and 1970s) did not ensure that economic reform, once adopted, would be sustained. Their interest was further stimulated by a *SAIS Review* paper that argued Africa was "on the move" largely because of a "new generation of African leaders" who were "committed, qualified, and nonideological."

A literature search and discussion at several seminars suggested that the dominant paradigm with which political scientists analyze policy reform—namely, interest group theory—does not deal with the question of leadership. Nor could it do so, given its basic assumptions. In their paper "Policy Reform and Growth: The Role of Leadership," the authors inquired:

- **How significant have been the changes in leadership in Africa over the past decade?**
- **What role has leadership had in determining an African country's prospects for improved economic policy to accelerate and sustain rapid economic growth?**
- **If good leadership does raise growth, what preconditions will enable bringing about more effective leaders?, and**
- **What further steps might be taken so that African leaders will promote policy changes favoring rapid growth?**

Data on chief executives in 48 African countries recorded on January 1, 1979, 1989, and 1999 showed a remarkably stable pattern. In 22 countries, the same individual was in power in 1989 and 1999. In eight of these cases, he already held power in 1979 (the list contains no women). Furthermore, when researchers excluded countries in the midst of war or civil strife or under the sway of a warlord, the list of countries to which the Madavo/Sarbib hypothesis of improved leadership could apply was substantially narrowed.

Examination of countries such as Ghana, Kenya, Zambia, Benin, Congo-Brazzaville, Senegal, and Uganda did not reveal a "new generation of ...leaders" who had their countries "on the move." (Uganda is widely seen as an exemplary reformer, but its president came to power in January 1986.) Botswana and Mauritius are regularly cited as cases where economic policy has succeeded.

CONTINUED ON PAGE 5

...No African country has benefited from abandoning economic reform. Most have sought to rationalize their defection or abandonment of reform in terms of the high costs of adjustment, but few have paid adequate attention to the even higher costs of not adjusting.

[1] Clive Gray and Malcolm McPherson of HIID were principal investigators for this study. The *SAIS Review* paper was the Summer-Fall 1997 edition by Callisto Madavo and Jean-Louis Sarbib, Vice Presidents for Africa at the World Bank.

Credit and Repayment Schemes Affect Development of Financial Markets in Senegal, South Africa, Tanzania, and Ghana

The process of "financial deepening" enhances welfare and stimulates economic growth by reducing transaction costs of channeling funds from individuals and organizations with spare resources to those with short-term liquidity or investment needs. Three EAGER/PSGE studies have examined current shortcomings in financial markets and ways of overcoming them.

Eric Nelson, formerly of Development Alternatives, Inc. (DAI) and now with the World Bank, coordinated a study on financial intermediation for the poor in Senegal and South Africa. Research took a different direction from the traditional look at micro-credit, which examines vehicles for transferring funds from public and foreign sources to low-income communities. Instead, collaborators Ahmed Ndour and Aziz Wané of the consulting firm REMIX in Senegal, and Nick Vink, Mohammad Karaan, and Catherine Cross of Stellenbosch University in South Africa, identified the need to develop a deposit-credit circuit within the communities themselves. While some members of the population are seeking credit to address investments or short-term liquidity needs, others have surplus funds which they would make available locally if assured adequate security and returns.

Senegalese researchers highlighted the detrimental effect of laws and regulations created to protect borrowers from usury by establishing an interest rate ceiling linked to the central bank rediscount rate. Because this interest rate ceiling is set below levels that would allow institutions to cover costs of financial transactions involving small economic agents, those agents remain underserved by formal financial institutions. Charitable organizations, however, are permitted to establish in rural areas lending and deposit-taking facilities which make loans at interest rates that exceed the ceiling. Some of these facilities have been very successful. Catholic Relief Services, for example, operates a scheme whose repayment record is 100 percent. But such bodies can serve only a fraction of Senegal's 13,000 villages.

The research report notes that low-income borrowers who lack collateral expect to pay their neighbors interest rates above those charged by commercial banks. Far from protecting borrowers, governmental imposition of uneconomic ceilings can prevent development of private financial institutions capable of serving a significant share of the population.

South African research showed that all micro-credit schemes currently operating in the country are heavily dependent on subsidies, and therefore identified a need to explore the feasibility of village banks that could recycle local deposits. Bank operation would be similar to their counterparts in Senegal, but rather than dealing with client groups organized like the *tontines* (rotating credit and savings associations) in that country, banks would interact with individual borrowers.

The EAGER project evaluation, released in February 1999, found that the South African case study has already influenced the policies of two development banks in poor rural provinces. They no longer encourage subsidized lending with poor repayment rates and instead focus on deposit mobilization and transfer services for the poor, which complements but does not replace the lending that will no longer be subsidized. Results of these local experiments are being monitored by board members of the national agricultural bank. Closure of rural branches of the Post Office banks (Postbank), under consideration by policymakers at the time of the fieldwork, is now being reconsidered, in part due to the study analysis.

To examine the link between capital market development and economic growth in Tanzania, co-principal investigators Sam Ziorklui of Howard University and Abdiel Abayo of the Economic and Social Research Foundation drew data from 60 enterprises. The study sought to determine:

- **The structure of key capital market intermediaries;**
- **Impediments to capital market development;**
- **The role of financial sector reform in capital market development;**

Senegalese researchers...(established) an interest rate ceiling linked to the central bank rediscount rate. Because this interest rate ceiling is set below levels that would allow institutions to cover costs of financial transactions involving small economic agents, those agents remain underserved by formal financial institutions.

- **The effect of regulation/supervision on capital market development;**
- **Prerequisites for establishing and deepening the stock market in Tanzania; and**
- **Promotion of regional capital markets to attract foreign capital.**

The study recommends development of a major education and information program to familiarize individuals and firms with stock exchange operation. There is also a need to strengthen the "credit culture" in Tanzania. Long battered by sloppy procedures and arbitrary behavior of state-controlled credit agencies, credit morality throughout Tanzania is low and a major constraint for new entrants. The study also calls for existing financial enterprises to establish venture capital funds in support of start-up operations. Finally, the analysis affirms a major lesson emerging from other EAGER/PSGE research: Capital market development requires macroeconomic stability grounded in prudent fiscal and monetary policy.

In a related study, Dr. Ziorklui and staff of the University of Ghana Economics Department (principally Professor K. Osei) examined the impact of financial sector reform on bank efficiency and financial deepening in Ghana. The study took its direction from the Financial Institutions Sector Adjustment Program (FINSAP), a donor-supported activity that began in 1988. Using surveys and econometric analysis, the research team:

- **Identified the remaining reforms needed to overcome constraints to raising bank efficiency and the mobilization of savings;**

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Post-Reform Growth Policy:

The Role of Leadership

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As well-established democracies, neither country needed a new generation of pragmatic, accountable leaders. Nevertheless, both recently went through smooth transitions of national leadership, Botswana in 1998 and Mauritius in 1995.

Research is attempting to determine how to find leaders who will promote growth and development, and what changes are needed in present systems to foster them. Given the failure of interest group theory to highlight the issue of leadership, the EAGER/PSGE study draws on the "Great Man Theory of History." The theory sees the course of history (or at least major segments of it) as determined by the random appearance of "visionary" leaders, who rally political support from interest groups and the population at large to move the economy forward. How can "visionary" leadership accelerate growth in Africa?

The Asia experience offers one answer to this question. Korea, Malaysia, and Singapore have shown that strategic intervention by national leadership can energize domestic entrepreneurial talent, increase an economy's attractiveness to foreign investors, and help make entry into export markets profitable. The argument that no African economy can sustain growth without policies that stimulate and reorient activity towards the global economy by, for example, promoting exports of labor-intensive manufactures is contrasted by these experiences.

To promote these policies, a "visionary" African leader would eschew the personal rent-seeking that is now ubiquitous. When there is corruption at the top, it permeates all branches of government and layers of society. Moreover, a visionary leader would identify a manageable set of measures essential to sustain reform, and would pursue them vigorously.

Few guidelines were discovered for fostering visionary leaders. Leaders are products of existing social and political structures that are notoriously resistant to change. Notwithstanding a rich literature on leadership, economists' perspective on the issue is limited and, so far, they have found few answers.

Outsiders can help the process by withholding support from African leaders who epitomize anti-growth policies and behavior. They can reinforce this by actively supporting agencies such as Transparency International (TI), currently the main international voice against macro-corruption in low-income countries. They can also help by making the reform agenda more manageable, encouraging African countries to formulate and implement "aid exit" strategies, ensuring that aid is used to its maximum efficiency, working directly with African reformers, and helping civil society to demand higher performance from its leaders.

Research concludes that:

- **Shortcomings of national leadership in economic policy represent a highly relevant issue in Africa;**
- **The relative dearth of pro-growth leaders has been and continues to be extremely costly to the populations of most African countries; and**
- **This dearth is an issue that merits research going beyond traditional interest-group analysis.**

This article was co-authored by Clive Gray (cgray@hiid.harvard.edu) and Malcolm McPherson (mmcphers@hiid.harvard.edu).

PUBLIC SECTOR SAVINGS and DEBT REDUCTION Contribute to Economic Growth, Stability

To raise investment and economic growth and reduce national debt, increased national saving among African countries is an imperative. African governments that incur operating budget deficits, however, do not contribute to public or private national investment.

EAGER/PSGE's five-country study, "Restarting and Sustaining Growth and Development," is paying considerable attention to how to improve domestic saving. There are two ways of increasing saving: Raising income and reducing consumption. Evidence emerging from the study shows that increased saving helps reduce inflation, ease the debt burden, raise productivity, and contribute to macroeconomic stability and sustained economic growth.

In addition, EAGER/PSGE has conducted three studies exploring means of improving tax systems to raise public sector income with a minimum of adverse impact on producer incentives. Research has not so far addressed issues of magnitude and efficiency of recurrent public expenditure.

The first study[1] addressed the issue of enhancing transparency in tax administration. Considering means of improving tax compliance, the transparency study hypothesized that regular, systematic analysis of modes and levels of noncompliance, followed by dissemination of the findings, would create incentives for taxpayers to increase compliance and for the authorities to improve enforcement of tax laws. Noting that Madagascar's 1994 tax revenue/GDP ratio of 8 to 9 percent was among the lowest in Africa, the study in that country estimated that an average of 60 percent of levies due under the major tax instruments was evaded in 1994. Estimated individual tax evasion rates ranged from 29 percent for import taxes to 94 percent for non-wage income tax.

Two key recommendations of the Malagasy report were that the tax administration conduct or commission similar research annually and publish the findings, and that government publish the names of major tax defaulters and recipients of discretionary exemptions. An April 1998 workshop that followed release of the report seconded its findings, and within a matter of weeks several pages of names of defaulters and recipients of exemptions appeared in the Antananarivo press.

Tanzania's 1997 revenue/GDP ratio of 12.3 percent, while higher than that of Madagascar, was still below the average for Sub-Saharan Africa. Taking a sample of income tax returns, EAGER researchers in Tanzania found underdeclaration of income to be typically in the 30 to 45 percent range. Import taxes are also widely evaded through abuse of discretionary exemptions as well as underinvoicing of imports, notwithstanding the requirement for pre-shipment inspection by multinational monitors. Despite an average scheduled tariff rate around 20 percent, collections during 1988–95 ranged between 6 and 12 percent of declared value.

A number of policy recommendations from the Tanzania and Madagascar studies overlap. In addition, Tanzanian researchers call for paying informants a percentage of monies collected from evaders on the basis of information received, and for proceeding more forcefully against corrupt tax officials. Rather than simply firing them, the study recommends confiscating assets acquired through bribery.

The second study,[2] which focused on excise taxes, found that African countries differ significantly in the coverage and levels of excise taxes. The researchers reviewed general

Findings of these EAGER/PSGE studies include the following:

- **Actual tax collections in most African countries are far less than the amounts due because of poor tax law enforcement and tax evasion.**
- **The Malagasy report recommends annual assessments of the level of tax evasion and publications of the names of major tax defaulters and recipients of discretionary exemptions. Tanzanian researchers suggest paying informants a percentage of monies collected from evaders and proceeding more forcefully against corrupt tax officials.**
- **The excise tax study developed and applied to several countries and products a methodology for estimating the revenue-maximizing rates of excise tax, based on elasticities of demand for the products in question and cross-elasticities between those products and close substitutes for them.**
- **The third tax study considered how international experience in property taxation might improve the effectiveness of this tax in South Africa. The study focused on applying CAMA to update tax valuation rolls and extend coverage to previously exempted areas, such as tribal and rural property. Research found that CAMA could rapidly improve equity, efficiency, and revenue yield.**

principles that might be applied to design these taxes in more economically beneficial ways. The study developed and applied to several countries/products a methodology for estimating the revenue-maximizing rates of excise tax, based on elasticities of demand for the products in question as well as cross-elasticities between those products and close substitutes for them. For example, it was found that in Madagascar the tax on rum was close to its revenue maximum, while motor fuel offered potential for a significant increase in revenue, provided that taxes on gasoline and diesel were raised together. The findings were discussed at a September 1998 workshop.

South Africa's government views property tax as the main instrument for strengthening the financial base of local government and therefore the latter's role in economic and political governance. The third EAGER/PSGE tax study[3] considered how international experience in property taxation might help rationalize this tax in South Africa and make it more effective. In particular, the study focused on applying computer-assisted mass appraisal (CAMA) to update tax valuation rolls and extend coverage to previously exempted areas such as tribal and rural property.

Field work was conducted by staff members of the Cape Town, Rustenburg, and Bloemfontein local authorities, and the latter two areas included rural environments. Research found that CAMA was a useful means of rapidly improving equity, efficiency, and revenue yield. Data were available and could be supplemented as necessary by market proxies. Research findings were presented at two seminars held at the Department of Constitutional Development (DCD), Pretoria, in May 1999. Arising from the study, Cape Town is now conducting an interim update of its valuation roll.

Two shortcomings of public finance in nearly all African countries are (1) underfunding of social services due in part to weakness of local authority finances, and (2) the fact that income from real property largely escapes the tax net. A follow-on project to EAGER might usefully apply the results of the South African study to other countries. The expenditure side of public saving might also be addressed in future studies within an EAGER-type framework.

This article was written by Clive Gray (cgray@hiid.harvard.edu).

[1] Clive Gray of the Harvard Institute for International Development (HIID) and Satish Wadhawan of Howard University acted as principal and co-principal investigators, respectively, for the first study. Research teams in Madagascar and Tanzania, led by Prof. Pépé Andrianomanana of the University of Antananarivo and Prof. Nehemiah Osoro of the University of Dar es Salaam, conducted field research in the two countries.

[2] The excise tax study was coordinated by Jonathan Haughton of Suffolk University and HIID. Profs. Andrianomanana and Osoro once again led research teams in Madagascar and Tanzania, while Andrew Okello and Seth Terkper conducted shorter studies in Kenya and Ghana.

[3] The third EAGER/PSGE tax study was coordinated by Roy Kelly of HIID in close collaboration with the RSA DCD.

Credit and Repayment Schemes Affect Development of Financial Markets in Senegal, South Africa, Tanzania, and Ghana

FROM PAGE 5

- **Determined the banks' reactions (positive and negative) to financial reform;**
- **Described regulatory changes to promote efficiency and mobilize savings; and**
- **Identified public reaction (especially depositors) to the policies introduced as part of financial reform.**

Research indicated that there had been widespread positive response to financial reform. New banks were established, average deposit rates rose, volume of deposits increased, and financial deepening occurred. These positive effects, however, were dampened by continued macroeconomic imbalances and instability associated with public sector deficits. Real interest rates, though increased from pre-reform periods, remained negative. Confidence in the financial system remained low, reflected in steady depreciation of the cedi and widespread dollarization of the economy.

This research, like the study of Tanzania, confirms that financial reform must be supported by broader-based changes in macroeconomic management, including removing major imbalances and stabilizing the price level and exchange rate. In the absence of macroeconomic stability, financial and economic reform will continue to be compromised.

This article was co-authored by Malcolm McPherson (mmcphers@hiid.harvard.edu) and Clive Gray (cgray@hiid.harvard.edu).

Reducing Poverty by EXPANDING EMPLOYMENT

One of the most intractable problems in many African countries is finding ways to decrease poverty by expanding employment. Many potential workers are not fully occupied or have unproductive jobs. Agriculture is seasonal, the informal sector is more of a safety net than a means to earn higher incomes, and the urban formal sector does not absorb much labor because it is too capital intensive. What can be done?

The EAGER project examined this issue in two very different countries: Ghana and South Africa.

Findings of this EAGER project include:

- **Black unemployment in South Africa is in excess of 30 percent, whereas in Ghana, partial and disguised unemployment are the key problems. Labor productivity in both countries among unskilled and semi-skilled workers is low, but the prevalence of skilled workers and managers is much higher in South Africa.**
- **The Ghana study's primary recommendation is that policy should encourage investment in technologies appropriate for Ghana, avoiding high intensity in capital and skills. This should make for competitive unit costs, encouraging firms to expand and generate more employment.**
- **The South Africa study suggests ways to expand employment of the black population, including increasing overall growth rate so as to absorb more labor into the economy; accelerating growth in labor-intensive sectors; promoting smaller firms; increasing labor productivity through intensive training and education; and removing labor market distortions.**

Ghana is similar to many Sub-Saharan African countries in its large rural sector, relatively well-developed informal urban sector, and small and stagnant formal urban economy. Conversely, South Africa's labor market has been shaped by different considerations. Under apartheid, the black population's access to farmland and jobs in the formal sector was strictly limited, as was recourse to informal sector activities. Hence, black unemployment today is probably in excess of 30 percent, whereas in Ghana, partial and disguised unemployment are the key problems. Labor productivity in both countries among unskilled and semi-skilled workers is low, but the prevalence of skilled workers and managers is much higher in South Africa than in Ghana.

These two countries also have had different experiences with trade unions. In Ghana, unions played a relatively minor role, given the small size of the formal sector. Government was a much more important player in the labor market. In South Africa, trade unions in mining and manufacturing were an important channel for political organization among the black population, while the government was not a significant source of black employment. Thus, when the African National Congress came to power, trade unions could play a key role in shaping industrial and labor policy.

The Ghana study entitled "Increasing Labor Demand and Productivity" recognizes that, to increase demand for their products in the world market or by competing with imports, Ghanaian employers would have to lower costs by raising worker productivity without significantly adding to fixed capital.[1] Working with panel data covering the period 1975–85 and a 1996 survey, researchers found that firms tended to substitute skilled for unskilled labor following an increase in the latter's wage. The reverse was also true, but the rate of substitution of unskilled for skilled labor was lower. The policy implication is that raising the minimum wage increases the proportion of higher-paid skilled workers, leading to a rise in production costs which either must be absorbed by the firm or passed on in higher prices to the consumer. In either case, firms become less competitive and are less likely to expand employment.

Second, researchers found that firms' demand for labor is significantly influenced by capacity utilization. At a given level of output, firms producing near capacity employed more workers than those operating well below it. Operating at higher capacity levels than one's competitors depends on the resourcefulness of management, which highlights the benefit of increased manager training.

Third, researchers found that managers' propensity to hire labor is constrained by (1) access to affordable long-term credit, and (2) labor laws making it difficult to fire workers. Point (2) highlights the policy trade-off between enhancing job security and increasing formal-sector employment.

The study recommends that policy should encourage investment in technologies appropriate for Ghana, avoiding high intensity in capital and skills. This should make for competitive unit costs, encouraging firms to expand and generate more employment.

The South Africa study suggests a variety of ways in which employment of the black population can be expanded:[2]

- **Increase overall growth rate so as to absorb more labor into the economy: Real rates of interest have been kept high to deter capital outflow. The resulting high cost of capital has slowed economic growth and discouraged hiring.**
- **Accelerate growth in labor-intensive sectors such as services and small and medium-scale enterprises: Employment has risen in services and declined in primary and manufacturing sectors, partially due to both greater capital intensity of mining and manufacturing sectors and increased subcontracting of their service needs. Rising inter-industry demand for service inputs and income-induced demand for services will contribute to faster job growth. Conversely, due to fiscal pressures, growth of government jobs, hitherto the fastest-growing service sector, cannot be sustained. Size distribution of firms also affects employment prospects. Analysis of a provisional input-output table for 1995 showed small enterprises to be on average more employment-intensive and generate more GDP per job than large ones. Backward linkages enhance the relative employment intensity of small enterprises still further. Thus, a strategy of promoting smaller firms should result in increased employment.**
- **Increase labor productivity through more intensive training and education: Analyses of firm-level data show that larger firms tend to employ workers from historically disadvantaged populations in semi-skilled positions, while smaller firms have a larger percentage of white professional employees. Because they are more subject to restrictive labor practices and wage and benefit agreements for permanent labor, however, larger firms are also more likely to use temporary and casual labor. Depsite this fact, formal training of newly recruited production workers is more likely in larger firms, though smaller firms may engage in informal on-the-job training. Results suggest that a relatively small increase in the absolute level of training expenditures could have a very positive impact on employment.**
- **Remove labor market distortions such as incentives for capital-intensive investment, artificially established wages and benefits, and costly regulations: Average wages and benefits impact employment negatively, yielding elasticities anywhere from -0.66 to -0.85. This suggests that upward pressure on wages and benefits depresses employment significantly.**

The corollary that unemployment could be reduced by decreasing wages and benefits ignores realities of South Africa's labor market—even aside from the role of the trade unions. Even informal sector wages are higher than in countries such as Madagascar and Bangladesh, where labor-intensive exports such as clothing could easily compete in the South African market in the absence of tariff protection. The same is true regarding wages in neighboring countries, which results in migration to South Africa. This large wage differential in the informal market may relate to supply side factors such as the high cost of basic wage goods; the reservation wage set by welfare and pension payments in South Africa; and high profits from widespread crime.

The correlation between employment and poverty alleviation in South Africa, though high, is far from 100 percent. The relationship between household income and employment is complex. Recent household surveys revealed a remarkable diversity of situations regarding employment, union membership, and dependency status across members within each household. Thus, it is not yet clear whether poverty can be alleviated by reducing formal sector wages as part of a strategy of raising employment.

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[1] For this study, George Gyan-Baffour and Charles Betsey of Howard University served as co-principal investigators, with Kwabia Boateng and Kwadwo Tutu of the University of Ghana and Anthony Osei of the Ghana Center for Policy Analysis.

[2] Dirck Stryker (AIRD), principal investigator, has been working with Fuad Cassim and Balkanapathy Rajaratnam (University of Witswatersrand), and Haroon Bhorat and Murray Leibbrandt (University of Cape Town).

The INSTITUTIONAL IMPACT of HIV/AIDS in Africa

Africa's HIV/AIDS pandemic is consuming vast resources, undermining economic growth, and reducing social welfare. Impacts are likely to worsen as the morbidity and death associated with HIV/AIDS intensify. The response thus far has focused on preventing (or slowing) the spread of HIV and developing basic treatments that—while not a cure—may sharply reduce death and disability.

The campaign has been costly. In many parts of Africa where rates of infection are orders of magnitude higher than in wealthy countries, costs are overwhelming. Some costs are obvious: Loss of able-bodied workers, medical treatment, funeral and related expenses, losses from worker absenteeism, costs of training replacement workers, and caring for orphans. Other costs, however, have received far less attention. These relate to the organizational disruption due to loss of personnel and changes in behavior and attitudes induced by HIV/AIDS.

HIV/AIDS, Organizations, and Institutions

How does a supervisor who himself might have HIV/AIDS, but is reluctant to face the issue, discipline subordinates who, after discovering their own infection, allow their job performance to deteriorate? How do overburdened organizations scale back their objectives and workload while losing staff to HIV/AIDS? What changes can be made by governments, private firms, foreign investors, and donor agencies to minimize opportunistic behavior of staff who are dying and for whom punishment is at worst an inconvenience? How do donor agencies anxious to help offset the depletion of human capital argue for drastic curtailment of public sector activity, in the interests of long-term growth and development?

The implications of these questions are poorly understood by both governments and donors. Social scientists seek to understand the "rules of the game" (i.e., institutions) and procedures and processes within organizations. Their insights have been useful in African countries where organizations have become dysfunctional due to over-extension of state control; the "personalized rule" of leaders such as Mobutu, Kaunda, Moi, Abacha, and others; and systems of accountability that favor interests of class and clan over those of the nation.

Reform programs, implemented with donor assistance, address these problems, but progress has been halting and slow. In several countries, major reforms have been reversed. Yet even without recidivism, progress towards economic and political reform is being compromised by the accelerating impact of HIV/AIDS.

Most African countries face a double bind. Just when they need strong organizations with coherent "rules of the game" to help repair the damage of years of economic decline, capacities are being undercut by losses and behavioral changes due to HIV/AIDS. How can the damage be contained in ways that do not aggravate pressures already facing these countries? How can loss of discipline and opportunism in the face of individual tragedy, skill depletion, declining morale, and rising inefficiency be addressed thoughtfully, compassionately, and effectively?

Just when most African countries need strong organizations with coherent "rules of the game" to help repair years of economic decline, capacities are being undercut by losses...due to HIV/AIDS. How can loss of discipline and opportunism in the face of individual tragedy, skill depletion, declining morale, and rising inefficiency be addressed thoughtfully, compassionately, and effectively?

Organizational Dysfunction

At its most general level, the problem is how to induce governments to deal with organizational dysfunction within their societies when the governments themselves are barely functional.

Perhaps the best known study of the problem of organizational "repair" is Albert Hirschmann's *Exit, Loyalty, or Voice.* His research emerged from questions about how organizations are repaired after a major deterioration in performance. The book's title summarizes the options.

The ideas are evident in organizational responses to the impact of HIV/AIDS. All but a very few have no "exit." Loyalty is evident in the current widespread "accommodation." One aspect of accommodation—denial—has been particularly destructive. For example, as South Africa was officially denying that HIV/AIDS was a problem, the disease reached major proportions. Another aspect of accommodation arises when HIV/AIDS sufferers avoid behaving in ways (apart from increased absenteeism) detrimental to their organization.

The equivalent of "voice" has two effects. First, HIV/AIDS sufferers begin acting in ways deleterious to the organization. This includes misappropriation of property to pay for medical treatment or finance anticipated funeral expenses. A constructive alternative is to modify the organization's structure, operations, and goals in ways that help maintain performance despite the effects of HIV/AIDS on staff. To date, such an approach has been infrequent. This reflects the general stigma associated with HIV/AIDS and lack of leadership in dealing with the pandemic and its effects. Lack of voice has allowed the damage to intensify.

To maintain organizational performance despite rising losses, fundamental changes in approach are required. Training horizons should be shortened and the material provided made more focused. Sustaining performance with declining staff capacity requires that organizational goals be modified. Some operations could be subcontracted and operational procedures simplified. Mechanisms to protect the organization against indiscipline and opportunism need to be developed. Outside supervisors could be appointed. As auditing is uniformly weak in Africa, external auditors could not only help update long overdue accounts but also help detect losses before they get out of hand. Another response is liquidation of dysfunctional entities and reassignment of their staff. Slow progress has been made in this area through privatization.

Technical Assistance, External Support, and Leadership

Other concerns include:

- **Technical Assistance (TA): In some situations, rising losses from HIV/AIDS create a need for additional TA. This should be closely matched to activities that support growth and development.**
- **Overloaded Development Agendas: Government development agendas, formally outlined in policy framework papers and policy action matrices, are too extensive and detailed given capacity limits. In effect, they pre-program failure. Agendas need to be drastically simplified.**
- **Leadership:[1] Lack of leadership has been associated with poor economic performance and even encouraged the spread of HIV/AIDS. Attacks on homosexuals by Mugabe, Museveni's claim that "western attitudes" are to blame, and the silence of many leaders have not helped ameliorate the effects of the disease.**
- **Looking Beyond the AIDS Pandemic: What sort of society and economy do African leaders envisage once the effects of the HIV/AIDS pandemic have subsided? What social, economic, and political organizations will help a nation resume its growth and development? What form can these organizations take, given present and expected disruption?**

It may seem premature to be looking ahead, but asking such questions serves to affirm that while individuals may not survive, nations do. Moreover, looking ahead is absolutely essential if the national leadership is to anticipate future constraints and opportunities.

A set of principles is needed to guide African countries when the worst of the HIV/AIDS pandemic has passed. These must include commitment to prudent macroeconomic management; downsizing and refocusing of public sector activity; promotion of a more democratic and open society; and reduction in aid dependence.

The problems created by HIV/AIDS are serious and the consequences horrific. Continuing to ignore its organizational and institutional aspects augments the tragedy. Further loss and disruption cannot be avoided, but a start in addressing them will signal hope that the suffering and damage will eventually end.

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[1] Gray and McPherson (1999) find that quality of leadership has been important in explaining poor economic performance in Africa.

OVERCOMING BARRIERS to Increased Productivity and Competitiveness

Given low per capita incomes in Africa, domestic or regional market demand is not large enough to support increased product output. But the expansion of the global market offers enormous market potential to new suppliers, if African business-people can take advantage.

Following a series of reforms during the past two decades, there has been a recent resurgence of economic growth in many African countries. Does this growth signify a change in how Africa does business, placing it in a position to integrate globally? More information is needed to answer this question:

- **Is economic growth due to using more capital and labor, or using them more efficiently (factor growth versus factor productivity growth)?**
- **Has the current mix of Africa's output departed from the traditional base of agricultural commodities and minerals to include higher valued processed foodstuffs, manufactures, and services?**
- **Are linkages being forged between African producers and global production networks that drive manufacturing operations around the world?**
- **Are Africa's directions of trade diversifying from the traditional routes based on former colonial linkages to a more complex web of regional and global markets?**
- **Is foreign investment in Africa moving beyond a handful of mineral-rich locations into a broader array of recipient countries and sectors? Is investment emanating from a wider array of African as well as foreign sources?**

Africa's poor economic performance has been attributed to macro-variables such as lack of investment, barriers to trade, limited financial depth, and weak fiscal policy;[1] geographic factors involving inhospitable climate and remote location; micro-variables including high risk, inadequate infrastructure, and legal and regulatory institutions; and poor leadership.[2] Further analysis of these factors will provide insights into what is hindering improvement in Africa's productivity and competitiveness.

There is also a need to better understand the private sector's perspective. For Africa's economies to succeed at global integration, managers and workers must seize global market opportunities by using capital and labor more efficiently, producing higher-valued differentiated products for global markets, connecting into global production and retail networks, and attracting investment from new sources and into new activities.

EAGER project research in Ghana, Madagascar, Malawi, Senegal, and Tanzania sought to determine the most important barriers to increased productivity and competitiveness in the private sector. One set of barriers is the wretched state of infrastructure development in many countries. Another consists of government regulations that hinder producers from responding quickly to changing market conditions. A third set arises from the slow pace of development of the institutions underlying a modern market economy. Finally, there is inadequate investment in human capital.

Poor infrastructure is cited repeatedly by firms as a major factor that is increasing costs and inhibiting expansion.[3] Electrical power and water are expensive and unreliable, necessitating back-up generators and groundwater pumps. Telecommunications are costly and unreliable, making it difficult to ensure timely delivery of exports. Transportation is another important problem, especially for interior countries such as Malawi.

Government regulations remain a significant constraint on business, though the situation has improved due to market liberalization. In Madagascar, the number of shifts that firms in the export processing zone can operate is constrained by government,[4] which undermines

Study findings include:

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- **EAGER research in Ghana, Madagascar, Malawi, Senegal, and Tanzania identified crucial barriers to increased productivity and competitiveness in the private sector as the wretched state of infrastructure in many countries; government regulations that hinder producers from responding quickly to changing market conditions; the slow pace of institutional development; and inadequate investment in human capital.**

their ability to compete on world markets. An EAGER study in Ghana uses tools of economics and law to examine how elected officials and public bureaucracy formulate and present legislation and develop rules that affect private sector activity.[5] Using as case studies Ghana's value-added tax and public utilities legislation, the study finds that the constitution and statutes encourage private sector participation in the legislative and regulatory process, but this is subject to considerable rigidity. Parliament lacks the means to analyze the economic impact of proposed legislation. The public sector is the major source of new laws, indicating that "voice" opportunities for the private sector are still poor. Third parties, such as bilateral and multilateral donors, have thus been those promoting legislation to support the private sector.

The slow development of the institutions necessary to support a modern economy is illustrated by an EAGER study in Tanzania.[6] The study tested the hypothesis that low-cost and impartial contract enforcement procedures, by enhancing system predictability, decreasing transaction costs, and restraining opportunism among contracting parties, provide a critical incentive for trade and exchange, thus facilitating economic growth. Based on a survey of Tanzanian manufacturing firms and a review of legal and policy documents, researchers found that Tanzanian law provides weak support for complex intertemporal transactions, a diversity of potential business partners, specialization, and use of commercial finance in supply relations between firms—all essential to realizing economies of scale and re-orienting marketing internationally. In practice, supply agreements emphasize long-term, repeated interaction with the same firm and are established through recommendation or personal connections. Problems are addressed through bilateral negotiation. Courts are generally avoided for fear of damaging business relationships or subjecting oneself to corruption.

Lack of investment in human resources also impacts productivity and competitiveness. Recent surveys comparing selection criteria used by U.S. firms to determine where in the developing world to manufacture suggests that, once adequate infrastructure and political stability are in place, labor market development makes a difference in attracting direct investment and commercial linkages. Workforce competitiveness requires training of management and skilled and unskilled labor. EAGER/Trade research on clothing sector competitiveness in South Africa highlighted several "best practices" with respect to workforce training, suggesting that innovative practices in training women sewing operators in multiple skills enhanced both the competitiveness of the firm by yielding more productive workers, and the workers' earning power.[7] Better trained managers were able to find market niches, use information technology to improve design and manufacture, and utilize creative licensing agreements to sell products abroad.

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1 J. Dirck Stryker and Selina Pandolfi, *Effects of Policy Reform on Investment, Trade, and Economic Growth in Sub-Saharan Africa*, October 30, 1999 examines the extent to which Sub-Saharan African countries are different from other countries with respect to the influence of these variables on investment, trade, and growth.

2 Clive Gray and Malcolm McPherson, *Leadership as a Factor in African Economic Growth*, EAGER/PSGE 1999.

3 This was revealed in surveys undertaken by Ndaya Beltchika (AIRD) and her African colleagues, Mabousso Thiam in Senegal (ACE), and Alimon Mwase (Millenium) and Paul Kwengwere (MIPA) in Malawi.

4 This finding is from a study of legal, regulatory, and judicial barriers to private sector expansion being undertaken by Ndaya Beltchika (AIRD), Emilienne Raparson (SOATEG), and Louis Rajaonera (JURECO).

5 The principal investigator of the Ghana study was Fred Boadu of Texas A&M University, on contract to EAGER/PSGE subcontractor MayaTech. Collaborating in Ghana were Seth Bimpong-Buta, director of the Ghana Law School, and Victor Nyanteng, deputy director of ISSER.

6 Patrick Meagher of the University of Maryland's IRIS Center served as principal investigator, collaborating with Sam Wangwe and Haji Semboja of the Economic and Social Research Foundation (ESRF).

7 Lynn Salinger, Haroon Bhorat, Diane Flaherty, and Malcolm Keswell, *Promoting the Competitiveness of Textiles and Clothing Manufacture in South Africa*, Final Report, 1999; Diane Flaherty and Lynn Salinger, *Learning to Compete: Innovation and Gender in the South African Clothing Industry*, 1999.

OPPORTUNITIES FOR African Trade and Investment

One component of the EAGER/Trade project has been exploring new opportunities for trade and investment in Sub-Saharan Africa (SSA). The research defined these opportunities in several ways:[1]

- **New products, which become feasible because of SSA's evolving comparative advantage and because new product opportunities are constantly being identified on global markets.**
- **New markets, as SSA moves away from its dependence on trade with western Europe and toward trade that is diversified both globally and within regional markets.**
- **New ways of doing business, where trade and investment are increasingly nurtured through subsidiary, partner, strategic alliance, and other off-shore commercial and investment relationships between sellers and buyers around the world, and where competition is shaped not only on the basis of traditional comparative advantage (i.e., lowest cost), but also by quality, timeliness, and attractiveness of design.**

Investment in and exports from developing countries have evolved out of the successive stages of economic development, stabilization, and liberalization experienced in these countries. When a country has limited infrastructure or is experiencing broad macroeconomic turmoil or substantial distortions in the exchange rate and other price incentives, interaction with the global market is often limited to physical export enclaves, where targeted infrastructure and incentives encourage exports and attract investment, often in basic primary products.

As a country's infrastructure improves, macroeconomy stabilizes, and economic reforms are introduced, broader segments of the economy are redirected toward international markets and investment begins to flow. In the last 15 years, many developing countries have implemented macroeconomic, trade, and market reforms, and multinational companies are now seeking new production platforms from a growing selection of countries able to compete on the basis of the political, social, and legal institutions offered, modernity of their infrastructure, and quality of their workforce.

For too long, Africa has exported primary commodities to traditional markets. But new opportunities are emerging for African exporters. One of the most obvious involves moving up the value chain from basic commodities to products requiring greater processing. Examples include production of cotton textiles or tanned hides and skins. Further processing of these goods could lead to production of garments, household textiles, footwear, and other leather goods. Another approach involves diversification towards higher value products such as horticultural and seafood products, which add value in the form of conditioning, packing, and transportation. Kenya has had considerable success in the production and export to Europe of vegetables and flowers.

Another avenue is the production of mass-market goods using labor-intensive techniques. Examples include garments and electronic assembly. Madagascar has been successful in developing a garment export industry. An alternative approach which has achieved some success in Ghana is the development of Afro-centric products, which are often of higher quality than the mass-market goods and appeal to particular tastes in a more exclusive market. Finally, new opportunities are evolving from creation of regional trade agreements such as the West

Study findings include:

- **Trade and investment opportunities in Africa are defined by EAGER research in terms of new products, new markets, and new ways of doing business.**
- **New opportunities for African exporters exist in many categories: Increasing value of products by moving from basic commodities to products requiring greater processing; production of mass-market goods using labor-intensive techniques; developing niche markets for Afro-centric goods; and creation of regional trade agreements.**
- **There may be industries in which vertical integration is feasible, but determining this requires careful analysis of comparative advantage and competitiveness at the sub-sector level.**

African Economic and Monetary Union. These agreements enable producers of goods consumed within Africa to achieve benefits of scale and specialization.

The EAGER project has addressed challenges and opportunities for African trade and investment in each of these areas.[2] Although increased value added through greater processing seems like a sensible idea, it may be difficult because of high capital costs. The international spinning and weaving industry, for example, is highly competitive and very capital-intensive, making it difficult to develop a vertically integrated cotton-textile-clothing industry that is competitive by world market standards even if the two endpoints of this sector are competitive. There is a need, therefore, for efficient and low-cost transportation, which permits the exportation of high quality cotton overseas, the importation of good quality textiles, and the fabrication and export of clothing and other textile products to overseas markets. There may also be industries in which vertical integration is feasible, however, such as the livestock—tanned hides and skins—leather products chain currently being investigated in Mali. There is no substitute for careful analysis of comparative advantage and competitiveness at the sub-sector level.

With respect to labor-intensive goods for the mass market or Afro-centric products for the high-end market, there is a need for good communications, high quality standards, and timely delivery. Competition is keen and profit margins thin. Because both wage rates and labor productivity are low in Africa, there may not be a significant savings in unit labor costs. Other elements of competitiveness may prove crucial, and here Africa often lags behind. Poor telecommunications make it difficult to exchange timely information between buyers, designers, producers, and exporters. Ensuring timely delivery of the right product has proven to be difficult, especially when there are many small producers involved. High quality standards have sometimes been hard to achieve. Ensuring competitiveness in new export industries is one of Africa's major challenges in the next millennium.

Until recently, there have been few opportunities to produce for regional markets because of high costs and other obstacles to cross-border trade, and because schemes for regional economic integration have not been effectively implemented. This may be ending. The West Africa Economic and Monetary Union is becoming a reality not only as a single currency zone but also as a customs union. The Southern African Development Community Trade Protocol will soon come into effect. Barriers to cross-border trade are being reduced. The fear, however, is that investment will gravitate to countries with better physical and institutional infrastructure, which will now be able to trade freely throughout the region. Avoiding this domination of the benefits from regional integration is another challenge of the future.

The need to increase global competitiveness suggests that African policymakers should participate actively in upcoming international trade negotiations, as well as in international forums determining international labor standards, intellectual property rules, and investment protocols. As the latest round of WTO ministerial trade talks opens in November 1999 in Seattle, strategic use of global negotiations may open new opportunities for traditional and non-traditional African exports. Africa could benefit from trade talks with the United States, where the Africa Growth and Opportunity Act is being debated.

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[1] B. Lynn Salinger, Anatolie Marie Amvouna, and Deirdre Murphy Savarese, *New Trade Opportunities for Africa*, African Economic Policy Discussion Paper Number 6, July 1998.

[2] Lynn Salinger, Haroon Bhorat, Diane P. Flaherty, and Malcolm Keswell, *Promoting Competitiveness of Textiles and Clothing Manufacture in South Africa*, Final Report, 1999; Lucie Phillips, Marios Obwona, Aloys Ayako, *Foreign and Local Direct Investment in Kenya and Uganda*; Jeffrey Metzel, Abou Doumbia, Lamissa Diakite, and N'thio Alpha Diarra, *Prospects for Developing Malian Livestock Exports*, EAGER Research Report, July 1997.

WTO, EU, and U.S. Trade Initiatives and Their Implications for AFRICA

As efforts to promote freer trade gain ground at regional and global levels, Africa's trading relations with the United States (U.S.), European Union (EU), and other partners are under their most comprehensive review since the colonial era. African countries will have opportunities to help shape the trade regimes being created in ways that will spur trade and investment. Some countries may be ill-equipped to participate actively in the dozens of World Trade Organization (WTO) negotiations, however, and there is a real danger that economic conditions in these countries may be weakened due to the WTO effort.

As an example, agriculture and food are prominent on the international agenda; the World Food Summit, a new Food Aid Convention, and international action on poverty reduction and debt relief are focusing attention on policy coherence between agricultural trade and food security. As the poorest region in the world, Sub-Saharan Africa is the region most affected by changes in food policy, technology, and availability. A change in food policy among wealthier WTO members could have a profound impact on food security in Africa.

Findings of this study include:

- **African countries that are in the vanguard of trade liberalization will have opportunities to gain significant economic benefits from the upcoming round of WTO trade negotiations, the renegotiation of the Lomé Convention with the EU, and various agreements with the U.S.**
- **Other African countries, however, may be ill-equipped to participate actively in these WTO negotiations, and there is a real danger that economic conditions in these countries may be weakened by their lack of participation.**

At the WTO's Third Ministerial Meetings in Seattle at the end of 1999, the 38 African WTO members will join nearly 100 other countries in new negotiations in the key fields of agriculture and services. There will be discussions about how to liberalize other sectors, and nascent areas such as e-commerce may receive a mandate from the gathered ministers.

The Uruguay Round established an initial framework for agricultural trade liberalization that will continue to be pursued by Organization for Economic Cooperation and Development (OECD) countries. Several key farm support efforts in the U.S. and EU, such as the use of export subsidies, will be subject to change. But resistance will be fierce, as even wealthy countries such as Japan are now refusing to import more rice, citing "food security" arguments. It is only domestic budget pressures, such as those resulting from eventual EU enlargement, that will lead to real change in wealthy countries.

African countries were largely left out of the fray in the Uruguay Round, but key concepts were established, such as the need to shelter net food-importing countries from the worst effects of price variability. Developing countries were granted special and differential treatment on agriculture, including additional flexibility for subsidies related to food storage, domestic feeding programs for the rural and urban poor, investment in agricultural structures, and transportation for agricultural exports. For many African countries only now becoming aware of the wide range of issues potentially on the table starting in Seattle, defining a negotiating position on the WTO should be an immediate national priority. Countries should also be concerned with maintaining trade rights, establishing new mechanisms for better food supply security, and prying open value-added markets shut by tariff peaks and tariff escalation. African countries must be prepared if the Seattle Ministerial proposes developing new rules on state trading enterprises, export credits and credit guarantees, and food aid.

The EU is in the process of changing its monetary system, its post-colonial trade regime, and eventually its membership. Full conversion to the euro in 2002 will most immediately affect the countries of the Union Economique et Monetaire Ouest-Africaine (UEMOA), as the CFA will be tied to the euro rather than the French franc. The exchange risk certainty that UEMOA has enjoyed for trade with France will now extend to the entire euro area. Reducing the costs of foreign exchange and cash management is expected to lead to an intensification of trade.

The EU governs its relations with the 71 African, Caribbean, and Pacific (ACP) countries through the Lomé IV Convention, a package of development aid and non-reciprocal trade arrangements negotiated on a group basis on both sides. The Lomé trade concessions into the EU market, however, are in violation of GATT Article 1 on Most Favored Nation Status (MFN), to the detriment of other developing country exporters, as evidenced by the recent banana dispute. The current WTO waiver for Lomé IV expires on February 29, 2000, placing the Millennium Round and the resolution of ACP trading privileges on a collision course.

African countries are left with a difficult choice. They can preserve the Lomé trade concessions by accepting the EU's offer to negotiate individual free trade agreements, which will require a substantial portion of trade to be liberalized on a reciprocal basis to meet the terms of GATT Article XXIV. Or they can fend off the dangers of reciprocity by accepting the less favorable terms of the EU's Generalized Scheme of Preferences (GSP). Eventually, due to the ACP countries' wish to keep the non-trade aspects of Lomé IV (i.e., Stabex, Sysmin, access to the European Development Fund), one should expect dozens of new FTAs riddled with exceptions for processed agricultural products and other sensitive commodities, much like Lomé IV.

The EU will be under great pressure to further reform its Common Agricultural Policy to lower the budgetary exposure caused by eventual enlargement to include Poland, the Czech Republic, Hungary, and other applicants. The fate of the WTO negotiations as well as the details of the Lomé transition may be slowed by the process of internal EU reform, a situation which also occurred in the Uruguay Round.

By comparison, the convergence of events should facilitate closer trading ties for Africa with the U.S. The U.S. wants to open markets while reducing poverty and food insecurity. Recent U.S. initiatives on Africa, including the Child Survival Initiative, African Food Security Initiative, Initiative for Southern Africa, Greater Horn of Africa Initiative, and Leland Initiative, seek to contribute to an improved enabling environment for equitable growth. Fuller integration of the African members into the WTO's rules-based trading regime will provide multilateral commitments on tariffs and policies and impose a third-party dispute settlement mechanism, improving the reliability of the external trading framework. In this way, the WTO complements ongoing African efforts at regional integration, which the U.S. strongly encourages.

Under the African Trade and Investment Program (ATRIP), the U.S. is sponsoring workshops on the WTO for trade negotiators throughout Africa, including regional organizations such as COMESA or UEMOA. This should better prepare them for active participation in the upcoming round.

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Strengthening FAMILY-OWNED and Other LOCAL BUSINESSES in Africa

Strengthening the role of small and micro-enterprises as suppliers to larger, formal-sector enterprises in South Africa (i.e., "business linkages") was the primary focus of an EAGER/PSGE study.[1]

Researchers questioned representatives of 75 large firms about their purchases from small, historically disadvantaged suppliers and found that nearly all of these businesses procured some goods and/or services from such enterprises. The largest number of linkages involved service areas such as catering, office cleaning, transportation, and construction. Footwear presented the clearest case of linkage in core activity of the larger enterprise, as several steps in the production process were routinely outsourced.

Although large firms reported that their most common objective for pursuing business linkages was community service, the most successful linkages were not among the firms so motivated. Only in those cases where larger firms found it in their own interest to expand the role of small suppliers and where they allocated resources to mentoring them did the linkages gave a significant impetus to the smaller partners' productivity and growth.

Expanding on these findings and observing procedures by which public and private institutions are seeking to promote business linkages, the researchers stressed the importance of market orientation and cost effectiveness in providing technical assistance. They also found it disadvantageous to combine the building blocks of linkage support—information, capacity-building, and capital—into a single organization.

The study yielded six papers, discussed in draft form at a Pietermaritzburg workshop attended by some 70 stakeholders and officials. The papers were subsequently published as a volume by the University of Natal Press.

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[1] Donald Mead of Michigan State University (MSU) was principal investigator for the study. Local collaborators Tom McEwan and Barry Strydom of the University of Natal/Pietermaritzburg focused on the KwaZulu Natal footwear industry; Ed Bbenkele, also of UNP, studied traditional medicines; and Charles Machethe and Francis Anim of the University of the North examined the role of historically disadvantaged enterprises in agricultural processing and marketing.

REDUCING BARRIERS to Cross-Border Trade in Africa

(Cross-border) trade is in relatively low-valued, nonperishable staple foods and manufactured consumer "necessities" for which local demand is substantial. Surprisingly, this trade is...less than 10 percent of total trade for most African countries. As African economies develop, however, its importance is expected to grow.

A narrow definition of "cross-border trade" is overland trade between neighboring African countries. More broadly, cross-border trade is almost synonymous with intra-African trade because of the rarity of other trade forms within Africa. Because of difficulties imposed by poor trade infrastructure, this trade is in relatively low-valued, nonperishable staple foods and manufactured consumer "necessities" for which local demand is substantial. Surprisingly, this trade is of minor significance—less than 10 percent of total trade for most African countries. As African economies develop, however, its importance is expected to grow and its composition to diversify.

A number of EAGER studies have identified common barriers to cross-border trade and proposed strategies to address them.[1] Constraints to cross-border trade begin with supply. Metzel, et al. (1997) found that, although livestock is Mali's third most important export, projections suggest that excess supply is likely to fall as domestic demand for meat rises with rapid population growth and increasing incomes. Supply growth has been constrained to expanding production at the extensive margins in areas with excess biomass for feed. Investments in productivity-enhancing technologies at the intensive margin, such as fattening, have been inadequate despite strong economic prospects.

In the case of rice exports from Mali (Barry, et al. 1999), erratic excess supply again limits regional exports. Fortunately, years of research on rice production in the Sahel have raised productivity dramatically and could propel growth of Malian rice exports if investments in irrigation infrastructure can keep pace. Both cases illustrate the larger fundamental issue of Africa's inability to make long-term investments in productive capacity to expand supply to match rapid growth in demand. Among the problems inhibiting these investments are high political risk, fledgling financial markets, and weak technical research capacity to identify and develop productivity-enhancing technologies.

A second set of barriers is the lack of basic public infrastructure that could increase market efficiency. Research by Morris and Dadson (1998) in Ghana illustrates that much cross-border trade is carried out in well-established circuits by traders who specialize in particular commodities and depend on ethnic and familial links and traditional middlemen to facilitate trade. Intermediation includes provision of security, information, reference, insurance, accommodation, storage, and credit. These services are provided in small volumes, however, with long turnaround times which raise their costs. Truckers from Sahelian countries average only two round-trips per month to coastal markets, despite the feasibility of undertaking five times as many. Greater efficiency in marketing could be obtained through streamlining and consolidation of market networks, but this is dependent on improved public transport and telecommunications infrastructure and development of marketing institutions that introduce standards of quality and reliability.

Another approach to developing cross-border trade is increasing the value of traded commodities. Value-adding processes improve quality and reduce perishability of regionally traded food commodities. One constraint to this effort is the lack of price differentiation for products in regional markets based upon quality distinctions. Inadequate or nonexistent product standards and lack of consumer awareness or demand for quality differences contribute to the problem. Where quality improvements substantially increase unit costs, demand will grow as incomes rise. In the meantime, strategies to add value can seek higher quality markets beyond the region to build the competence and infrastructure necessary to service regional markets. One example is Sahel's lean red meat, for which regional markets do not yet reward differentiation at slaughter of higher quality cuts, but for which world markets already provide an attractive price premium.

A final set of constraints on cross-border markets concerns policy. Direct policy distortions are not as great a problem today as 10 years ago, due to government efforts to remove trade impediments. These efforts have often been part of macroeconomic and sectoral structural adjustment programs. Among African policymakers, there appears to be recognition of the value of these reforms in regenerating growth, yet a number of issues remain. First, because of past experience with world price volatility for economic necessities and the impact of this volatility on domestic price stability, African policymakers are wary of relying on world markets to set domestic prices for sensitive staple foods. The result is interventions to reduce price fluctuations and inhibit trade, such as export prohibitions or establishment of variable import levies. Other mechanisms to reduce risk, such as the facilitation of futures and insurance markets, should be introduced to avoid reversals of open trade policy when world markets are volatile.

Second, a number of indirect taxes substantially increase the cost of trade. Of major importance are fuel taxes, which are easy to collect and difficult to evade. The burden of these indirect taxes, however, is a major disincentive to cross-border trade. This is particularly detrimental to the competitiveness of large landlocked countries.

Third, costly illicit taxes are imposed by police, soldiers, public officials, and others with some degree of control over the movement of goods and people. It is not unusual for trucks to be stopped and illegal payments demanded 15 times between Mali and Abidjan. Although these illicit taxes are particularly intractable, one promising approach is to publish information about where and by whom the taxes are collected.

Policy reform also needs monitoring, for while progress has been made in liberalizing trade, reforms have not necessarily resulted in structural changes in imperfect domestic markets that once benefited from protection. As a result, pressures to reverse the gains of liberalization remain strong in many sectors and have been successful in obtaining exemption from reforms, reversing them, or circumventing them through other policy measures to protect their interests (Metzel and Colvin, 1998).

Reforming policy has also proven more difficult than expected. Reform of the vanilla export market in Madagascar illustrates the resilience of entrenched interests to reform measures (Metzel, et al. 1999). In this case, elimination of a public export agency may have reinforced the power of a few large private exporters rather than open the market to competitors. By forcing total elimination of vanilla export taxation, these interests also demonstrated their ability to alter the intent of the reform program, despite the potentially negative economic effects on the country as a whole. Efforts to tax gemstone and gold exports from Tanzania have proven to be counterproductive, however, because they caused trade to go underground (Colvin, et al. 1998). Taxation of commodities such as these, with high value per unit weight, might be better addressed through indirect taxation of the industry's inputs or consumption.

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[1] Jeffrey Metzel, Abou Doumbia, Lamissa Diakite, and N'thio Alpha Diarra, *Prospects For Developing Malian Livestock Exports*, EAGER Research Report, 7/97. Gale Morris and John Dadson, *Cross Border Trade in Ghana: An Analysis of Vertical and Horisontal Relationships of Cross Border Traders*, EAGER Interim Report, 1998. Abdoul Barry, Salif Diarra, and Daouda Diarra, *Pomouvoir les Exportations du Riz Malien vers les Pays de la Sous-Region Ouest-African*, EAGER Discussion Paper #17, 4/99. Jeffrey Metzel and Lucie Phillips, *Bringing Down Barriers to Trade: The Experience of Trade Policy Reform in Sub-Saharan Africa*, EAGER Discussion Paper #5, 7/98. Jeffrey Metzel, Emilienne Raparson, and Eric Thosun Mandrara, *The Political Economy of Trade Liberalization: The Case of Vanilla in Madagascar*, EAGER Research Report, 5/99. Lucie Colvin Phillips, Samuel Lwakatare, and Alec Misangy, *Gemstone and Gold Marketing for Small Scale Mining in Tanzania*, EAGER Research Report, 1998.

Regional Integration
and COOPERATION in Africa

Regional integration and cooperation have been promoted in Sub-Saharan Africa for years. The populations of most African nations are relatively small and poor by global standards, and are therefore unable to exploit potential economies of scale unless they join together in cooperative endeavors. Until recently, however, efforts to promote regional cooperation have been more successful than those to encourage integration.[1]

Regional integration involves preferential trade regimes, free trade areas, customs unions, common markets, or economic and monetary unions. Regional cooperation relates to arrangements for policy harmonization or coordination and sharing of services and facilities in such areas as transportation, electrical power distribution, telecommunications, national defense, agricultural research, and human and animal health.

One problem facing African nations interested in integrating their economies through regional trade is that costs of diverting their sources of import supply from low-cost third countries to higher cost partners tend to outweigh the benefits. Furthermore, formation of a customs union, with free trade within the union and a common external tariff (CET), suffered from the difficulties in making up for lost customs revenues and apportioning revenue from the CET among the member countries. Poorer members fear integration schemes, concerned that investment will be concentrated in richer countries with better infrastructure and commercial and financial institutions, which will then be able to export freely within the zone.[2]

Despite these difficulties, several regional economic schemes are moving forward. The South Africa Customs Union (SACU) has existed for many years; the Trade Protocol of the Southern Africa Development Community (SADC) should become effective by the end of 1999; and the West African Economic and Monetary Union (UEMOA), a customs union, will be fully implemented early in 2000. In addition, some countries adhere to the Common Market of East and Southern Africa (COMESA), established in 1993, or the East African Community, re-inaugurated in 1996.

There are reasons to believe that integration and cooperation will not prove as elusive as in the past.

Economic policy reform has increased the efficiency of many African industries so that trade diversion is not likely to be as great as it has been with previous schemes. Barriers to cross-border trade are slowly being reduced...(and) the fiscal dimensions are being addressed more directly than with previous efforts.

Economic policy reform has increased the efficiency of many African industries so that trade diversion is not likely to be as great as it has been with previous schemes. Barriers to cross-border trade are slowly being reduced, increasing the potential benefits to market integration. The fiscal dimensions are also being addressed more directly than with previous efforts. As an example, not only is UEMOA harmonizing customs duties, but it is also creating a framework for reducing differences in other forms of indirect taxation, such as value-added taxes, in ways that will maintain the value of public revenues. Finally, members of integration schemes are well aware of the problem of investment concentration in the richer countries and are establishing special funds for improving infrastructure of the poorer nations to compensate for those deficiencies.

Independent of the outcomes of these regional integration schemes, many efforts at regional cooperation in Africa have been successful. Prior to the establishment of the Trade Protocol, SADC had already achieved considerable success in enhancing infrastructure and communications linkages among member nations. Working with the Southern Africa Power Pool, EAGER/Trade researchers further demonstrated enormous potential gains from trade in electrical power among the countries of southern Africa.[3]

The West Africa Rice Development Association (WARDA) developed improved rice varieties well adapted to the regional environment. The AGRHYMET Center in Niamey assists the region in drought early warning and helps to monitor environmental change. Air Afrique is a jointly owned airline which has linked west African countries for years. The West African Enterprise Network provides a forum for private entrepreneurs to exchange information and collectively lobby their governments on key issues. Business law and accounting systems are being coordinated under the *Organisation pour l'Harmonisation du Droit des Affaires en Afrique* (OHADA), and the list goes on.

It is clear that regional integration and cooperation in Sub-Saharan Africa are here to stay. Although market integration may be more demanding than cooperation in terms of a set of integrated commercial, fiscal, and financial requirements, there is every indication that these requirements will be met and integration will proceed. What is especially encouraging is that regional integration is now seen as a complement to, rather than a substitute for, greater linkages with the global economy.

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[1] Steve Radelet, *Regional Integration and Cooperation in Sub-Saharan Africa: Are Formal Trade Agreements the Right Strategy?*, May 1997.

[2] Two EAGER/Trade studies analyzed costs of production in poorer interior countries in comparison with richer coastal countries in west and east Africa: John Cockburn, Eckhard Siggel, Massa Coulibaly, and Sylvain Vézina, *Manufacturing Competitiveness and the Structure of Incentives in Mali*, Final Report, 1998; Eckhard Siggel, Germina Ssemogerere, Gerrishon Ikiara, and Benjamin Nganda, *Manufacturing Competitiveness and the Structure of Incentives in Kenya and Uganda*. See also Abdoul Barry, *The Impact of Adjustment on Agricultural Competitiveness and Regional Trade in Sahelian West Africa*, Final Report, 1998, and the research project undertaken by Purdue University on *Global Trade Analysis for Southern Africa*, with William Masters as principal investigator and Inyambo Mwanawina and Rob Davies as chief authors of papers applying the model to specific issues.

[3] F.T. Sparrow, William A. Masters, B.R.F. Moore, M. Badirwang, Mario Houane, Udo Kleyenstuber, Ferdi Kruger, Bongani Mashwama, Roland Lwiindi, Alison Chikova, and Peter B. Robinson, *Modelling Electricity Trade in Southern Africa*.

Update on EAGER Research

Results of EAGER Trade and PSGE research efforts are provided in papers produced by each of the research teams. Many of these papers have been completed or are near completion. The following list updates the status of all of EAGER's Trade and PSGE studies. Contact Lisa Matt to request copies of these documents (available at no cost to addresses in Africa) or access completed documents via the EAGER website: www.EAGERPROJECT.com. You may also contact authors through their respective consortium leader (i.e., AIRD or HIID; see "EAGER Contacts" in this newsletter for details).

Trade Regimes and Growth (EAGER/Trade)

Barriers to Cross-Border Trade

Promotion of Mali's Rice Exports Towards the West African Regional Market
Principal Investigator: Abdoul Barry, Associates for International Resources and Development (AIRD)
Collaborating Institution(s): Consultants Etude et Formation, Mali; Ministries of Finance and Agriculture, Market Information System, Mali
Status: Completed; research paper available in French and English

Impact of Adjustment on Agricultural Competitiveness and Regional Trade in Sahelian West Africa
Principal Investigator: Abdoul Barry, AIRD
Collaborating Institution(s): Comité Permanent Inter-Etats de Lutte contre le Sécheresse dans le Sahel (CILSS), Burkina Faso
Status: Completed; discussion paper available in English

Prospects for Developing Malian Livestock Exports
Principal Investigator: Jeffrey Metzel, AIRD
Collaborating Institution(s): Compagnie Malienne pour le Développement des Textiles, Mali; Cellule de Planification et de la Statistique, Ministère de Développement Rural et de l'Environnement, Mali; Economie des Filières Group de Recherche, Institut d'Economie Rurale, Mali
Status: Completed; research paper available in French and English

Gemstone and Gold Marketing for Small-Scale Mining in Tanzania
Principal Investigator: Lucie Phillips, International Business Initiatives (IBI)
Collaborating Institution(s): Economic

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Update on EAGER Research

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and Social Research Foundation, Dar es Salaam, Tanzania; The Business Center, Tanzania
Status: Completed; final report available from principal investigator (PI)

Cross-Border Trade in Ghana
Principal Investigator: Gayle Morris, IBI
Collaborating Institution(s): University of Ghana, Legon, Accra, Ghana
Status: To be completed December 1999

Domestic Marketing of Vanilla Exports in Madagascar
Principal Investigator:
Jeffrey Metzel, AIRD
Collaborating Institution(s): Centre d'Etude et de Recherche Economique pour le Développement, Madagascar
Status: Completed; final report available from PI

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

Monetary and Exchange Rate Policy in Ghana
Principal Investigators: J. Dirck Stryker, AIRD, and Charles Jebuni, Center for Policy Analysis (CEPA), Ghana
Collaborating Institution(s): AIRD
Status: Completion planned for September 1999

Monetary and Exchange Rate Policy in Uganda
Co-Principal Investigators:
Marios B. Obwona, Economic Policy Research Center (EPRC); Polycarp Musinguzi, Research Department, Bank of Uganda, Uganda
Status: Completion planned for September 1999

Efficiency of Trade Tax Regime: Kenya
Principal Investigator: Graham Glenday, Harvard Institute for International Development (HIID)
Collaborating Institution(s):
Ministry of Finance, Kenya
Status: Completed; final report available from PI

Fixed Versus Flexible Exchange Rates in Africa
Principal Investigator:
Anatolie Amvouna, University of Cameroon, Yaounde
Collaborating Institution(s): AIRD
Status: Completed; discussion paper available in French and English

New Opportunities for African Trade and Investment

Structure of Incentives and Manufacturing Competitiveness in Mali
Principal Investigator: John Cockburn, Centre de Recherche en Economie et Finance Appliquées, Université Laval (CREFA-LAVAL), Canada
Collaborating Institution(s): Ecole Nationale d'Administration, Mali; Centre Invoirienne pour la Recherche Economique et Sociale, Ivory Coast
Status: Completed; research report and discussion paper available in French and English

International Trade Policy for Development of South Africa
Principal Investigator: Siphiwe Cele, Development Bank of Southern Africa
Status: Completion planned for September 1999

South Africa: Potential Constraints and Comparative Advantage in the Cotton/Textile/Garments Subsector
Principal Investigator:
B. Lynn Salinger, AIRD
Collaborating Institution(s):
Development Policy Research Unit, University of Cape Town, South Africa
Status: Completed

Promoting New Trade Opportunities for Africa
Principal Investigator:
B. Lynn Salinger, AIRD
Status: Completed; discussion paper available in English

Foreign Direct Investment in Kenya and Uganda
Principal Investigator: Lucie Phillips, IBI
Collaborating Institution(s): EPRC, Uganda; University of Nairobi, Kenya
Status: Completion planned for September 1999

Structure of Incentives and Manufacturing Competitiveness in Kenya and Uganda
Principal Investigator:
Eckhard Siggel, CREFA-LAVAL
Collaborating Institution(s): Economics Dept., Makerere University, Uganda; Economics Dept., University of Nairobi
Status: Completion planned for September 1999

Regional Integration in East and Southern Africa

Global Trade Analysis for Southern Africa: Zimbabwe, Zambia
Principal Investigator:
Will Masters, Purdue University
Collaborating Institution(s):
Economics Dept., University of Zimbabwe, Zimbabwe; Economics Dept., University of Zambia, Zambia
Status: Completed; final report available from PI

Promoting Trade Through Regional Integration
Principal Investigator:
Steven Radelet, HIID
Status: Completed; discussion paper available in English

Modeling Electricity Trade in Southern Africa
Principal Investigator: Tom Sparrow, Purdue University
Collaborating Institution(s):
Southern African Power Pool; Zimconsult, Zimbabwe
Status: Completed; research report/ user manual available in English

Challenges to Trade

Lessons of East Asia for Promoting Trade in Africa
Principal Investigator:
Karen Engel, AIRD
Status: Completed

Bringing Down Policy Barriers to Trade in Africa
Principal Investigator:
Jeffrey Metzel, AIRD
Collaborating Institution(s): IBI
Status: Completed; discussion paper available in English

Political Economy of Trade Policy Reform
Principal Investigator: Lucie Phillips, IBI
Status: Completed; discussion paper available in English

Promoting and Sustaining Trade and Exchange Reform in Africa
Principal Investigator:
Malcolm McPherson, HIID
Status: Completed; available from PI

Structural Barriers to Trade
Principal Investigator:
Joseph Stern, HIID
Status: Completed; discussion paper available in English

Determinants of Foreign Direct Investment in Africa
Principal Investigator:
Saskia Wilhelms, AIRD
Status: Completed; discussion paper available in English

Effects of Policy Reform on Investment, Trade, Growth, and Poverty
Principal Investigator:
Dirck Stryker, AIRD
Status: Completion planned for September 1999

Transshipment of Textiles and Clothing through Africa
Principal Investigator:
B. Lynn Salinger, AIRD
Status: Completed; available from PI

Other Survey Papers and Desk Studies

Trends in African Trade
Principal Investigator:
Abdoul Barry, AIRD
Status: Completed; not yet available

Emerging World Trade Order in Financial Services
Principal Investigator:
Michael Isimbabi, IBI
Status: Completed; not yet available

Does Africa Grow Differently?
Principal Investigator: Steve Block, AIRD
Status: Completed; not yet available

Public Strategies for Growth and Equity (EAGER/PSGE)

Legal, Regulatory, and Judicial Reforms and Governance

The Cost of Doing Business: Laws and Regulations Affecting Labor and Capital in Madagascar
Principal Investigators: Dirck Stryker and Ndaya Beltchika, AIRD
Collaborating Institution(s): Société d'Assistance Technique et de Gestion (SOATEG); JURECO Etudes et Conseils, Madagascar
Status: Completion planned for September 1999

The Cost of Doing Business: Contract Enforcement in Tanzania
Principal Investigator: Patrick Meagher, Center for Institutional Reform and the Informal Sector (IRIS), University of Maryland
Collaborating Institution(s): Economic and Social Research Foundation (ESRF), Tanzania
Status: Completion planned for September 1999

The Cost of Doing Business: The Legal–Regulatory–Judicial Environment in Ghana
Principal Investigator:
Fred Boadu, MayaTech
Collaborating Institution(s): Institute of Statistical, Social, and Economic Research (ISSER), Ghana
Status: Completion planned for September 1999

Competition Policies for Growth: Legal and Regulatory Framework for Sub-Saharan African Countries
Principal Investigator: Cynthia Clement, IRIS; Georges Korsun, Chemonics International, Inc.; Andrew Gavil, Howard University School of Law; William Kovacic, George Washington University School of Law
Collaborating Institution(s): MADIO, Madagascar
Status: Completion planned for September 1999

Barriers to Business Expansion in a New Policy Environment (Senegal and Malawi)
Principal Investigators: Dirck Stryker and Ndaya Beltchika, AIRD
Collaborating Institution(s): Millenium Consulting Group, Malawi; Assistance et Conseil Enterprises, Senegal
Status: Completion planned for September 1999

Perceptions of Governance in Africa: A Survey of Business and Government Leaders
Principal Investigators: Art Goldsmith and Sara Sievers, HIID
Collaborating Institutions: African Economic Research Consortium; Millenium Consulting Group; MISR (Uganda); Kenya National Chamber of Commerce; Federation of Kenya Employers; Ghana Export Promotion Council; Association of Ghana Industries; Ministere de l'energie des mines et de l'industrie (Senegal); NOK International
Status: To be completed October 1999

Macroeconomic Management

Tax Policy in Sub-Saharan Africa: The Role of Excise Taxes
Principal Investigator: Jonathan Haughton, HIID
Collaborating Institution(s): Centre d'Etudes Economiques, Madagascar; Dept. of Economics, University of Dar es Salaam, Tanzania
Status: Madagascar study completed; Tanzania study to be completed December 1999

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Update on EAGER Research

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Enhancing Transparency in Tax Administration: Madagascar and Tanzania

Principal Investigator: Clive Gray, HIID

Collaborating Institution(s): Howard University; Centre d'Etudes Economiques; Dept. of Economics, University of Dar es Salaam

Status: Madagascar study completed; Tanzania study completion planned for September 1999

Improving the Framework for Monetary Programming: Tanzania and Malawi

Principal Investigator(s): Clive Gray and Bruce Bolnick, HIID

Collaborating Institution(s): Economic Research and Policy Dept., Directorate of Economics and Statistics, Bank of Tanzania; Economic Research Bureau, University of Dar es Salaam; Reserve Bank of Malawi; Economics Department, Chancellor College; Malawi Government Ministry of Finance and National Economic Council

Status: Completion planned for September 1999

Restarting and Sustaining Growth and Development in Africa

Principal Investigator: Malcolm McPherson, HIID

Collaborating Institution(s): IRIS; AIRD; Howard University; Mwaniki Associates, Ltd. Consulting Group, Kenya; Makerere Institute of Social Research, Makerere University, Uganda; Centre de Recherches Economiques Appliquées, Université Cheikh Anta Diop, Senegal; Center for Economic Policy Analysis (CEPA), University of Ghana; Research on Poverty Alleviation (REPOA), Tanzania

Status: To be completed December 1999

International Lessons on Property Taxation and Implications for Structuring Property Taxes in South Africa

Principal Investigator: Roy Kelly, HIID

Collaborating Institutions: Department of Consitutional Development, Pretoria; City of Cape Town; Rustenburg District Council; Blomfontein District Council

Status: Completion planned for September 1999

Reputation, Regulation, and Institutional Barriers to Investment Supply in Ghana

Principal Investigator: Fred Boadu, MayaTech

Collaborating Institutions: Institute of Statistics and Socio-Economic Research (ISSER); Ghana Investment Promotion Centre (GIPC); Ministry of Finance and Economic Planning (MOF), Ghana

Status: To be completed January 2000

Financial Markets

Financial Services for the Poor

Principal Investigator: Eric Nelson, The World Bank

Collaborating Institution(s): MayaTech; University of Stellenbosch, South Africa; Bureau d'Etudes REMIX, Senegal

Status: To be completed December 1999

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

Principal Investigator: Sam Ziorklui, Howard University

Collaborating Institution(s): Dept. Of Economics, University of Ghana; Bank of Ghana; Merchant Bank of Ghana; CDH Group

Status: Completion planned for September 1999

The Development of Capital Markets and Growth in Sub-Saharan Africa: Ghana and Tanzania

Principal Investigator(s): Sam Ziorklui, Howard University; Lemma Senbet, IRIS

Collaborating Institution(s): School of Administration, University of Ghana, Legon; Economic and Social Research Foundation (ESRF), Dar es Salaam

Status: Completion planned for September 1999

Financial Development for Micro-Enterprises in Kenya: The Transformation of K-REP from NGO to Diversified Holding Company

Principal Investigator(s): Ashok Rai and Jay Rosengard, HIID

Collaborating Institution(s): Kenya Rural Enterprise Program (K-REP)

Status: Completion planned for September 1999

Labor Markets

Increasing Labor Demand and Productivity in South Africa

Principal Investigator: Dirck Stryker, AIRD

Collaborating Institution(s): University of Witwatersrand; University of Natal/Durban; University of Cape Town, South Africa

Status: Completion planned for September 1999

Increasing Labor Demand and Productivity in Ghana

Principal Investigator(s): George Gyan-Baffour and Charles Betsey, Howard University

Collaborating Institution(s): University of Ghana; Center for Economic Policy Analysis

Status: Completed; final report available from PI

The Contribution of Business Linkages to the Growth of Productive Employment Among Micro and Small Enterprises in South Africa

Principal Investigator: Donald Mead, Michigan State University

Collaborating Institution(s): University of Natal/Pietermaritzburg; University of Natal/Durban; University of the North, South Africa

Status: Completed; final report available in a volume published by University of Natal Press