Economic Analysis for Policy Reform in Africa Workshop
17-19 July 1996

Final Report

Prepared for:

Division of Strategic Analysis,
Office of Sustainable Development
Bureau for Africa
United States Agency for International Development
Washington, D.C. 20523

Under the Equity and Growth through Economic Research (EAGER) Project
Contract No.: AOT-0546-Q-00-5271-00
Delivery Order No. 2

Prepared by:

BHM International, Inc.

In collaboration with

International Science and Technology Institute, Inc.

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ECONOMIC ANALYSIS FOR POLICY REFORM IN AFRICA WORKSHOP REPORT

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LIST OF ABBREVIATIONS AND ACRONYMS

AERC	African Economic Research Consortium
AFR	Africa Bureau, USAID
AIRD	Associates for International Resources and Development
BHM	Basic Health Management
CA	Cooperative Agreement
CBI	Cross-Border Initiative
CFA	Central African Franc
CFNPP	Cornell Food and Nutrition Policy Program
CLC	Communications and Logistics Contract
COMESA	Common Market of Eastern Southern Africa
CREFA	Centre de Recherche en Économie et Finance Appliquées
EEC	European Economic Community
ESRF	Economic and Social Research Foundation
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
HBCU	Historically Black Colleges and Universities
HIID	Harvard Institute for International Development
ICEG	International Center for Economic Growth
IDRC	International Development Research Centre
ILO	International Labor Organization
IMF	International Monetary Fund
IRIS	Institutional Reform and the Informal Sector
ISTI	International Science and Technology Institute
LRJ	Legal, Regulatory, and Judicial
MSI	Management Systems International
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
PSG	Public Strategies for Growth with Equity
RI	Regional Integration
RSC	Research Supervision Committees
SAC	Southern African Customs Union
SADC	Southern African Development Community
SSA	Sub-Saharan Africa
UNDP	United Nations Development Programme
USAID	U.S. Agency for International Development
WAEN	West African Enterprise Network
WTO	World Trade Organization

EXECUTIVE SUMMARY

INTRODUCTION

A. Purpose of the Workshop

In mid-July 1996, at Howard University in Washington, D.C., AFR/SD/SA's Equity and Growth through Economic Research (EAGER) Project held a successful technical advisory workshop on the socio-economic aspects of policy reform in Africa. The workshop objective was to provide feedback to EAGER Project participants and to strengthen the project's socio-economic research agenda. In addition, the workshop permitted USAID/Washington staff to meet with many of the social scientists involved in EAGER research and other distinguished Africa-experienced economists to discuss ideas for effectively meeting project objectives.

The workshop was developed by BHM International and the International Science and Technology Institute (ISTI) in collaboration with recipients of EAGER's research cooperative agreements, Associates for International Resources and Development (AIRD) and the Harvard Institute for International Development (HIID). These cooperative agreements focus on African trade issues (AIRD) and public strategies for equity and growth (HIID).

B. Structure of the Report.

This report documents the presentations, discussions and concurrent sessions making up the workshop; it is not a transcription of the proceedings, but rather a summary report of what was said. The report is based on notes, talking points provided by several speakers, and notes taken by *rapporteurs* of various workshop sessions.

The bulk of the workshop focused on researchers' presentations of their plans, activities, and findings. The detail of these presentations, however, should not overshadow the fundamental criteria for assessing the research agenda, namely, the extent to which it: contributes to policy reform; engenders collaboration and capacity building; and contributes to opening African economies.

The workshop was also intended to provide focused debate on how to approach the remaining years of the EAGER Project. This debate took place throughout the workshop — sometimes explicitly, sometimes by implication — across the three factors given above. The recommendations and suggestions made in this regard will be discussed in the executive summary, following recaps of the workshop sessions by focus.

SESSION HIGHLIGHTS

A. Keynote Addresses

Among the workshop's distinguished speakers were Jeffrey Sachs, Director of HIID, and Michael Chege, a visiting scholar at Harvard University. Sachs stressed that, for Africa to boost growth significantly, three key sets of policies will be required:

- Opening markets to international trade, particularly through liberalizing foreign exchange rates (probably the most important of all growth policy decisions);
- Keeping other key policies and institutions consistent with market efficiency, most importantly by freeing prices, establishing property rights, and reducing state domination of markets; and
- Establishing policies that will raise public and private savings rates.

He also called for investments in infrastructure ("roads, roads, roads"), while noting the importance of keeping government expenditure down. In his comments, Sachs encouraged public support for critical exports through targeted interventions such as export-processing zones.

Michael Chege provided a critical assessment of the track record of donor support for economic development in Africa, referring participants to a list of donor system programs for Africa over the decades and reminding them of the modest net impact of these programs to date. He challenged participants to collaborate with African decision-makers in finding ways to substantially raise the efficiency of development assistance.

B. Research Component: Trade Regimes

Currently five research themes fall under the Trade Regimes component:

New Opportunities for African Trade
This ongoing research theme provides a review of trade issues outside the set of macroeconomic policy adjustments, focusing on remaining problems such as inadequate infrastructure, labor and human capital issues, and technology. Under this component a literature survey and wider review of experience in sub-Saharan Africa and the world at large has been undertaken to review trends in trade across marketable items and relate these trends to current conditions in Africa. Recommendations are made to apply research resources to such questions as effectiveness of trade and investment-promotion efforts; targeting investment promotion; and distribution issues attending growth through trade.

Discussion
Workshop comments ranged from a suggestion to apply research resources toward questions of competitiveness and better analysis of distortions imposed by existing policies, to helping governments set priorities for trade reform. During a plenary discussion in response to

concern that the focus of some of this trade research might lend itself to efforts to pick winners, a recommendation was made to shape this research to the political economy discussion by identifying potential favorable opportunities and the nature, magnitude, and distribution of gains and losses from liberalization.

Challenges to Trade Policy Reform

This research theme has generated a useful review of the recent history of trade reform efforts in Africa with the researchers identifying reasons that reform efforts have failed to generate the expected results. For example, in countries where loan conditionality or other donor pressure has imposed reforms, these often are only partially implemented either because of a lack of political will or insufficient capacity. In other countries where reforms have been implemented, the reforms have sometimes been less effective due to redundancy (of barriers) and a failure to take complementary measures or because of the slippage caused by exemptions. In still other countries, macroeconomic reversals and continued pressure from economic and political interests have caused backsliding in the trade reform process.

Discussion

Discussion supported the researchers' enumeration of snags in the trade reform efforts across African countries — a list that would provide a useful scope for analysis in any country where trade reform seems to be faltering. The importance of national ownership of the reform process was noted during discussion, in particular, the usefulness of national policy advisory committees. At least one participant suggested binding reforms with membership in international institutions such as WTO and the GATT as additional means for motivating and sustaining trade reform.

Regional Integration in Southern Africa

Regional trade is an obvious and important area of concern in Africa's efforts to achieve growth through trade. Researchers involved with this theme have undertaken a review of experience in Africa and of the literature concerned with regional integration. Other than the Southern African Customs Union, regional trading accords in Southern Africa seem to have experienced little success. Among Southern African countries, by and large, regional trade represents a low percentage of GDP. The lesson is that regional integration as a self-standing goal may be a less effective means for expanding regional trade than to harmonize trade policies and coordinate national infrastructure projects.

Discussion

Regional integration will probably have to wait until countries have more sustainable macroeconomic policies and more outwardly-oriented tariff and trade policies. When policy barriers lessen, however, coordination of investments in infrastructure and facilitation of agreements for cross-country capital flows would go a long way toward laying the groundwork for greater regional trade.

Barriers to Cross-Border Trade

Primary constraints to greater cross-border trade in Africa included: inwardly-oriented trade strategies such as high tariffs and other trade barriers; unwillingness to accept gains to trade in agricultural products; difficulty of transferring funds across countries; cumbersome and burdensome customs requirements; and lack of reliable infrastructure.

Discussion
The importance of the political-economy aspects of cross-border trade issues and the broad range of agents and institutions involved make this a complex question. And yet, one could assess the conditions in any given country according to each of the five areas (constraints) listed above and focus reform efforts from there.

Monitoring Fiscal and Exchange Rate Policies
Although this research theme is still in the proposal stage, it received a broad-brushed description from Dirck Stryker who reviewed the current state of fiscal and exchange rate policies in Ghana and Kenya and briefly analyzed how their governments arrived at these. Stryker proposed a gradualist approach toward implementing policy reform in fiscal and exchange-rate policies, while noting that certain actions, such as opening the exchange rate to market pressures, needed to be implemented more quickly.

C. Research Component: Public Strategies for Growth with Equity

The second of EAGER's two broad research areas deals with issues attending Public Strategies for Growth with Equity (PSG) which at present has research proposals and activities under four themes. Activities under the PSG component are at an earlier stage of development than those under the Trade Regimes component.

Legal, Regulatory, and Judicial Reforms and Governance:
Under this research theme, four different researchers have assessed (or will assess) four main areas of concern: the quality of the body of the law; problems posed by legal, regulatory and judicial (LRJ) environments in Africa; interactions of markets and market institutions with the LRJ environment; and benefits to reform. A specific goal was to determine how legal incentives work in Africa (with special reference to Madagascar, Tanzania and Ghana) and to what extent institutional economics and transactions cost analysis can help in understanding this. The process of LRJ reform was identified as an important research topic and so, finally, was the importance of LRJ reform to financial markets.

Discussion
The proposed research was faulted by some as being too little concerned with questions of equity, although the equity implications of LRJ reform are fairly fundamental to the issue. How to change laws and LRJ environments to keep pace with and complement changes in economic policies was identified as an important point of issue.

Macroeconomic Stabilization
This research presently focuses on two aspects of fiscal policy, namely enhancing the transparency of tax administration and using excise taxes in governments' revenue mobilization. Clearly tax administration is an important factor for fiscal stabilization and an important determinant of the economic impact of tax policies. Increased transparency in tax administration could help to circumvent some of the (political-economy) obstacles to tax

policy reform and, thereby, contribute to more efficient government resource mobilization. Additional research envisaged under this theme would address a range of issues regarding tax awareness, tax evasion, and tax bases. The research on excise taxes found them to be an under-utilized revenue mechanism in sub-Saharan Africa and discussed reasons why this might be inefficient from a macroeconomic perspective..

Discussion

The difficulty of researching tax evasion and taxpayer attitudes was noted. Deadweight losses were identified as a measure that can gain support for tax reform. The problem of (and gains from) bringing informal enterprises inside the tax net was also noted.

Financial Markets

This broad topic covers a wide range of policy-related and institutional territory. Discussion covered the failure of financial markets to prosper more fully given the partial reforms implemented across Africa, and the implications of this for various economic sectors. Judging from the open discussion and from some of the presentations, many still see finance primarily as an input into real-sector activities and not as a market that intermediates between savers and investors. Legal and regulatory constraints to financial-sector development were not a part of this research agenda, except in regard to state ownership of financial institutions.

Discussion

The failure of national financial systems to better intermediate in terms of savings mobilized and profitable lending supplied is an important issue and one that would benefit from research and analysis. It is, however, a very broad issue and it is unclear whether the research agenda as presented is focused enough to contribute to policy reform.

Labor Markets

This research theme targets a number of labor market issues including skills, segmentation, unionization, private/public employment, race/ethnicity, and formal/informal sector. The countries of focus, Ghana and South Africa, provided a range of important considerations for the reform agenda. Of particular significance was the implied question of political economy for workers in those sectors that have enjoyed either special policy treatment or benefits accruing to unionization and other factors of labor market segmentation. Opening labor markets and removing barriers to job mobility are presumed policy reform objectives, and research into specific labor markets could help to obtain these objectives.

Discussion

Discussion addressed the difficulty of "managing" labor markets, taking up the question of how to absorb more labor into the formal sector. The importance of private-sector participation in skills training and development was noted. Other than that, however, the fundamentals of labor markets, such as the benefits to openness and non-segmentation of markets, might encourage limiting government involvement to ensuring that the levels of health, safety and ethics demanded by the society are obtained.

D. Communication and Dissemination Under EAGER

The EAGER Communications and Logistics Contract (CLC) facilitates the production and distribution of a range of project materials. A plan to achieve timely and effective dissemination of research results was developed in collaboration with managers from the two research cooperative agreements. Generation of research results is, however, a necessary pre-condition to implementation of this plan. Under the CLC implementation plan, the work contemplated through September 1996 lays the groundwork for dissemination (i.e., development of mailing lists, graphic markers for the project and of an electronic dissemination strategy, etc.), but envisages no report production.

In addition to producing and distributing materials, the CLC will provide logistical support to workshops and conferences held under the EAGER Project to date including the semi-annual Trade Regimes Workshop in Uganda in June 1996 and the July 1996 Washington workshop. The Uganda workshop and its predecessor in Mali successfully brought together African researchers, policy-makers, and stakeholders to debate and learn about specific economic reform issues. During the EAGER workshop, these two regional workshops were commended as belonging fully to their African participants.

Although expectation for the CLC is that it serve the goal of influencing the policy-reform process, EAGER's primary research activities through AIRD and HIID have been underway only about one year. Given the development of the research agenda, the development of collaborative relationships with African institutions and organizations, and the development of a fairly complex implementation structure, it is only now timely to apply greater effort to disseminating research results and extending the debate to include more policy-makers. Additionally, given the lag between policy analysis, advocacy, adoption and implementation, the extent to which this component is successful in reaching policy-makers and the policy process will become apparent only toward the latter stages of the project, and indeed, after its completion.

STRENGTHENING THE EAGER RESEARCH AGENDA

It was generally felt that the EAGER Project is on track in terms of its three major objectives of useful research, collaboration/capacity building and support for the process of economic policy reform in Africa. There was, however, a palpable push to focus the research and to ensure that it contributes to the policy-reform process. At the same time, participants expressed a need for the project to rein itself in and to centralize some of what has to date been decentralized. It is not clear how one could effectively centralize a project with an objective as diffuse as influencing economic policy reform in Africa through economic research and collaboration with local institutions and stakeholders. But a focus on research that addresses real and present obstacles to economic reform should be an adjustment that can be made in the development and implementation of the research agenda.

An important element of debate that arose often over the course of the workshop concerned the relative emphasis that should be placed upon promoting growth versus equity. Growth advocates argued that, whereas growth is likely to lead to equity, an initial emphasis on equity is unlikely to lead to growth. Equity advocates then countered that without broad-based support for reforms, it would be difficult to achieve policy change. They further noted that economic reform could not by itself guarantee equitable distribution of the benefits of reform.

IMPORTANT POINTS MADE IN THE INTRODUCTORY SESSIONS

The EAGER Economic Analysis for Policy Reform in Africa Workshop convened at Howard University on July 17, 1996, with welcoming comments by Dr. Harry Robinson, Vice President of Academic Affairs for the university. His remarks were followed by comments from John Hicks, Jerry Wolgin and Peter Thormann. Welcoming the participants to the university, Dr. Robinson expressed support for the goals and objectives of the conference.

A. Opening Comments by John Hicks, Assistant Administrator for Africa, USAID

In his opening comments, John Hicks noted EAGER's importance to removing policy constraints to development in Africa and the importance of this conference to the project's lifecycle. He listed EAGER's three-fold objectives of capacity building, policy-oriented research, and the integration of Africa into the global economy. Hicks cited capacity-building support for African institutions that train economic researchers and undertake useful economic research as fundamental to these three objectives. Through such support and by way of these institutions, a greater sense of ownership of sound economic policy will develop

He identified three key principles for the formulation and implementation of EAGER's research agenda:

- Research topics should be selected collaboratively with African government officials, private-sector agents, economic researchers, USAID Missions and other stakeholders.

- Stakeholder participation should continue throughout the research process.

- The research effort must include African researchers and institutions.

Mr. Hicks congratulated the consortia of Harvard Institute for International Development (HIID) and Associates for International Resources and Development (AIRD) for establishing systems that honor these fundamental principles. Encouraging the project participants to break new ground in moving from analysis to policy change, he also encouraged sensitivity to the historical foundations of trade and development-inhibiting policies that have held sway in Africa thus far. Policy change should help to create an “enabling environment” for stronger markets with broader access and opportunity. It should induce investments in people and in infrastructure and should encourage stable political environments.

In conclusion, Hicks urged EAGER participants to optimize the application of available resources so that they address the most important policy issues in host countries. He noted the importance of social issues to this goal and, in particular, gender issues and the need to include women in the project's vision of a Twenty-first Century Africa.

B. Comments By Jerry Wolgin, Director of USAID's Office of Sustainable Development Bureau for Africa

Opening his address with reasons to be “bullish” on Africa, Jerry Wolgin cited widespread respectable growth rates for 1995; large and balanced increases in trade volumes across most African countries; large (and profitable) increases in direct foreign investment; and repatriation to Africa of capital by private owners, evincing their confidence in their countries' economic futures. While noting that these positive indicators do not as yet constitute a trend, he expressed his belief that positive economic policies are key to achieving sustained economic growth over time.

Wolgin also noted the change in America's relationship with Africa, implied by reduced aid flows on the one hand and by increased private trade and investment on the other. The corollary to this shift is a more equal partnership wherein U.S. donor support for research fulfills needs articulated by African scholars and policy-makers; the EAGER Project is an important element of this trend.

Following his general introductory comments, Wolgin articulated several issues he felt the workshop should address: first among these was the quality of macroeconomic data in African countries. Wolgin stressed the unlikelihood of good policy emerging from flawed data. While noting that it is outside EAGER scope to try to improve African statistical capacity, he challenged researchers to find ways to measure informal activity; to better estimate real wages and changes in them; and to better estimate the tax base of national economies.

A second issue concerned returns to improvements in the legal, regulatory, and judicial (LRJ) areas of African national policies. Despite consensus that these areas constitute important constraints to private investment, there is less agreement upon which LRJ issues are most important to address and how to sequence them. In particular, Mr. Wolgin encouraged participants to consider LRJ reforms in terms of financial markets, for example, the scope for expanding national savings through financial market deepening and the real sector benefits accruing from increased financial-sector intermediation. He posed the question of how seriously lack of credit constrains the creation and expansion of businesses and wondered to what extent the reform process has already liberalized financial markets and, if not, what remains to be done.

The third area of suggested focus was that of fiscal policy. Noting that African governments were unable to maintain control over their expenditures even before the advent of multi-party democracy, Mr. Wolgin pointed out the importance of helping governments find ways to increase revenues while lowering marginal tax rates and reducing dependence on “easy” but trade-distorting taxes.

Fourth, Wolgin encouraged workshop participants to address the issues surrounding “openness”, recommending that this issue not be sidetracked by calls for regional integration, but rather remain focused on the fundamental questions of market-driven prices for goods and currencies, on the removal of tariff and nontariff barriers to trade, and on other factors that restrict African countries' competitiveness in tradable goods.

Finally, he called for serious consideration of gender and equity questions attending the reform process, observing that attention to these factors had not only "fairness" ramifications but also implications for economic efficiency and growth. In conclusion, Wolgin posed the challenge of practicality in EAGER's research efforts, calling for perceivable impacts on the process of economic policy reform in both the near and medium term.

C. Peter Thormann, Chief, Strategic Analysis Division, Office of Sustainable Development, Bureau for Africa

In his remarks, Peter Thormann provided a description of the workshop agenda and a brief explanation of the thinking behind it. Following the introductory context-setting session of the first morning, the bulk of the workshop would be to expose participants to the general thrust of the two main research categories (Trade Regimes and Public Strategies for Growth and Equity) and to the specific research activities initiated or contemplated under each. Because — in addition to research — communication and dissemination of research results is a central project element, this would be addressed as well. Following description and discussion of these project activities, the remainder of the workshop was to provide a forum in which to discuss where the project now is and where it should be headed.

The review of the research agenda was intended to address both content and process and to draw out recommendations for guiding the use of resources over the project's remaining three years. These recommendations should be grounded in the fundamental EAGER idea, which is to undertake and disseminate high-quality economic and social analysis which will contribute to policy change in Africa. This advocacy element in the development of the EAGER research agenda separates it from traditional USAID research funding.

Because EAGER research is expected to serve policy change through collaborative research and effective dissemination of research findings, Thormann proposed consideration of whether research topics chosen to date are important ones for effective policy reform in Africa. He asked participants to consider whether project objectives would be better served by applying effort toward creating a coherent body of work comprising related studies or by focusing more on collaboration and specific policy-impacting research. In conclusion, Thormann encouraged participants to participate by developing their views of the project and by communicating them to the community gathered there together.

KEYNOTE LUNCHEON ADDRESSES

Addressing the workshop were Jeffrey Sachs on day one and Michael Chege on day two. Summaries of both talks follow.

A. Jeffrey Sachs, HIID

In his keynote luncheon address, Jeffrey Sachs, Director of HIID, focused participants' attention on the centrality of a few basic market-oriented policies to improved growth and prosperity in Africa. Using a different analytical time frame from that employed by earlier speakers — most of whom were bullish on Africa — Mr. Sachs established the failure of economic growth in Africa and related this to the trade, fiscal, legal/regulatory, financial, and property-ownership policies of governments there. With the history of liberalization and reform in Latin America and Asia, much information is available that allows estimates to be made of the impact of different economic policies on growth and prosperity. The policies many African governments have pursued in common correlate with lower growth rates.

Sachs attributes Africa's low economic growth rates to four factors or categories of factors:

- High trade barriers
- Excessive tax rates
- Low savings rates
- Adverse structural conditions (including reliance on natural-resource exports and many countries' inaccessibility to the sea).

According to the results of a recent analysis,[1] factors that most undermine more-robust growth appear to be lack of "openness," lack of market incentives, and lack of national savings.

In explaining how such policies came to hold sway in African countries, Sachs cited some of the same factors noted by John Hicks in his opening address, including colonial depredations, bad experiences with international businesses, and poor advice. In regard to the latter, Sachs was critical of international donor organizations who, through their cycles of changing assistance priorities, have often served African countries less than well. The important point now attending the role of donor support for African countries is that, with aid money drying up, learning to deal effectively with existing policies can no longer be put off. As he has written elsewhere,[2] "Before public support for foreign assistance is undermined entirely by cynicism and fatigue, it must be recast along workable principles."

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[1] *Sources of Slow Growth in the African Economies*. Jeffrey Sachs and Andrew Wagner. HIID, February, 1996.

[2] *The Economist*, 339 (7972), June 29th, 1996, page 210.

According to Sachs, these workable principles imply a simpler approach than that evinced in his example of a World Bank adjustment loan with 111 conditions, most of which were to be met within the first six months of loan effectiveness. They imply a shift away from the dithering and debate about what will happen when the old policies are suddenly swept away that have characterized much donor support for reform to date. And, perhaps most importantly, these principles imply a compression of the time frame for effective policy reform. Sachs encouraged workshop participants and stakeholders in the process to understand that the window for abundant development support is closing and that there is no time to lose in shifting to market-based, growth-oriented economic policies.

Donor support should be reserved for countries that show a true commitment to market-based and export-led growth. Furthermore, aid for policy reform should be limited in duration, aiming only to provide balance-of-payments support during the initial period of reform. Sachs proposed a pre-announced sliding scale of aid for policy reform that begins with generous resources, which then decline over a limited horizon (a single decade). Such a policy would replace the current incentive system — wherein governments first garner all of the donor payments they can hope to receive before making policy changes — with one in which governments understand up front that if they do not accept assistance and make changes now, there may be no external support for their period of adjustment when they finally do decide to act.

A final element of donor support for Africa proposed by Sachs is debt cancellation, allowing countries to use scarce public funds for activities other than debt service; such a course admits to the "mutual complicity" of donors and African countries in the fruitless loans that generated this debt. Any form of debt relief should be conditioned upon fundamental reforms.

Speaking to actual policy reforms, Sachs advised seriously reducing and regularizing import tariffs and taxes on exports. Such a policy shift would go a long way toward ending Africa's self-imposed exile from the world economy. [Rates for direct taxes should be reduced as well. Simplified tax codes and improved administration of tax policies — by broadening the tax base — might well offset the reduced revenues implied by lower rates.] A second fiscal policy issue governments need to address is that of government spending: reducing subsidies to state-owned enterprises, marketing boards, and financial institutions would help to achieve this goal and would carry the added benefit of helping to move economies toward a more competitive free-market footing.

Private as well as government savings rates will need to rise, if domestic investment is to be forthcoming, and for this to take place governments will need to ensure that their financial systems and the institutions that operate within them are governed by better policies than those now in place. Privatizing state-owned banks is one means of achieving this; reducing direct control of financial flows is another.

Sachs also advocated increasing government expenditures on health, education, and infrastructure (in particular, roads). He supports the idea of government support for trade through export-processing zones and tax policies that favor both domestic and foreign investment. The most important elements in encouraging faster, export-led growth, however, are macroeconomic stability, convertible currencies, and access to capital goods and intermediate inputs at world prices. In his conclusion Sachs encouraged participants to pursue the implications of both theory and research results and to focus their efforts on practical objectives for reforming policies in African countries.

B. Michael Chege

During the second day's luncheon gathering, Dr. Michael Chege, a visiting scholar at Harvard University's Center for International Affairs, addressed the management and administration of policy change in Africa and developed an historical context for the current round of policy reform. Tracing the history of economic structure in his native Kenya over his own lifetime, Chege reminded participants of how greatly the economic rules governing citizens have changed there and, by implication, in other African countries over the past half century. In leading up to the present, he offered compelling evidence of donor inability to effectively promote economic recovery and development, even in the presence of significant transfers of subsidized financial resources from the donors to African governments.

Chege identified the link between economic analysis and ongoing project work as central to the task of managing economic policy reform; this link feeds both ways, with project-implementation needs driving the agenda for analysis and with research results allowing project-implementers to make adjustments as needed. He noted that, even in the arguably more exact craft of engineering, much achievement derives from the “art” of the engineer. Likewise, the management of reform is really an art that requires creative genius, design and redesign, rearrangements of components, trial runs, and experimentation.

Errors in “managing” development in Africa took some criticism, particularly for having taken place in the presence of basic principles and an operational form for implementing them. Specifically targeted were “fuzzy” pronouncements recommending “good policy, good institutions and good leadership”; empirical studies showing links between obvious factors such as civil unrest and slow economic growth; and application of data to eloquent but trivial models that show economic growth is “dependent on all the known economic, social, and political variables.” The question implied by this review of the literature is whether or not economic analysis is in fact being used as effectively as the management of policy change requires.

In conclusion, Chege commended the EAGER objective of supporting economic research that promotes economic change in Africa and called for applied research that would have value in application and, in particular, in implementing policy change. He encouraged continued dialogue between holders of differing opinions about development in Africa and urged that all channels of communication between Africa and the rest of the world remains open.

EAGER'S TRADE REGIMES COMPONENT AND ITS RESEARCH THEMES

One of two EAGER Cooperative Agreements, the Trade Regimes component, has AIRD as its prime contractor. Sub-contractors are HIID, Purdue University, University of Laval, and AMEX International.

A. Overview

On the afternoon of day one, Dirck Stryker, AIRD's chief of party for the EAGER Trade Regimes Cooperative Agreement, provided an overview of activities undertaken to date. This research has three prime objectives:

- Policy relevance of research themes
- Participation of stakeholders in research design and implementation
- Collaboration with African researchers and institutions

Management extends from the chief of party and senior advisor to regional coordinators, a management committee, a technical committee, a country advisory committee, and host country research and regional centers. This broad organizational base allows for extensive collaboration and coordination developing and implementing the research agenda.

The original basis for the research agenda was determined, in part, by background survey papers. USAID Missions with a potential interest in participation were identified, with further identification/specification of research topics undertaken in collaboration with Mission staff. From this stage onward, research topics were fairly well defined, and the process moved on to the preproposal and final proposal stages. Across these topics, research has moved forward at a standard pace, with all of the separate efforts maintaining a similar schedule for mid-term (at six months) and final project reports.

This standardization of the research schedule has contributed to the effectiveness of the semi-annual workshops held to support this research: two such workshops have taken place to date, one in Bamako (December 1995) and the other in Kampala (June 1996). Workshop sites rotate among participating countries as a way of bringing together African stakeholders for broad discussions of economic policies and the relevance of the research agenda to their formulation. In addition to these substantive discussions, the workshops provide for technical supervision of the research. They have been an effective means for engendering greater collaboration and cooperation between American and African researchers.

Stryker concluded his description of the Trade Regimes component with a listing of the current research themes, noting that these have been derived from ongoing discussions and debate and that some of them were not anticipated early on in the process. These are current research themes:

- New Opportunities for African Trade;
- Challenges to Trade Policy Reform;
- Regional Integration in Southern Africa;

- Barriers to Cross-Border Trade; and
- Monetary, Fiscal, and Exchange Rate Policies.

Following his introductory description, Stryker entertained questions from the floor.

Questions

- How costly is project management relative to the research itself?
- How does the project ensure utilization of the research results?
- Given that project outputs include effectiveness of the research in influencing policy, is there a monitoring system to track this?

Answers

The costs of the management system are running at about 35 percent of total costs — not high, given the nature of the effort. Regarding implementation, this depends upon the specific research project but, in general, by working collaboratively with implementing agencies and by being plugged into the policy environment. If the research effort is built into the policy framework, then relevance in implementation is assured. The country advisory groups are also important in this respect. In regard to monitoring, the project team is currently developing such a system in collaboration with Basic Health Management (BHM), the firm responsible for dissemination and communication.

B. Sessions on Component Themes

Following the description of the overall Trade Regimes component, one plenary panel discussion and four concurrent sessions were given focused in more detail upon the five Trade Regimes research topics. Summaries of these sessions follow.

B.1 New Opportunities for African Trade and Investment

Chair: Lucie Phillips
Rapporteur: Will Masters

Chaired by Lucie Colvin Phillips, this discussion included Lynn Salinger as speaker and John Cockburn and Mary Kay Gugerty as panelists. Will Masters served as *Rapporteur*. Ms. Salinger's comments followed closely the abstract to her paper entitled, " New Trade Opportunities for Africa: A Survey of Literature and Experiences."

Opening her presentation with a broad overview of her topic, Salinger defined new trade opportunities as *new products*; *new markets*; and *new modes of trade*. During the period of Africa's attempts at import substitution, world markets have changed. Thus, the world economy that African countries are now opening up to is quite different from the one that they erected barriers against years ago. Trade is now more heavily oriented toward specialized manufactures, high-value food and agricultural products, and services.

Given these new market conditions and the need to produce what markets demand, Africa must learn to meet the requirements for this sort of production. Although global trade is dominated by Organization for Economic Cooperation and Development (OECD) countries, middle-income countries (in particular those of Asia) are forging more and more inroads. Investment flows typically precede and lead to expanded trade flows, especially in labor-intensive manufactures that depend upon design and manufacturing expertise. In regard to attracting such investment, [labor] cost advantage is only one factor, albeit an important one, in the investor's decision. Infrastructural capacity, access to markets, worker motivation and flexibility, and technological capability are among the other important factors.

Taking the need for positive macroeconomic policies and incentive structures as given, government has an important role to play in developing and implementing proactive mechanisms to promote trade and investment. Although these should not substitute for real and effective trade-policy reforms, they can help boost trade and investment in the near term. Such mechanisms include:

- Special access to foreign exchange for traders;
- Special tariff treatment for exporters (e.g., duty drawback schemes, waivers, exemptions, temporary admission, bonded warehouses, etc.);
- Infrastructure for production zones (e.g., sea/airport development, storage facilities, free-trade zones, and export-processing zones);
- Investment promotion schemes (e.g., tax holidays, tax treaties with trading partners, interest subsidies, unrestricted investment licensing, favorable tax codes, liberal capital repatriation schemes, etc.);
- Export-promotion schemes (export subsidies, streamlining exporting procedures, export promotion boards, trade fairs, etc.); and
- Entrepreneurship or private sector development projects.

Governments need to design effective supply-side interventions, and the private sector must assume a greater advocacy role in promoting trade and investment policy reform.

John Cockburn, University of Laval
The first panelist, John Cockburn, opened discussion by posing the question of how this project can help to analyze productivity, labor market mobility and wage rates, distortions in factor markets and in markets for goods and services, and distortions in exchange rates? Additional factors include infrastructure, fiscal policy, LRJ issues, and research and education. He also noted that it will be important to focus on priority areas in analyzing competitiveness.

Mary Kay Gugerty, HIID
The second panelist, Mary Kay Gugerty, summarized her perceptions on the issue by noting that little information exists on the structural barriers to trade. [To invert John Cockburn's point] what needs to be done in a given country depends upon where that country's comparative advantage lies [Cockburn's point being that it is hard to know where comparative advantage lies until the distortions are removed.] Because supply responses to reform vary across countries, governments need to acquire an analytical framework to set priorities, perhaps “leapfrogging” old technologies. It will be important to reform educational systems to improve available human capital. Finally, micro-level studies will be needed to determine empirically the relative importance of reform issues.

B.2 Challenges to Trade Policy Reform

Chair: Dunstan Spencer;
Rapporteur: John Cockburn

Jeffrey Metzel, AIRD
Summarizing his research paper, written in collaboration with Lucie Colvin Phillips, Jeffrey Metzel opened by noting that in many African countries trade-policy reform has advanced: nontariff barriers have been lowered, exchange rates have been allowed to respond to market forces, internal trade monopolies have been scrapped, and export policies have been liberalized broadly. For all of these reforms, visible economic impact to date has been very weak although positive. Why have these reforms not delivered higher growth rates given the expectations?

First, it is important to distinguish between *adoption* and *implementation* of reform. While reform efforts have been adopted in meeting loan conditionality, they have in many cases never been fully implemented whether due to insufficient capacity or to lack of commitment and/or political will. When implementation has taken place, reforms have sometimes been less than effective due to redundancy (i.e., one factor is targeted for reform when in fact there is more than one barrier to market activity); exemptions; or because complementary measures are not pursued. In other cases, reforms have been reversed because policy-makers have lacked commitment; macroeconomic instability has forced reversals; and new or re-emergent political pressure has weighed in against reforms.

Rather than taking place through a single government announcement, economic policy reform is instead a constant battle against special interests that will lose some advantage under reform. To more effectively wage this battle, governments need to create a stable investment climate that improves the likelihood of capital investment; consolidate trade reforms to make back-tracking less likely; pursue complementary internal market reforms; and develop constituencies to sustain reform.

Abdoul Barry
Abdoul Barry concurred with the finding that reform in Africa has not succeeded as expected and that this stems in large part from the process having been only partially completed. Two contributory factors are notable: the absence of broad-based acceptance of reform elements and the lack of any effort to develop broader consensus on the reform. In particular, the imposition of reform policies by the World Bank and other donors has undermined both the principle of due process and the reforms themselves in striking contrast to the successful experience in Mali with its national policy advisory committee, comprising both stakeholders and policy-makers. The aim of this committee is to help ensure acceptance and sustainability of reforms.

Lucy Colvin Phillips
Ms. Phillips identified a more fundamental cause of the failure of reform in Africa, noting the different "economic culture" there, one in which values and attitudes about work, distribution and wealth accumulation differ from those held in market economies. In particular, economic management goals in Africa seek to achieve growth within the loyal community of followers;

ensure that all members work and produce sufficient food; produce a food surplus and local specialties that funnel to the top; trade the communal surplus for luxuries; and exchange gifts and offer generous hospitality. If this disparity in economic goals is as widespread as indicated, it would go some way toward explaining why reforms have been so widely resisted and have produced such negligible results to date. It further suggests that a major cultural shift (a paradigmatic shift, following Kuhn) is needed before reform can have its intended impact on economies in Africa.

Discussion

Jeffrey Metzel's point regarding the distinction between adoption and implementation was discussed at some length. It was broadly perceived that liberalizing reforms should work if properly implemented, but participants disagreed upon how best to implement reforms, i.e. the question hinging upon whether a "big bang" is better than a more gradual approach. Some participants felt that further research was needed, particularly in the area of the political economy of trade reform. This proposal sparked a debate concerning how to determine the optimal trade-off in applying research resources to questions of competitiveness and trade opportunities versus analysis of the political economy of reform. In a similar vein, the point arose that it was necessary to bind reforms already made and that membership in World Trade Organization and regional accords was perhaps, an effective means for achieving this.

B.3 Regional Integration in Southern Africa

Chair: Sam Wangwe
Rapporteur: Ndaya Beltchika

Daniel Ndlela, Zimconsult, Zimbabwe

According to Daniel Ndlela, regional integration, which enjoyed limited success in Africa over the past ten years, is moving to center stage as a response to the poor performance of trade among sub-Saharan countries and between the sub-Saharan region and the rest of the world. Regional integration presupposes harmonization of the economic policies of individual countries. It also requires a careful enumeration of the gains and a definition of compensation mechanisms established to ensure equitable distribution of those gains. Regional cooperation, which is a looser concept than regional integration, refers to a situation in which individual countries act together for mutual benefit. This has been successful to a degree in Africa. Many argue that regional cooperation is necessary for regional integration.

In the eastern and southern African regions, several attempts have been made at forming regional integration mechanisms. The Southern African Customs Union (SACU), created in 1969, was successful in increasing and sustaining trade among its members and in managing compensation schemes for its poorest members. The Southern African Development Community (SADC), created in 1992, represents a regional agreement of cooperation in which country members agreed to share resources and technology and to collaborate on joint projects such as infrastructure development. The Common Market of East and Southern Africa (COMESA), created in 1993 from the former Preferential Trade Area for Eastern and Southern Africa, is facilitating a gradual reduction of tariff barriers among its members. Many of its member countries are lowering trade barriers, not for the sake of regional integration of cooperation, but rather under structural adjustment programs. Tariff harmonization among members, however, is also a necessary condition for regional integration.

Regional Trade in Southern Africa

Trade as a percentage of GDP is over 67 percent for the countries of the region. However, South Africa's trade share as a proportion of GDP is only 43 percent, the lowest of the region. In other words, South Africa's is the most closed economy in the region in terms of barriers to trade, and South Africa is the country likely to benefit most from regional trade liberalization.

Within the existing regional arrangements, trade is low. Intra-regional trade is under 7 percent of the total trade for COMESA and 4 percent for SADC. It is important to note the existence of a large amount of unrecorded, informal cross-border trade. (Some studies suggest that unrecorded trade may be as much as 15-50 percent of the value of recorded trade.)

There are some characteristics of trade within regions: South Africa and Zimbabwe export sizable volumes of manufactured goods mainly to other countries of the region, and they import unprocessed primary commodities from the region; considerable cross-border trade exists in tourism and business services, mainly in favor of South Africa; and South Africa accounts for 84 percent of total GPD of SADC countries.

Major Benefits of Regional Economic Integration

- *Trade creation*: A reduction of barriers will stimulate additional trade with lower-cost trading partners.

- *Trade diversion*: With trade barrier reductions, some trade that may have originated from outside the region prior to integration will now come from within the grouping.

- *Possible decrease in South Africa's one-way trade*: Promotion of exports to regional markets with subsidized products while maintaining very high protective tariffs is beginning to decrease following South Africa's commitment to the World Trade Organization.

With the Cross Border Initiative (CBI), which is based upon structural-adjustment programs and carried out by member countries (excluding South Africa), there is an opportunity for free-trade arrangements to act as a first step toward full multilateral integration.

Steve Radelet, HIID

In his talk, Steve Radelet summarized important points from his paper, “Regional Integration and Cooperation in sub-Saharan Africa.” These agreements have generated little growth in African regional trade to date, not because there are no potential gains from trade in sub-Saharan Africa, but rather because the mechanisms of formal trade agreements may not be the right first step to realizing such gains. In the absence of economic and political stability, and given limited infrastructural and communication linkages and, perhaps most importantly, very few outwardly oriented trade policies, regional integration will be too broad a reach. Without the necessary structural conditions, focus on regional integration agreements may simply divert policy-makers' attention from efforts to integrate with the world economy.

A clear distinction needs to be drawn between integration agreements (which focus on trade and factors of production) and cooperation agreements (which involve development of common standards, investment policy harmonization, or joint infrastructure projects). The latter have achieved broader success in obtaining their goals.

Prerequisites for effective regional economic integration — and factors, therefore, that research might focus on — include the following:

1. *Greater trade integration with the rest of the world*. Before expecting much from such agreements, SSA countries must implement policies that help them to move toward market-oriented economies. While there has been some progress in this area, barriers to trade and investment are still relatively high.

2. *Political, infrastructural and fiscal impacts of government policies*. Some policies often impede a country's ability to integrate its economy with the rest of the world.

3. *Macroeconomic and political stability*. Without these, regional integration will be nearly impossible.

In sum: African countries must first engage in more outwardly oriented policies, which will leave plenty of room for regional cooperation, in such areas as research and infrastructure. Such cooperation may lay the foundation for future regional integration and more formal agreements.

William Masters, Purdue University
William Masters presented observations from Zimbabwe, starting from the question of why so little regional trade has developed following regional integration and ten years of structural adjustment. In particular, why has so much trading remained in the informal or unrecorded sector? Why have incomes remained so low? And why, when apparent constraints were removed, did so little change?

Here are some possible reasons:

- Constraints removed were important but not binding; therefore, removal would not change resource allocations.

- A policy implementation in one sector may greatly influence another sector, creating resource flows across sectors and across markets. (maize/oilseed)

- When trading relations change with one partner, adjustments need to be made with third trading partners (European Economic Community and Lome convention).

In sum: Policy adjustments to date have been insufficient (although they may have been necessary). Resource movements from sector to sector have been hard to predict. Trade adjustment with other partners has been similarly complicated. Finally, regional integration with trading partners requires competitive markets domestically and trade integration with the rest of the world.

Questions and Comments

Question: What is the sequencing between regional integration and integration with the rest of the world?

Comments:

- Tariffs collected are much lower than official tax rates.
- Maybe we don't see much success or sustainability in policy implementation because of a lack of policy ownership. Most policies are imposed under structural-adjustment programs.
- In West Africa, the West African Enterprise Network (WAEN) has developed lobbying measures to bring its problems to the attention of politicians. Tariffs are only half the story; customs hassles, transportation bottlenecks, and money-transfer difficulties also impede regional economic integration.
- Legal issues are also important.
- Regional integration is about cost competitiveness and for many goods sold marketing aggressiveness is lacking.
- South Africa appears to be slow in joining the efforts of regional integration and is thus missing opportunities to trade with other countries that open their economies (case of Zambia). In many countries the private sector is against liberalization; how do you educate them regarding potential benefits?

Responses

It is important to stress the potential value of an institution like the WAEN, which brings to light problems facing entrepreneurs, creates lobbying activities, and maintains dialogue with the government.

Many barriers constrain trade; the important issue is to identify and remove the binding constraints.

South Africa is more interested in bilateral than in multilateral agreements.

In many cases the private sector promotes liberalization of the economy without a full understanding of the consequences. The private sector has to realize that liberalization entails competition and that this is a learning process.

B.4 Barriers to Cross-Border Trade

Chair: Lynn Salinger
Rapporteur: Steve Radelet

Abdoul Barry

While African policy-makers have shown considerable interest in regional cross-border trade for some time, official trade between bordering countries has been very low: in the range of 6 to 9 percent. This statistic must be read with the caveat that official trade data in Africa are somewhat unreliable, particularly with respect to cross-border trade. But, even so, cross-border trade is not as great as would be expected, given the theoretical gains available from it.

There are some reasons cross-border trade and trade expansion in general have not developed to a greater extent in Africa:

- Inwardly oriented development strategies including, the proliferation of state-owned enterprises, high tariffs and other trade barriers

- The concern among African policy-makers that food is too important to be left to the private sector and that state-owned enterprises should play a major role in distribution of foodstuffs

- Difficulty in transferring money across borders; (for example, 21 working days to transfer funds between Mali and Cote d'Ivoire, with the same bank and the same currency on both ends of the transaction)

- Cumbersome and costly customs procedures — both in terms of official requirements and in terms of graft and corruption

- Lack of reliable infrastructure such as roads and telecommunications

While these constraints probably hinder official trade much more significantly than they do informal trade, they all undermine trade volumes and imply economic losses to the countries involved.

Lucie Phillips
While open trade between bordering countries has been promoted as an important element in trade liberalization, porous borders and transhipment of goods across them has received relatively less attention. The transhipment of gold and gems across the Tanzania-Kenya border is one example of African trade taking place without effective legal and/or physical barriers; Tanzania loses considerable revenue through this unregulated cross-border trade.

Among African countries, common trade barriers [“transaction costs”, following Williamson] include weak and costly communication links; poor transportation infrastructure; payments problems; and delays (time costs). In addition to these transaction costs, cross-border trade is constrained by a lack of market information, travel barriers (in particular, road blocks), a lack of marketing skills and institutional support; tariff barriers; an unreliable judicial framework; and high risks without means for insurance.

Jeffrey Metzel

Livestock trade in West Africa typifies much cross-border trade in that it is characterized by many small-scale traders with numerous links to the trade chain. However, this market is undergoing a steady transformation toward a more-efficient system as represented by the transition from trekking to trucking animals and the beginning of trade in red meat. Numerous constraints in this process exist, including: breakdowns and a lack of spare parts; bad roads; and, perhaps most importantly, delays caused by checkpoints along the trade journey (15 to 30 checkpoints along commonly traveled trade roads between Mali and its trading partners.) These roadblocks and the money and time costs of passing them create a disincentive to using roads and trucks for transporting live animals.

In response to the constraints to cross-border trade in meat and live animals, private traders have formed organizations and associations that aim to reduce shipping costs. These have begun to evolve from self-help organizations to formal trade associations that provide services to members for a fee. Other attacks on the high costs of cross-border shipment include publicizing the existence of roadblocks and lobbying governments to control them.

Mali has a comparative advantage in livestock production and the demand for red meat in West Africa is growing, so pressure should continue to build for reducing these trade barriers.

Questions

- Where do we go from here? Is it enough to document problems and bring this information to the attention of policy-makers, or are they, too, a part of the problem?

- Did similar barriers not also exist in Asia? How were these overcome? Moreover, in Africa, inexpensive Asian goods are found in the most remote rural markets. How are these Asian goods able to compete so effectively in the face of purported cross-border trade constraints?

- Is the real issue, perhaps, lack of product competitiveness rather than barriers to trade?

- What is the difference between basic price incentives and transaction costs. Can the costs of transhipment be quantified so as to show policy-makers what are the true barriers to trade?

Evaluating new value-adding activities in traditional cross-border trade and then assessing constraints in these areas was identified as an important area for research.

B.5 Effects of Monetary, Fiscal, and Exchange-Rate Policies on Trade

Chair: Diery Seck

Rapporteur: Selina Pandolfi

Dirck Stryker
In Africa, with the exclusion of the Central African Franc (CFA) zone, much has been accomplished by policies that freed the exchange rate and generally liberalized trade. Although these changes have been dramatic and are quite evident, many African economies still face strong barriers to trade, mainly generated by the presence of vested interests. In Ghana, for example, the interests of the producers of importable goods are supported by the existence of the Commissioner's Evaluation, which often increases the value of imported goods (and therefore the amount of duties) for protective purposes. These kinds of phenomena are deeply rooted in the system, and their removal is often a slow and arduous process.

On the exchange-rate side, in many cases local currencies have not reached the level of stability needed for sustained improvements in economic growth. Again in Ghana, the exchange rate is appreciating in real terms, since the rate of depreciation is lower than the rate of inflation. The Ugandan government sterilized profits resulting from an export boom of the coffee sector by imposing a stabilization tax on coffee exports. This was done in order to avoid a “Dutch Disease” effect, which would have led to a loss of competitiveness for the other sectors of exportable goods due to currency appreciation caused by the boom in coffee exports.

On the fiscal side, the dependence of African governments on revenues from trade taxes creates a bias against exports. In fact, financing deficits remains a priority and while it is still a major issue, policy-makers should be concerned with the bias generated against exportable vis-à-vis import-competing and nontraded goods.

The research team is also concerned with issues relating to non-neutrality in respect to trade of indirect commodity taxes, such as excise taxes or VAT. In fact, these tend to be charged on imports rather than on domestic production, since indirect taxes are easier to collect on imports and in most cases tax collection in domestic economies is weak. Related to this issue is a scheme established for the import of duty-free inputs for the export sector: such goods may enter the country duty-free or be subject to duty-drawback schemes, bonded warehouses, export-processing zones, or a system of coefficients which calculates the percentage value of taxes paid on each imported input in the production of exportable goods. Duty-drawback systems are often complex and discriminate against those small producers who lack the administrative capacity to deal with them. Bonded warehouses are costly to administer and are frequently affected by leakage, as are export-processing zones. The use of coefficients should on the one side make the system less complex to administer and on the other allow for quicker controls on the actual use of the imported inputs.

Joseph Abbey
The main problem affecting issues of taxation is that in African countries fiscal policies are quite hard to control. In Ghana, for example, the level of tax collection improved following fiscal reforms on import tariffs but was offset over time by an uncontrolled expansion in public expenditures. It is imperative to understand the realities of local economies affected by vested interests, alliances necessary in order to implement the policies, etc. In most cases,

these factors limit the scope of intervention, especially if they entail the reduction of potential revenues or, worse, cuts in expenditures.

Again in Ghana, policy-makers had to deal with the lobbying effort of the entrepreneurial sector, which complained about the depreciation of the cedi. As a result, the government has implemented some rationing in foreign exchange and credit to the private sector; thus causing increased unemployment and potential damage to the nontraditional export sector.

In this regard, the EAGER Project is relevant inasmuch as it is able to show inconsistencies in the policies currently implemented and forecast some general consequences for the countries in consideration.

Graham Glenday

The fiscal experience of Kenya sheds an interesting perspective upon prospects for fiscal reform in African countries. After 1983, the Kenyan economy was closing, recording a significant fall in the level of both exports and imports. Although tariff liberalization began in 1987, it was only in 1993, following the elimination of foreign-exchange restrictions, that exports and imports rose again to significant levels.

In the last decade, within the framework of extensive liberalization and adjustment, Kenyan authorities have reduced most taxes, both direct and indirect. The most significant interventions have been implemented on the top rates of import duties (from 170 percent to 35 percent) and on the top rates of sales taxes (from 150 percent to 15 percent). As a result of these policies, tax revenues have been increasing from 21-23 percent to almost 28 percent of GDP, although they are currently recording a slight decrease.

These results came about through administrative reform, increased controls on tax collection, and changes in exemptions and in the rate structure itself. The implementation of the entire process was characterized by the government's strong commitment to promote a tougher administration, accompanied by a reduction of informal trade but an increase in nontraditional exports to Tanzania and Uganda as both countries undertook similar adjustment programs.

An important step in Kenya's fiscal reforms was the removal of all discretionary exemptions (and thus of potential abuses of the system) as tariff rates were being reduced. Although this measure took away considerable power from the authorities, it has improved significantly the rate of collection. Furthermore, increased system computerization, has reduced scope for falsification.

In the opinion of the researchers, policy changes have taken place in Kenya (which has a reputation for its high levels of corruption), because they occurred gradually. In fact, Kenya generally is ruled by a minority government, which is therefore obliged to implement its policy changes step by step. (The only exception to the pattern was the removal of foreign-exchange controls and import licenses, which was implemented quite suddenly.) Moreover, if the culture is one of tax evasion, lowering tax rates smooths the transition to a broader tax base resulting from administrative changes and tougher controls.

Since 1993, Kenya's economy has performed quite well: private capital once again flows in the country and, most of all, the government's level of credibility has increased. In fact, the overall effect of the policies on the population has been positive, as they are perceived as having brought a fairer application of the fiscal system and lower tax rates.

AIRD PANEL DISCUSSION ON TRADE REGIME RESEARCH THEMES

On Thursday morning, a panel composed of Dirck Stryker, (Chair), Richard Green, Don Mead, Joseph Abbey, Michael Chege, Dunstan Spencer and Benno Ndulu commented on the concurrent sessions undertaken on the previous day. Lynn Salinger served as *rapporteur*.

Dick Greene (speaking on overall project thrust):
Greene agrees with Sachs' optimism about Africa's future, and also favors a strategy of economic openness to achieve growth. However, he feels it is inappropriate to make too large a distinction between "big bang" growth and nothing. Africa now has the human resources to do policy analysis and learn from mistakes. There are also encouraging examples from elsewhere around the world that demonstrate growth leading to poverty reduction. Ten to fifteen, possibly more, countries around the world now offer examples to test hypotheses regarding the correlation between increased trade openness and reductions in poverty. Let's get on with the actual testing. Maybe we won't find a big bang, but a PBB (pretty big bang) for growth should be possible. [Yes, agreeing with Joe Abbey] we need to look at how the pretty big bang will affect the poor and also the impact on the poor of doing nothing.

We should be doing more micro case studies in the CFA zone, where the most recent IMF document doesn't go far enough. Probably we also need to look at the savings issue and the CFA zone is important on this one, too, because of restraints on government borrowing. Kenya is another example of a country having undergone significant exchange-rate change and fiscal reforms.

Don Mead (speaking on the discussion of competitiveness in the New Opportunities for Trade in Africa presentation):
According to Mead, things economists do not do very well include predictions regarding long-term trends. Economists do even less well at predicting which products or sectors will thrive. Leave that to entrepreneurs he suggests; we as economists should not attempt to counsel governments regarding which sectors will thrive. Mead assumes that the EAGER/Trade Project does not propose to stop with predictions but is undertaking competitiveness analysis in order to be able to suggest examples of sectors which "might" thrive and identify the binding constraints which may confound economic growth overall.

If Jeff Sachs is right (says Mead), we don't need to do any of this analysis; just <u>liberalize</u> and let the economy get on with things. But the world is rarely that simple: for every complex problem, there's always a simple and straightforward solution — one that is usually wrong. We can't assume we are God or that we have God's ear. In the U.S., we're proud of our system of checks and balances and the fact that no one individual can proclaim an edict changing the entire system in one morning. It is important to note that only one person in the entire room suggested that there will be <u>losers</u> in this process of trade liberalization. Our research can, however, contribute to the political economy discussion via identification of favorable opportunities, constraints, and the nature/magnitude/distribution of gains/losses from liberalization, all of which will be appropriate foci for EAGER/Trade.

Joe Abbey (speaking on the discussion of the political economy of policy reform):
Abbey posed the question of how EAGER will help us in the end. In surveying all the stabilization/structural adjustment activity to date, it is clear that conditionalities have largely been complied with, yet growth and poverty-reduction outcomes remain unimpressive. How do we reconcile these observations? Are we too impatient? There is a credibility issue, especially in those countries that experimented with socialism. What light can EAGER shed on this?

It is important to note certain key price variables. Interest rates and the ensuing depreciation of the cedi are not behaving as expected in Ghana. One actually observes negative real interest rates there, yet all economic actors are feeling strapped. What is happening as a result to resource allocation? Although the cedi is falling, there is a real appreciation of the cedi given the rate of inflation. How does this affect the competitiveness of non-traditional exports? Unemployment is on the rise and union membership is falling. What other variables should we be examining? Are the macro/micro linkages misunderstood? Maybe the consumer price index is not the appropriate measure of price changes; would sectoral price indices perform better?

Ghana is suffering from *delayed* reform, not from reform itself. No compensation is planned for losers under structural adjustment. In fact, we cannot forget that each rent-seeker actually supports a lot of poor people, so everyone screams if you eliminate rents. The poor are also so intermingled with everyone else, it's hard to target meaningful interventions. Absolute reduction of poverty in rural areas, however, has occurred. Also, women (who depend more upon trade) are doing better than men (who are more salary dependent).

Bruce Bolnick (Speaking on regional integration (RI) presentation):
Bolnick concurs with Steve Radelet that regional integration is not all it's made out to be. Africa should not expect huge gains from RI, in particular when it is used as a means of avoiding or displacing outward orientation. Regional agreements of cooperation, on the other hand, can facilitate trade. Numerous examples exist of cooperation in power generation, for example. Regional trade agreements as such are probably a waste of resources, while a regional focus on infrastructure development makes sense.

The dilemma of South Africa's role in southern African RI was highlighted in Bolnick's presentation, especially South Africa's desire to liberalize more slowly than its neighbors; a position extremely aggravating to them. These countries are concerned that they are being forced to “de-industrialize” under structural adjustment, while South Africa is not obliged to bite the same bullet and will use its relative strength at the end of the day to exploit them. It can be argued, however, that most prior industrialization in the region was inefficient anyway, because it was based on import-substitution strategies and high tariff protection with foreign-exchange controls.

There must be a transformation of the economy in order to achieve sustainable, productive jobs. Before, industrial employment was a kind of welfare program, from which 10 percent of the population benefited at the expense of the other 90 percent. We cannot ignore the losers, to be sure, but we need to do a thorough job of identifying the *winners*; that's the equity issue. For example, we need to talk about the consumers who were hurt by protection in the past and will now benefit from liberalization: an example of this took place in the milk sector in Zambia, where 100 employees stood to lose employment at the "risk" of benefiting 100,000 consumers of milk. We need to tell these stories. As regards the problem of being landlocked, this may be more than just geographic; it may be more of a legal issue in terms of negotiating access to the sea via new corridors.

Dunstan Spencer (speaking on the barriers to cross-border trade presentation)
Spencer's presentation covered two themes: the need for new information and the need for strategies. Is actual cross-border trade low because barriers still exist? Is this the real problem? Or is the level of unrecorded trade so high that we're studying a false issue. We need to establish what the trade flows *really are*. Yoon Lee observed that Asian goods manage to penetrate markets everywhere in sub-Saharan Africa, paying all the transaction costs we complain about; thus, their success must be due to the simple fact that these goods are more competitive than African goods. The focus, therefore, needs to be on competitiveness. We need to focus on bringing the transactions costs down in Africa.

Emphasis in these various studies is on micro studies, information collection, with the objective of *eliminating* barriers, not constituting new ones. In Mali, the Customs and Excise Tax office wants to reinstate export taxes simply to improve monitoring of trade flows. We need to avoid this. Many problems exist and were highlighted in the presentations: issues of monetary transfers, barriers at borders and inside countries, telecommunications problems, legal/contract enforcement issues. We need to listen to Jeff Sachs and prioritize, selecting a few key conditionalities. What strategies do we then pursue to achieve the reforms? For example, there is a need for publicity and public awareness: people must be informed that they don't need to pay taxes that have been eliminated. Also, we need to be able to negotiate with potential losers: help them appreciate what the situation is, develop compensatory measures for them, "buy" their support, and get on with the reforms!

Benno Ndulu (speaking on the monetary, fiscal, and exchange rate policy presentation)
The highest policy payoffs are in the cutting-edge issues. Need to get on with business despite difficult transitional issues. Research can document reform efforts made to date, but the real contribution will be looking at the difficulties being encountered now. Credibility of the reforms is vital. The slow, weak response to reforms is a function of the transition from a controlled to a liberal environment. Investors used to operate in an environment with guaranteed high profit margins (due to high risks); now they need to be persuaded to accept lower margins [editorial comment: of course, they won't if they are unconvinced the risks are in fact reduced].

With regard to macro issues, the fundamental problem is one of the consistency (or lack thereof) between trade reforms, on the one hand, and macro stabilization programs, on the other. With regard to exchange-rate policy, appreciation of real exchange rates is taking place for different reasons now than it was in the past. We need to re-examine management of commodity boards, commodity price-stabilization programs, etc., so we can reassess how best to sterilize the effects of commodity booms on appreciation of local currencies. With regard to capital flows, we need to examine how banks should deal with the fact that there has been a significant increase in these flows accompanied by financial speculation.

Also of concern is the rising phenomenon of governments' domestic debt build-up, as governments discover Treasury bills as a borrowing vehicle while such a course allows countries to avoid the international monetary institutions and get soft money, it puts pressure on domestic interest rates and tends to crowd out private capital. How will governments service this new kind of debt? What effect will this have on the fiscal performance of countries in sub-Saharan Africa?

Questions and answers

- What should be our strategy for achieving our targets?

- What are the constraints to more-rational policies? Sometimes policy-makers have informational constraints; thus, EAGER research is still required. But we cannot separate analysis from the process of seeking policy change. *Process* is just as important, therefore, to EAGER as is product. We should not ignore the need for *expenditure* reform, which can lead to reduced taxes. This subject nexus may be one important way for Trade Regimes and Public Strategies for Growth with Equity (PSG) to work together.

- Why no mention of the importance of foreign direct investment? [We are following up on this.]

- Can the EAGER Project help countries of sub-Saharan Africa to intervene more sanguinely in the WTO fora?

EAGER'S PUBLIC STRATEGIES FOR GROWTH WITH EQUITY COMPONENT

Public Strategies for Growth and Equity is the second of the two Cooperative Agreements under the EAGER Project. HIID is the prime contractor for this component, and subcontractors include AIRD; Development Alternatives, Inc.; Mayatech Corporation; Clark-Atlanta University; Howard University; University of Maryland Institutional Reform and the Informal Sector; Michigan State University; and Northeastern University.

A. Overview

Clive Gray
On the morning of day two, Clive Gray, HIID's chief of party for the project, briefly described the PSG. His talking points follow.

EAGER/PSG addresses a much more diverse set of issues than EAGER/Trade, being partially defined by exceptions (i.e., everything of priority for growth with equity may be covered except for trade regimes, agricultural production, and marketing, education and environment issues; these are addressed by other activities managed by AID/AFR/SD. The first round of studies now proceeding to final design covers eight topics and included thirteen interventions by consortium-member institutions.

In November 1995, the reaction of Prof. Sam Wangwe of Tanzania on hearing about EAGER/PSG was, "So HIID is finally going to do some collaborative research in Africa!" This was a justified challenge. We applaud the EAGER set-asides for participation by African collaborators and by historically Black colleges and universities, and believe we are more than fulfilling these. Our screening process has placed heavy stress upon involvement of local collaborators — some otherwise promising studies were ruled out because the collaborators were to act largely as research assistants and/or were to be recruited from U.S. universities. The input of professional research time by local collaborators in EAGER/PSG Projects will be considerably greater than that of expatriates.

We look to the concurrent sessions about to get underway to give concrete guidance to our research. We want frank critiques of the current study proposals that will answer such questions as these: Are the research questions thus far posed appropriate? What about the proposed methodologies? Is there significant other work of which EAGER/PSG researchers should be made aware? What are the top priorities for future rounds of EAGER/PSG research? For example, under macro-stabilization should we be adding a focus on public expenditure control to the current proposals regarding taxation?

B. Sessions on Themes Component

B.1 Legal, Regulatory and Judicial Reforms and Governance

Chair: Herschelle Challenor

This session allowed four researchers — Dirck Stryker, Fred Boadu, Patrick Meagher and Ephriam Ugwuonye — to present their investigations and findings in the area of LRJ reforms in Africa.

Dirck Stryker

The fundamental components that communicate between policy reform and LRJ issues are property rights, contract enforcement, business regulations, and governance. Because of weaknesses in the LRJ environment, economic agents often choose to operate outside the formal legal framework — a regulatory avoidance that can have efficiency costs for businesses and society at large. One such cost is a preference for small scale among enterprises, which, while it might allow enterprises to avoid detection, may not be the optimal scale for the activity undertaken. Another possible cost is reduced investment levels due to uncertainty that must attend being unregistered, small and otherwise and thereby outside the reach of the formal LRJ system. All of these costs can be transaction costs

The LRJ three-country survey (Madagascar, Tanzania, and Ghana) upon which this session was based seeks to examine four issues:

- The extent to which the body of law forms a coherent text and consistent jurisprudence
- Problems posed by the existing LRJ environments in Africa for government, the legal profession, and the business community
- Ways that enterprises react to the LRJ environment
- Relative costs for businesses to operate within the system now and after reform

Other areas of application for LRJ benefits analysis include property ownership and exchange of ownership. The alienation of property is essential for market exchange and is a useful way to leverage finance. The LRJ framework also has important and obvious implications for foreign investment in sub-Saharan Africa.

Patrick Meagher

A fundamental goal of HIID's LRJ research to date has been to determine how legal incentives work in Africa. This can be viewed in an institutional or transactions framework. If transactions can be characterized along a continuum, with arms-length transactions at one pole and mutually beneficial transactions at the other, one of the functions of the LRJ framework is to broaden the available set of transactions away from those poles (i.e., to move them toward the middle). The research planned for LRJ issues aims to gather information and data about how informal firms interact in their LRJ environments and to provide findings that will generate practical recommendations for LRJ reform.

Fred Boadu

Governance can be viewed as a regulatory process and thus distinguished from the operation of substantive law (the L and J of LRJ). In the current African context, there is a need to broaden involvement in the regulatory process by bringing stakeholders into the process in something other than an adversarial role. On the other hand, there are a great many agencies vested with authority for establishing regulations, and this condition may require narrowing. On the enforcement side there is a need to find mechanisms to reduce judicial error, and here to there is scope to involve stakeholders from the private sector in establishing such mechanisms.

Ephraim Ugwuonye
LRJ reform has diverse and important implications for finance. If poorly designed, it can obstruct effective intermediation; if it is well designed, it can facilitate greater intermediation. To reform the legal and regulatory foundations of finance in much of sub-Saharan Africa, three important elements are needed: repeal of antiquated laws and regulations designed to support the earlier policies of state intervention; enactment of new laws and establishment of new legal institutions to enforce and interpret them; and harmonization of new and old laws toward the goal of a consistent legal system. With regard to the latter, there is the further complication in Africa of dual legal systems; i.e., customary and Western codes. This dual system creates complications, particularly when there is uncertainty about which set of rules applies to given transactions.

Three factors of legal reform affect financial intermediation:

- Proper balancing of prudential regulation and practical market conditions (e.g., limitations on lending to a single borrower in Kenya with too broad a definition of “one borrower”

- Regulations that do not take account of particular target groups and the special needs they might have vis-a-vis financial services (e.g., deposit taking among microenterprise institutions in Kenya)

- Legal changes that undermine the credibility of the State's commitment to secure property rights (e.g., Zambia's Land Act of 1975 which changed freehold titles to statutory (100-year) leaseholds).

These are examples of issues that have been addressed and will continue to be researched under the LRJ research themes.

Comments and Questions
- Very little has been said about equity and the impacts of reform on the economically disadvantaged. How can equity concerns be built into this research?

- International law may have implications for LRJ reform in Africa with particular regard to international standards such as those promoted by the International Labor Organization (ILO).

- Privatization imposed heavy requirements for LRJ reform and the rule of law. As economic regimes change, so must the law that governs them.

B.2 Macroeconomic Stabilization

Satish Wadhawan
Clive Gray

Their comments followed closely the two presenters' research abstract, “Enhancing Transparency of Tax Administration.” Transparency in tax administration has two fundamental aspects: one internal and the other external. Internal transparency refers to the quality and completeness of information available to tax administration decision-makers while external transparency refers to information available to the general public. For an effective tax system, both sorts of transparency are needed.

Improving transparency in tax administration will improve compliance and enforcement in at least three ways:

- Bringing pressure to bear on politically influential and economically capable taxpayers (the oligarchy) to pay their share
- Showing other taxpayers that the tax burden is being equitably distributed
- Diminishing opportunities for corruption in the tax service

African countries have major problems with uneven compliance and enforcement both of which have undermined revenue generation. This research will seek to help redress this situation in several ways:

- Gathering information about the state of taxpayer education and services and initiatives taken to improve it
- Gathering data on avoidance and evasion by influential taxpayers and results of efforts aimed at improving compliance among this group
- Gathering information designed to measure taxpayer attitudes and to estimate the damage caused by perceptions of inequitable enforcement and compliance
- Assessing the estimation of tax bases and degrees of compliance
- Assessing revenue costs of official exemptions and the transparency thereof
- Assessing taxation of rental income and in particular, that of foreign residents in Africa
- External audit and control of tax authorities. (Have there been any applications of an office of ombudsman and if so, what have been the results?)

Questions and comments

Questions: How researchable is this topic? How does one propose to survey tax-evaders? What are the dependent variables.

Response: The final research design will provide for this type of analysis as a basis for estimating noncompliance and will consider alternatives for bringing the issue into the open promote compliance and improved enforcement.

Questions/Point: The deadweight loss of noncompliance needs to be assessed. What are the components of these costs, and how does one reduce their impact on revenues? Are compliance costs relatively higher for small businesses? How can tax reform encourage informal agents to join the system?

Comment/Point: The study should confine itself to the key points including analysis of economic structure, sources of earnings, etc. that are escaping the tax net, and to analysis of the relationship between tax rates and degree of compliance.

Response: Tax reform cannot be achieved with the stroke of a pen, and there are many complicating factors that will require further research.

Jonathan Haughton
Bruce Bolnick
This presentation reviewed the presenters' research into the role of (or, more accurately, the relative absence thereof) excise taxes in Africa. Although excise taxes are an important source of tax revenue across the globe, they have received little research attention in Africa. Currently, these taxes are not broadly employed in Africa, although they could help to fill fiscal gaps and/or substitute for more-distortionary forms of taxation. Under the circumstances that prevail in African economies, excise taxes look attractive because of their administrative simplicity and their potential revenue yield. They also have some usefulness as an enforcement mechanism for social preference ordering (i.e., taxing consumption of "demerit goods").

An equity issue attending excise taxes — they are typically perceived as bearing proportionately more upon the poor — may not apply in Africa, given that its poorest of the poor are in many cases largely outside the money economy. Another equity consideration is that application of excise taxes on luxury goods could improve progressivity of the tax system.

Technical issues attending excise taxation include the distortionary effects of exemptions within a country and the effects of excise taxes between trading partners. Excise taxes should supplement a broad-based consumption tax system — not anchor it. Our research will focus on how best to design excise tax systems in Africa.

Question and Comments
Question: Value-added taxes are being promoted widely in Africa at present. Shouldn't this excise option be targeted at the World Bank and the IMF rather than at African authorities?
Response: Excise taxes are not inconsistent with VAT. Greater reliance on excise taxes merely means that consumers pay different rates on some consumables.

Question: The multiplier effect of different VAT rates is being considered in Uganda. Is this a researchable area?
Response: Excise taxes and VAT are very different. An issue worthy of further study is whether removal of trade controls makes collection of excise taxes more difficult.

B.3 Financial Markets

Sam Ziorklui
This presentation summarized findings from a survey of financial-sector reform across Africa, paying special attention to Ghana. A difficulty in the analysis of financial-sector reform is the lack of efficiency measures for financial intermediation. Factors of this intermediation efficiency range from production efficiency (the spread between borrowing and lending rates needed to cover costs), to economies of scale and scope, to allocative efficiency. Savings

rates, intermediation volumes, transaction costs, commercial risk, and the range of available financial instruments are all elements of this analysis and their interaction is very complex.

After almost a decade of financial-sector reform in Africa, financial markets are still limited, savings rates low, and institutions inefficient. Many loan portfolios are of dubious quality, and many financial institutions remain in the hands of their national governments. The impact of reform in Ghana is instructive; despite improvements in that country's economic growth and macroeconomic performance, domestic savings and investment remain low and foreign funds fuel much of its current investment.

Past research indicates that institutional problems may lie at the heart of the financial sector's failure to improve performance. Limited access for poor and rural clients, high (customer) transaction costs, and a lack of confidence in the banking system all lead to lower performance. The absence of competition and its corollary, government ownership, have undermined more-efficient banking services in Ghana. In addition, government paper has crowded out lending to small-scale and other private borrowers.

Eric Nelson
This presentation summarized a survey of the literature on financial services to the poor, including case studies of financial institutions and policies. The foci of the review included microenterprise; informal and rural finance; savings mobilization; anti-poverty lending; credit access for women; policy and regulation in financial markets; sustainability and outreach; and successful institutional structures. It is important to note that in regard to their need for financial services, the poor require income generation and diversification, savings opportunities, transfers, and access to credit — effectively, in that order.

Common characteristics of successful provision of financial services to the poor included group guarantees and market (cost)-based interest rates on lending and voluntary savings schemes for deposit mobilization. Some success has been achieved by following the practices of informal financial intermediaries: for example, using personal knowledge of the client in a loan decision, pricing interest rates according to costs, and being tough on defaulters.

Two important policy reforms relate to

- Deposit mobilization. Deposit-taking organizations serving the poor must have some scope for self-regulation and limited reporting requirements.

- Usury laws. These must be reformed to replace interest-rate caps with consumer-protection (information) objectives. However, no financial “success stories” attack popular usury laws; instead they successfully subvert them.

New technologies are available that can aid effective provision of financial service to the poor. These include the informal arrangements just discussed and also the application of advanced (computer) technology. Because the poor have diverse financial needs approaches to those needs must be diverse as well.

B.4 Labor Markets:

Chair: Fred Opio

Dirck Stryker
Charles Betsey
This presentation reviewed the survey paper, "Increasing Labor Demand and Productivity in Ghana and South Africa." This paper examines reasons for segmentation of labor markets and ways barriers to integration can be overcome. Segmentation can occur in terms of employment status, skill levels, and region — including urban versus rural. Among the employment categories considered were urban formal, urban informal, rural informal, open unemployment, withdrawal from the labor market, underemployment, disguised unemployment, and unproductive labor.

In these countries, barriers to labor market integration included labor market regulations, trade unions, efficiency wages, uncertainty regarding employment, capital constraints, and discrimination. Increasing labor productivity and demand for labor could involve changing the sectoral allocation of output in a more labor-intensive direction, encouraging the use of more labor-intensive techniques of production, improved management to make greater use of existing labor, and more education and training. Education and training could take the form of basic education by the public sector, occupational training through technical schools and apprenticeship programs, industry-specific training by industrial associations, and firm-specific training by individual enterprises.

Fuad Cassim
In addressing key issues in the South African labor market, segmentation in this market and, in particular, insiders versus outsiders are a central concern. The South African labor commission has promoted a "wage moderation" solution to the problem of market segmentation, with the expectation that lower relative wage rates will increase employment. This policy would complement policies aimed at removing trade barriers by helping to improve the competitiveness of South African goods in international markets.

In addition to market response to wages, the research agenda aims to assess proactive government policies to expand productivity and employment opportunities such as training and skills development. All stakeholders, including the private sector, must contribute to this effort. Labor must accept wage restraint as the price of skills development.

The solution to segmentation problems in the South African labor market will require sustained growth with constant wages and increasing productivity. Policies must support per capita growth rates, but this will require investor confidence in South Africa's business environment.

George Gyan-Baffour
Among key issues in the Ghanaian labor market, the absence of job growth in both private and public sectors looms large. With an economically active population of 6 million, 2.8 million of whom are in the agricultural sector and a similar number in non-agricultural goods

and services, it is important to note that only 230,000 Ghanaians are employed in the formal sector. This small percentage of the total working population constitutes a working aristocracy sharply differentiated from the informal sector. National statistics work from an extremely small and biased sample of the economy if they use this group of 230,000 as a basis for their employment statistics.

Because so little direct information is available on the informal sector, it is difficult to know whether its contribution to gross domestic product (GDP) is growing or declining. A key goal of research in this area would be to contribute to policies that encourage informal enterprises to join the formal sector. To do so, however, they will need access to credit.

Questions/Points

In regard to South Africa's proposed policy to manage wages, there has been little success with such policies even in industrialized countries. It is a difficult thing to do, given that demand for labor is a derived demand. As long as wages are flexible, open trade should motivate adjustments in keeping with other external and internal market conditions.

In regard to Ghana, it is not clear that the policy prescriptions discussed will achieve the stated objectives of absorbing more labor into the formal sector. What other options might exist for encouraging such an expansion?

The South African labor market is characterized by corporatism, and linkages between the formal and informal sectors are weak. The key is to break down the barriers between these two segments of the economy. By restraining wage growth in the formal sector and narrowing the income gap between the two, these barriers may become less significant and the formal sector may begin to absorb more labor.

Another option/consideration is skills training and improvements in human capital. Since government efforts to do this through the public education system will take a long time, an intermediate solution would be to have private enterprises put more into training and skills development. Industry-wide training schemes with some government support may be feasible.

The problem of retrenchees and school leavers needs to be addressed.

PANEL DISCUSSION ON THE PUBLIC STRATEGIES THEMES

On Friday morning, a panel discussion of the Public Strategies for Growth component took place, with Bruce Bolnick chairing. The panel included participants from the previous day's concurrent sessions, who reported their findings and impressions.

Julius Coles, reporting on the session on LRJ reform, noted the absence of explicit concern for equity issues in the discussion and recommended that linkages between LRJ reform and social welfare be identified. He also perceived that governance was not getting enough attention and that, as we have little knowledge of how policy-reform decisions are made and the project aims to have an impact on policy reform, there is a double benefit in focusing on this issue.

Sam Wangwe, discussing the financial markets session asked the rhetorical question, has financial liberalization borne fruit? He believes it to be much less than expected. How high should interest rates be allowed to rise? He fears that, if they go too high, productive activity cannot support repayment and one gets into an adverse selection problem. He is also concerned that with high interest rates, money will go into speculative activities.

In terms of the sequencing of macro management and financial-sector liberalization, he pointed out the case of Asia, wherein financial-sector liberalization followed macro-stabilization. Instead, Africa has followed the Latin American example.

Can research help illuminate the relationship between bank supervision, financial liberalization, and macro-stabilization? In regard to the relationship between formal and informal financial markets, these markets are closely related in Africa. Supervisory capacity is very low because government took over direct control of the banks. Now that there are more private financial institutions, it is necessary to build better prudential regulatory capacity.

Benno Ndulu, addressing the labor markets session, reported broad agreement relative to motivation for the research project. He noted the importance of creating employment and raising incomes. In regard to imperfections in the labor market, and especially segmentation, he felt that much effort is needed to better describe the structure of labor markets in sub-Saharan Africa. Only then can the project expect to identify key policy measures.

In South Africa, in regard to the insider-outsider problem, he noted the trade unions' key political role. This is, namely, to protect member wage gains. Unions argue for higher wages in order to close the gap between black and white workers. They also argue against opening the economy because of the implied job (or wage) losses. He felt that ethnic discrimination in the South African labor market was emphasized too little in the paper.

The paper by Mwabo and Schultz points out that the large wage premia are not explained by skills and education. These premia are above efficiency wages. However, that paper did not explain, but only measured. Hence, there is scope here for research to explain these differentials. There is also a critical role for the informal sector in expanding job opportunities. Ndulu noted the issue of retrenchment and redeployment in Ghana and praised the work of Jebuni *et al.* on the impact of liberalization on employment. He closed by encouraging greater emphasis on skills formation to enhance employee ability.

Alan Bachelder, discussing the workshop sessions generally, recommended more awareness of the history of policy reform while noting that USAID does not do a very good job of preserving its own history. But, from his own recollection, he noted A.I.D.'s long history with policy reform and, in particular, efforts to "Africanize" the policy-development process in the early 1960s. The important question related to affecting policy change from the outside is "who did what to whom" to make change happen. He recommended stronger links between the project and USAID missions, local researchers, the business community, and governments.

Ruth Buckley, again addressing the project in general, noted that noneconomic issues were not clearly articulated in the workshop. She sees gender, ethnicity, politics, and geography as having an important place in the project that has yet to be addressed. She also saw a need to address the socio-political contexts that influence policy change. In terms of research effectiveness, she felt that researchers should present policy options that demonstrate the socio-economic impacts of policy change so that policy-makers can make informed choices for equitable growth.

Floor Discussion

- In regard to financial-sector reform, very little research has been undertaken on the efficiency of financial intermediation in Africa. This needs to be addressed.

- In Korea the government intervened in financial markets to good effect. (So, compare Daihatsu and Tanzania's National Milling Corporation as borrowers...)

- Regarding finance in Africa, while there is much informal activity, this activity does not supply the full range of services required for growth. Term finance is largely unavailable, and medium-term finance is hard to come by for private-sector borrowers.

- There is a disconnect between the primacy of macroeconomic issues in policy reform and concern about important noneconomic factors. However, socio-economic issues can be addressed at a project level, while this project is about getting things right at the policy level.

- Finally, there are four themes in PSG. Should the project be more focused? What suggestions are there? The project can't do everything. Should we drop one theme? Substitute?

Panel Responses

Wangwe, on the issue of banking efficiency. Broaden the focus. Foreign banks are much more efficient, but no business can get any credit from them; they just buy T-Bills. They are efficient in serving a particular segment of high-income market. Development financing has collapsed in Africa. Banks cite insecurity facing investors. Therefore, macro-stabilization is very important.

Buckley, on the issue of equity concerns. Equity will matter whether it is addressed or not. To avert backsliding and/or political breakdown, it will be necessary to bring equity issues on board.

Coles, on the political economy of policy change in Africa. There is a need to get at this through the project.

RESEARCH DISSEMINATION AND POLICY REFORM IMPACT

On the afternoon of the second day, presentations addressed research dissemination and policy reform. Larry Cooley, of Management Systems International (MSI), delivered the first; the second involved a panel of representatives from BHM and the Cooperative Agreement implementers. Summaries follow.

A. Larry Cooley on Policy Change

"What has to happen to increase the probability that policy research will result in policy change?" This was the basic question that MSI was asked to look at in undertaking a retrospective analysis of the policy utility of an earlier USAID-funded policy/research project — namely the Cornell Food and Nutrition Policy Program (CFNPP). Specifically, what came out of the CFNPP research?

Policy change is a complicated process. The role that research plays in this process is also complicated, but one commendation that can be made for scientific research in this process is that it obliges people to use empirical data to support their positions. There are any number of models available for systematizing and, thereby, understanding this complicated process. There is the MSI model, which perceives innovation as diffusing along communication pathways; there is the epidemiological model, which perceives change as spreading (by contact? contiguously?); there is the water-table model; the eureka model — obvious correctness; and the empiricism model, under which data are used in making arguments (e.g., CFNPP).

In the work undertaken for the CFNPP, the question of how policy is implemented led researchers to a divergent model under which cause (research) leads to many effects. Rarely do policy-makers read research reports and reach a dramatic conclusion that they have been wrong. Rather, the process is gradual, with outlooks changing through osmosis and policy change following. Under this model, one cannot look at outcomes and impute backward: policy reform does not necessarily imply that policy-makers read the research reports. Numerous other exogenous influences may have moved the policy-reform process along (e.g., fall of Berlin wall).

How is research implemented in policy? For one thing, it may matter who does the research and who presents results. The EAGER Project might build coalitions of people at the policy table, as was done in Mali and Uganda. It is assumed that applied research will be available to support policy change. For this, it will be necessary to build analytical capability and prominence, and to bring heavyweights to bear on the policy process.

There are some examples of significant policy reform from sub-Saharan Africa. For example, in Uganda, the creation of a presidential forum to stimulate supply response to policy reform seemed to be highly effective. The creation of a coalition of progressive actors to talk about policy issues and action strategies seemed to be helpful in moving the reform program forward. Three of four action groups progressed, although the fourth (tax group) got stuck because there was little economic analysis to move the process along. This provided an opportunity for the application of external expertise, which succeeded in breaking the log jam.

To maximize research impact, the EAGER research-dissemination process might take the following steps:

1. Promote interaction with host country stakeholders on the definition of issues. This will help decision-makers.
2. Build on CFNPP work to work with host country institutions and researchers.
3. Separate contract on communication and dissemination to find a utilitarian outcome.

Researchers need to remain cognizant of how to be accurate in research and how to increase effectiveness of adoption and implementation of research findings.

Discussion

- EAGER/Trade maintains oversight committees with stakeholder participation. Also, policy advisory committees have been formed that are chaired by government officials who review the progress of EAGER research. This process has been applied in Uganda and in Mali (where the oversight committee is very active and where the head is the deputy director in the Ministry of Finance, someone with good connections.) The committees include nongovernmental organizations (NGOs) and private entrepreneurs.

- The environments in some African countries may mitigate against effective policy dialogue.

- There are PSG "research supervision committees" (RSC) which vary across countries and are more relevant to the taxation projects than to LRJ projects. So far there is no umbrella coordination across research areas.

- [For African participants.] What is to be done to ensure that research is used effectively to promote and implement policy reforms? The process must involve Africans through an engineering of EAGER activities to ensure African ownership.

- It is important to determine who the intermediaries are, and how they are positioned in the policy dialogue process. In general, ministers will not be effective intermediaries

- It would be helpful to look at the lessons from Latin America and East Asia identifying how they became successful at implementing policy reform. Everyone is aware of the extent of backsliding that took place in Africa during the 1980s. One factor that may explain the relative absence of backsliding in Latin America and East Asia is that those who initiated policy change were nationals and not expatriates (e.g., Chicago Boys). In Africa, policy-makers fear advisors who may have hidden agendas.

- Research needs to be home-grown to augment chances for effective implementation. Researchers must also interface with policy-makers on an ongoing basis. In addition, research seems to focus on growth at the expense of equity. The chances of implementation will be enhanced by pairing researchers to address both growth and equity components.

- Perhaps what is operating here is a conflict of different realities. The researcher views Africa from a technical viewpoint, while the African policy-maker is conditioned by a set historical reality. Again, the question is: Who is the messenger in promoting policy reform? African policy-makers are very sensitive to this.

- It is necessary to identify stakeholders to the policy-reform process. A range of additional stakeholders need to be included/targeted, among them legislators. Stakeholders must be categorized according to whether they are winners or losers from the reforms. A second question is whether there are enough policy-brokers/translators within the country.

- Not all researchers are ready yet to “go public.” EAGER research needs to be quite scholarly; if it is good research it will come to light. Frankly, African “ownership” comes if the actors are into the project. Collaborators will necessarily grow into ownership. But we must be genuine about the motivations of researcher and collaborators: is it money, glory of serving in an advisory capacity, publications, promoting high standards for research? In Africa, finding genuine collaborators is sometimes easy, sometimes impossible.

B. EAGER's Dissemination and Monitoring Strategy

The purpose of this panel presentation was two-fold: first, to introduce the communications and dissemination draft strategy to EAGER's stakeholders, and second, to spur a discussion on the issues related to communication, dissemination, and monitoring in order to help finalize the strategy.

Hussein Bulhan, President of BHM International, Inc.
BHM is the prime contractor for the EAGER Communications and Logistics Support Contract (CLC). The company, which is taking the lead on the project's communication and dissemination components, has prepared in conjunction with the other parties of the project, a draft strategy for the CLC. The CLC implementation plan includes a monitoring component to assess utilization of EAGER research by African policy-makers.

EAGER represents an important step in the campaign to make economic and social science research policy relevant in the countries where it takes place. With its emphasis on collaborative research at all levels of the research process, EAGER seeks to ensure that tangible benefits, such as policy development and research capacity building, are experienced within those countries. Achieving this objective will require that research findings be skillfully and creatively disseminated, using modern communication techniques, in order to maximize professional exchange as well as project results. EAGER's CLC component is designed to support an effective communication and dissemination process within the project to help ensure success.

Andrew Mullei, Regional Director for Africa, International Center for Economic Growth (ICEG)

Dissemination must be afforded a status at least as important as the policy research itself. This is important to emphasize because changes in policy are most likely to occur through the communication of research results to people who have the responsibility and authority to act upon policy recommendations.

"Mapping out," or defining, the principal audiences of the information-dissemination plan is a critical factor in the implementation of policy reform. This involves researching which particular ministers are most apt to respond to policy-reform recommendations, identifying which specific advisors to the ministers are likely to cooperate, knowing what types of information they will most likely respond to and what kind of exposure they may wish to have; for example, participating in policy fora, seminars, workshops, or conferences. ICEG, which has considerable experience in dissemination activities, has found that this kind of work can be crucial in communicating effectively with policy-makers. It is the company's experience that many attempts to communicate often fail because no effort was made to define the primary audiences.

In a communication and dissemination plan, market research — an extension of audience definition — is essential. ICEG's experience has shown that some of the most effective dissemination strategies of research results occur when the ground is prepared at the beginning of the research project (i.e., when the research is at the design stage). Ground may be prepared in a variety of ways. First, encourage the researchers to view dissemination of research results to end users as the principal and ultimate objective of their effort. For example, ICEG requires strong dissemination strategies as a condition of any research grant it makes to its member institutes. ICEG also helps member institutes develop considerable expertise in dissemination activities: for example, with general principles on how to write press releases, briefing papers, and executive summaries. Learning how to write for specific audiences, not all of whom will be economists, and packaging the research outputs is an important skill.

Preparing the ground for dissemination of research results includes a series of other important proactive initiatives, such as:

- *Nurturing contacts with policy makers at the highest levels of government and also with other leading policy audiences.* From these contacts, which reveal how policy-makers use information to develop policy proposals, crucial information is gained on strategies for reaching particular policy-makers.

- *Bringing in policy experts from other developing countries to share their experiences with successful reform.* Such experts should be invited to explain what they did, how they did it, and why they did it a certain way. This strategy permits policy-makers to digest, compare, and contrast world experiences on issues of special relevance to their own countries. It permits them to examine more clearly the policy issues that are still open to debate in their own minds.

- *Encouraging networking between policy-makers, researchers, and professional groups working in different reform environments.* Such a process facilitates the sharing of reform insights and lessons learned in one country with others. This not only ensures cross-fertilization of ideas but also provides benefits to individuals through the "give and take" of scholarly dialogue.

Policy decisions are a group effort. Unless policy-makers can persuade their colleagues, as well as the public, it is unlikely they will succeed in implementing policy reform. Under such circumstances, strengthening stakeholder dialogue on reform policies is crucial. Organizing conferences to achieve the widest possible dissemination of the research findings and pooling reform results in all countries, can be an effective way to achieve sustainable reform policies accepted by those who influence the adoption of policy change at the national level.

Eliot Putnam, Consultant, BHM International, Inc. (principal author of the EAGER Communication and Dissemination Strategy)
The strategy is "organic" in that it outlines a process that is quite flexible and subject to additional input. One of the workshop's objectives is to gather additional input on the strategy from the participants and then to incorporate that input into the final document.

The EAGER Communication and Dissemination Strategy is based on six key principles:

- *Respond to the needs of EAGER researchers and collaborators.* Researchers associated with EAGER/PSG and EAGER/Trade must have confidence that their communication and dissemination needs will be met in a professional and timely manner. The CLC response must be prompt, efficient, and effective.

- *Involve regional and national experts and leaders on the project to ensure its long-term success.* The CLC must constantly reinforce the developing country partners' sense of ownership of EAGER's initiatives. Key decision-makers and researchers must be integrally involved in all research projects from their earliest design, as well as in planning and executing communication and dissemination activities.

- *Rely upon emerging communication methods, as well as on traditional or existing methods.* New and emerging communication technologies, such as the Internet and the World Wide Web, have the potential to quickly and cost-effectively communicate ideas, transmit research findings, and create effective workshop presentations. The CLC team can break important new ground by allowing technology to facilitate many of EAGER's initiatives. However, the CLC should also rely on more conventional communication vehicles, such as radio, TV, and print media, which continue to be effective dissemination tools in many African countries.

- *Facilitate effective communication between and among all EAGER components (EAGER/Trade, EAGER/PSG, and EAGER/CLC).* Teamwork and partnership among all three components are critical to EAGER's success.

- *Keep the EAGER mission at the center of all CLC activities.* As the CLC develops communication strategies, materials, or dissemination events, it must always focus on the general EAGER goals of influencing economic policy and enhancing policy dialogue in a national context.

- *Stress the communication aspects of a client-oriented approach to policy research.* The CLC can foster and support feedback loops among consortium members to monitor the effectiveness of dissemination strategies and activities.

The EAGER Communication and Dissemination Strategy has three major components:

1. ***Production and Distribution of Project Materials***
   This element of the strategy includes all outputs that relate to project identity, research products, the electronic dissemination of EAGER products, print distribution, and visual presentations.

   Under project identity, the CLC will develop a line of standard "packaging" for EAGER products — a logo, brochure, newsletter, report covers, and templates for other publications — to achieve a uniform graphic identity for the project.

   Research products that are expected to develop out of EAGER studies include research papers, policy papers, policy briefs, and other documents such as longer monographs and journal articles. As stipulated in the CLC contract, all reports and proceedings relevant to Francophone African decision-makers will be translated into French, and reports originating in French will be translated into English.

   The electronic dissemination of EAGER products may include such media as electronic mail, the Internet (including the World Wide Web), CD-ROM, and video teleconferencing. The CLC partners envision the electronic dissemination of EAGER products as an essential and important project feature. USAID and other donors have been exploring the use of these technologies in Africa to accelerate the diffusion of information and reduce the costs of travel, publication production and storage. The CLC will coordinate EAGER's activities with these other initiatives, including USAID's Leland Initiative, which will provide 20 African nations with Internet access; the Pan African Development Information System (PADISNET) Project of the United Nations Economic Commission for Africa; and the Sustainable Development Network of the United Nations Development Programme (UNDP). The CLC will also help researchers and institutions tap into existing regional and national networks relevant to EAGER research, including for example Sangonet (covering the Southern Africa region) and RIONET (Reseau Informatique de l'ORSTOM, covering Francophone Africa).

   The CLC will develop a comprehensive method for distributing printed copies of EAGER products. It will develop a comprehensive mailing list that includes African researchers, public officials, and journalists; key contacts at academic, research, and multilateral organizations worldwide; key USAID staff and consultants; and other major EAGER stakeholders.

The CLC will work closely with the Cooperative Agreement Recipients (CARs) to collect, catalog, and store project visuals such as photographs, slides, and videos of in-country activities that may be used in EAGER products and conference displays.

2. *Conferences, Workshops, and Other Events*

Under the CLC, the BHM Group will organize a variety of events ranging from large conferences to *ad hoc*, country-specific, or topical workshops. These events will be planned to stimulate cross-fertilization of ideas and results between researchers and policy-makers, generate publicity and support for EAGER, train policy-makers, compare research models, and allow communication and information exchange among EAGER partners.

In addition to this "Economic Analysis for Policy Reform in Africa Workshop," the CLC strategy includes a plan for a large, high-profile EAGER conference to be held in sub-Saharan Africa in late 1997. The conference is expected to involve up to 150 participants from both Africa and abroad. Since the timing of the conference is at project mid-term, it will provide an opportunity both for EAGER researchers to present their findings and for African policy-makers to discuss the impact of these findings on their decisions and decision-making processes.

There is also the possibility that a third conference may be held in Africa toward the conclusion of the EAGER contract in late 1999.

Issue- or country-specific research workshops, designed as "working meetings," will be the most frequent events sponsored by EAGER. All such workshops will be held in African countries that sponsor EAGER studies, with the sites rotating to guarantee language and geographic balance.

The EAGER CARs are each planning somewhat different approaches to the research workshops that fall within their purview. For example, EAGER/Trade has about 20 research projects planned in eight to ten countries and has initiated a system of semiannual, multi-country workshops to rotate among sites in the participating countries. EAGER/PSG is planning research projects in six to eight countries and is proposing to hold a combination of individual country workshops, as well as annual multi-country workshops, centered on a specific theme or group of themes.

Other events included in the CLC strategy include study tours for small groups of senior Africans associated with EAGER; policy briefings or updates to acquaint African journalists and legislators with current research; training sessions; and regular meetings of the EAGER coordinating committee.

BHM and its subcontractors, International Science and Technology Institute, Inc. (ISTI) and Abt Associates, Inc., are responsible for all workshop and conference logistics under the provisions of the EAGER Communications and Logistic Support Contract.

3. *Research Utilization Monitoring*

The Research Utilization Monitoring (RUM) plan has been developed by the EAGER CARs in collaboration with the CLC. In particular, Bruce Bolnick was a principal designer of this component. The RUM plan is designed to ensure that the EAGER Project be able to assess its progress regularly by examining the project's success in achieving certain targets.

In developing the RUM section of the CLC strategy, consideration has been given to the following: relevant indicators of research utilization; methods for setting baselines and collecting data on indicators; criteria for assessing successful utilization; methods for diagnosing causes of successful or unsuccessful utilization; and methods of incorporating findings on success and failure into the design and implementation of subsequent research. Like the rest of the Communication and Dissemination Strategy, the monitoring plan is seen as a tool that is flexible and subject to alteration.

Questions and Comments

Question: What is the true role of dissemination in the EAGER Project? There is some confusion because the wording on USAID documents (e.g., project papers and cables) has varied somewhat.

Response: EAGER is a research project; therefore, dissemination means "research results are disseminated and used by policy-makers." Conduct research, disseminate it, and try to affect policy.

Questions: What is the scope of the dissemination process? Is it a "one-size-fits-all" approach to dissemination? Is it the thinking that EAGER's products coming out of one country will be useful to other countries? Some in-country products or studies may not be appropriate for wide dissemination.

Question: Given the "coordination" aspects of such a project, will too much precious time be devoted to sharing information at workshops and less to performing the actual research work?

Response: Instead of the term "coordination," perhaps the Communication and Dissemination Strategy should say "access."

Comments: The strategy's focus on different types of communication, not only on the written research documents, seems very sound. There is an informal exchange of information, including lobbying strategies, that is extremely valuable at any workshop or meeting.

Perhaps the dissemination strategy should provide for an advisory service. It seems that EAGER's comparative advantage is its ability to perform comparative, cross-country research. Otherwise, why wouldn't USAID missions do the work themselves, in that particular country?

There seems to be a weakness in the communication and dissemination strategy in that it has little linkage with other development partners. EAGER looks like many other aid projects that are not well coordinated with the appropriate donors. It would carry much more weight if the project coordinated its dissemination efforts with those of other development partners.

It appears that EAGER includes two very different activities: setting the research agenda, and sharing the *process* with all stakeholders. Communication must evolve so that both sides of the project work effectively together.

EAGER should examine other USAID dissemination examples — there are so many of them — and apply the appropriate lessons learned from those projects.

Outreach within Africa is important, but we need to do a better job of outreach to our domestic (U.S.) constituency. They don't hear enough about the successes in Africa, and perhaps it is EAGER's role to disseminate those stories.

In summary, EAGER means quality research, performed within a relatively short time frame. The *process* of the research is, in many ways, as critical as the research itself. It is important to keep in mind that different products will be packaged for different audiences.

WRAP-UP PANEL DISCUSSIONS

On the final day, two wrap-up sessions took place, the first composed of African researchers who have been involved in the EAGER Project, and the second comprising a wide range of project principals and development experts. Summaries follow.

A. African Perspectives

Chair: Samuel Wangwe, Economic and Social Research Foundation, Tanzania

Andrew Mullei
In regard to its objectives and implementation, there are five areas of concern for the EAGER Project:

1. ***Indigenous research institutions and scholars.*** These have not contributed as much as they could, and their involvement must increase if EAGER is to succeed. Raise ownership of research results. Raise the supply of technocrats who influence their governments.

2. ***Reform experience in Africa.*** Reform efforts have been disappointing, in part due to the lack of broad consensus among policy-makers, and in part to the absence of empirical information on how to advance the process. EAGER must enhance public knowledge of policy-reform requirements.

3. ***Indigenous research institutions.*** EAGER should support such institutions, giving them an incentive to work on local policy needs so EAGER-type work becomes sustainable. The project should support such institutions in reform-minded countries.

4. ***Research agenda.*** Identify policy weaknesses, and compare and contrast reform experience within Africa and between Africa-Asia-Latin America.

5. ***Governance of EAGER process.*** Research supervision committees should include representatives of country governments. Balance representation of local and outside scholars. Decisions need to be made about research grants by RSCs.

Benno Ndulu
In regard to the project concept, policy influence has been targeted from the outset. This influence should be achieved through significant and positive collaboration. In the event, project implementers have sought to build a consultative salesmanship into the research process. African researchers and policy-makers were canvassed in the process, and this was admirable. It could, however, have been improved by a better weighting of persons consulted.

This, however, begs the question of how best to achieve the policy influence sought under the project. Where are main points of influence? Who are main persons to contact? The same “prioritization question” applies to the research themes. Answering these questions collaboratively will help to define ownership, which in turn will enhance the probability of uptake. One could achieve a partnership of managers and locals at that stage.

Vis-a-vis the collaborative approach to research, this could be improved. There is more capacity than demand, and it might be a good idea to use local intermediaries to identify researchers for specific topics. The quality of collaboration between project implementors and the African Economic Research Consortium (his own concern) has been good.

The quality of work may need greater emphasis, although the peer-review process of the project workshops works well.

As regards research themes, the project may need to adopt a more focused approach around key policy issues and transitional processes — in particular, how to get from here to there. Support greater policy coordination in selected areas. Get a handle on the policy process: know how policies are made regarding specific issues. More emphasis could be placed upon review of previous work to ensure EAGER value added. Much good work has not been included in references of survey papers. Interface is needed across different studies. There is a need to inform policy nexuses — e.g., fiscal, liberalization/employment, and liberalization/regional integration. Form a cross-EAGER committee to develop these.

Fred Opio
EAGER should work toward minimizing duplication of existing work; more-extensive collaboration will serve this purpose. The project needs to identify individuals and institutions who could fill this role, which would help to avoid competitive research.

In regard to capacity building, there are now 25 national policy analysis institutions in Africa staffed with capable Africans; EAGER should work with these institutions. The project can also help build more capacity. It should encourage consolidation of research in pertinent areas.

Growth with equity is the right theme. At present, growth and equity are two horses, and the growth horse is moving faster. The risk in this is that the project will leave the poor behind. EAGER themes now have less focus on poverty issues.

The issue of ownership of policy reform will require full participation by Africans. This must be home-grown, or one runs the risk of generating research findings that will not be implemented. Regarding the quality of work, there may be a long way to go to get top-quality researchers, but there has been much progress. We are not interested in mediocre work; examine the requirements within a given country or region.

Diery Seck
How do we define capacity building? Can we attach meaning to a buzz word? Capacity to do what: make policy or conduct research on policy? In many situations, foreign researchers have easier access to policy-makers than do local researchers. How does one scale the "Great Wall" between local policy-makers and researchers.

We need to be more specific about strengthening local institutions. What are the target dates? When can local institutions expect to be fully in charge of national research programs? They cannot depend permanently on external aid. What is the timetable for disengagement? What needs to be re-examined or clarified?

The "missionary" model, applicable to much of donor-supported policy reform, needs to be scrapped in favor of a two-way movement of ideas. As it is now, foreigner researchers/policy-advisors have more influence than locals. Compare AIRD and HIID *vis-a-vis* the Kampala workshop; Africans have an immense role in AIRD program. They are in charge. HIID should put Africans more in charge. In regard to publications, do not favor North Americans over Africans.

Sam Wangwe
EAGER is a timely idea. But the relationship between researchers and policy-makers can be a difficult one; Africans are also grappling with this question at the national level. It is timely to get a handle on better understanding the policy-reform process. Collaboration, too, is an important process, although up to now "collaboration" was used as a ruse to get money. From a personal perspective, the institutional mechanics of EAGER seem sound. However, the adoption of policies supported by the research results will be a process; African policy-makers must learn to call upon indigenous capacity when they need research. In that regard, there is a need to establish an ongoing partnership to last throughout the EAGER Project.

Dunstan Spencer
At present, capacity varies by country. What, for instance, does one do in Mozambique if there are no local institutions but still a desire to influence policy? Reforms imposed by outside organizations will not go forward without collaboration between the donors and principals within countries (on the model of the "Concorde approach") and concurrent infusions of money. Beware the "Big Bang" approach lest it kill the patient. [In regard to an earlier question concerning the research agenda,] consider dropping the macro-analysis theme.

Discussion Points
Fulfilling conditionalities in isolation fails; in this regard the policy-reform process must be understood as a process. Tanzania serves as a prime example wherein a long list could be cited of policies that were adopted at Tanzanian cabinet level but then never implemented.

In regard to capacity development, a review capability among African researchers and research institutions is vital, as is the use of past research and coordinating with other players in the policy-reform arenas.

B. EAGER Research Agenda: A Synthesis of the Workshop.

The final workshop session provided an opportunity for four project principals to make near-term responses to the discussions and opinions expressed over the course of the workshop.

Hussein Bulhan, President, BHM, affirmed his group's partnership with the researchers and research managers of the EAGER Project for disseminating research results in a way that will achieve project objectives. He noted the importance of collaboration between the partners in determining how to best achieve maximum impact of applied policy research under the project.

Clive Gray opened his comments by welcoming the ideas already put forward for the PSG research agenda and the EAGER collaborative process and by inviting more ideas from workshop participants. He noted that the principals were open to reassessing the eight current research topics and that a new invitation for research proposals would be forthcoming in November 1996. Gray reiterated his commitment to collaboration in defining and implementing the research agenda and noted the success that had been achieved to date in this respect.

Dirck Stryker distinguished two separate activities implied by the project's twin objectives of reforming policy and developing a greater indigenous capability for economic research. These were assuring that project research contributes to policy reform and ensuring that research contributes to the public dialogue regarding economic policy. He emphasized the importance of linking African researchers and policy-makers and also the catalytic role that can be played by sustained relations between expatriate and African researchers.

Stryker also addressed the question of reform scheduling by suggesting that a “pretty big bang” might be a more practical approach in attempting to satisfy the objectives of sustainable reform, fairness, and measurable effectiveness. He also confirmed his commitment to equity and gender issues as worthy project elements both in their own right and in terms of their implications for long-term sustainable growth. He suggested that longer-term strategies may need to be developed for addressing poverty issues.

Jerry Wolgin embraced the “missionary” metaphor, noting that economists who believe the validity of (for example) Sach's research have a “gospel” founded on a certain way of thinking about resource allocation and freely exercised choices of suppliers and demanders. Our “church” seeks to train missionaries in this world view and to send them out to their respective “national churches” where they will undertake good works in the service of free markets and respectable growth rates.

He noted that the project is at a crossroads and that because of the larger picture (in which USAID resources are diminishing) it was incumbent upon implementers to achieve visible results in support of both policy reform and economic research capability in Africa. He further noted that EAGER cannot do everything and that it was not “the only project in town.”

Wolgin believes the project to be too complex, but this is a function of its design and development and, to some extent, must be taken as given. It still has the means — if its available resources are focused — to contribute to policy change. He cited several issues that need to be decided upon:

- ***Policy change.*** The project will face choices between long-term versus short-term, small and do-able versus larger and harder to do. Although it is important to look over the horizon, external factors tend to drive the focus to current results.
- ***Equity issues.*** We must recognize that no fundamental contradictions exist between the growth and equity objectives.
- ***Social and other noneconomic research.*** The challenge lies with social researchers to propose inputs fundamental to the policy-reform and equity issues, not "on-the-side" work for social scientists. Examples include the political economy of policy change.
- ***Project centralization versus decentralization.*** The project is too decentralized, and there needs to be greater central direction.
- ***Implementation schedule.*** The schedule has given the Trade team an advantage in this workshop forum because its research agenda is further formed, although not yet ready with results, while the Public Strategies component is still developing its research agenda and is therefore more susceptible to suggestions. There is a need to examine the differences between AIRD and HIID's approaches both to build synergies and to identify, and adopt more broadly, best practices.

ANNEX I

Executive Summary of Papers Presented

Economic Analysis for Policy Reform in Africa Workshop
July 17-19, 1996
Washington, D.C.

New Trade Opportunities for Africa: A Survey of Literature and Experiences

EAGER/Trade Regimes and Growth Survey Paper

B. Lynn Salinger, AIRD

ABSTRACT

Defining New Trade Opportunities

Defining “new trade opportunities” in three ways, *new products, new markets,* and *new modes of trade,* the survey explores each of these and ways Africa can take advantage of them. In addition, the survey examines the trade- and investment-promotion mechanisms other countries and trade blocs have employed, and their record of success to date. It outlines some of the factors which have blocked and continue to constrain sub-Saharan African countries in their exploitation of new trade opportunities. Lastly, it suggests new topics for examination by EAGER/Trade researchers.

New Products. In international trade today, the biggest surge comes from nontraditional exports, as opposed to bulk commodities. In agriculture, this means a wide range of fresh and processed specialty products; in manufacturing, office and telecommunications equipment represents the most dynamic trade category, exceeding trade in agricultural or mining products. In some cases, trade in these products is growing due to rising consumer incomes in industrial countries, and in others, in response to policy distortions in importing countries; the “new products” category may also comprise services.

A number of researchers have begun to explore structural factors contributing to these trends: increased disposable incomes, urbanization, growing health consciousness of industrial consumers, technological advances in transportation and communications, rising marketing sophistication, and increased coordination of regulation enforcement between exporter and importer country. Growth is also shaped by positive income elasticities of demand, in contrast to negative income-demand elasticities for staple commodities. Other research is beginning to explore some of the environmental, social, and economic trade-offs associated with exploding nontraditional export growth.

New Markets. As trade has expanded, the network of trade flows has become more diversified. While global trade overall is focused among industrialized countries, non-oil-exporting developing countries have begun to diversify their trade such that other developing country markets now represent an increasing share for them. This trend will be furthered by continued income growth in developing countries. A stark example is China, now turning a

corner from net exporter of foodstuffs to net importer of basic commodities and a growing exporter of manufactures.

New Modes of Trade. As trade volumes increase and both the variety of products and services and the network of trading partners diversify, firms are obliged to compete on a variety of new levels in order to maintain a toehold in the international marketplace. New relations between exporter and importer, sophisticated product differentiation, better service delivery, and cost reduction, all become necessary in this changing environment. Trade is booming because of innovations in the organization of manufacturing enterprises, which result in increased off-shore manufacturing of products destined for intermediate or final consumption in another country. Changes in manufacturing processes now permit the contracting-out of individual aspects of the manufacturing chain. Thus trade is increasingly attributed to exchange activities either among subsidiary firms of multinational corporations or between smaller firms and the foreign partners with which they collaborate through partnerships, joint ventures, or other strategic alliances.

Identification and Evaluation of New Trade Opportunities

Every day business people around the world seize new market opportunities. Methods used to identify these opportunities include analysis of comparative advantage and competitiveness. This survey compares and contrasts the two. Whether in static or more dynamic analyses, comparative advantage is a cost-based measure of competitiveness, macroeconomic and incentives policies affecting competitiveness, and issues of infrastructure and technology. However, cost factors no longer play the predominate role in a firm's ability to compete globally. Increasingly, it is the entrepreneurial culture that hones competitiveness, including such factors as dynamic strategies for labor-productivity improvements, creative product/service development, quality of product and associated services, technology research, development, commercialization, worker motivation/flexibility, internal organization, and relationships with suppliers and customers.

Trade and Investment Promotion Mechanisms

While the government's role in addressing macro-economic and incentives policies is clear, much of the debate in the literature on new trade opportunities focuses upon the appropriate degree of government involvement in the second (infrastructure, technology) and third (entrepreneurial environment) determinants. Government programs have attempted to redress some of these elements. Investment promotion schemes aim to increase domestic firms' exposure to foreign technologies and off-shore production/ marketing partners, while trade-promotion schemes may be publicly funded efforts to improve developing countries' export production/marketing abilities.

Where “pro-trade” policy reform projects to stabilize the macro-economy and reform exchange rate, trade, and marketing policies have successfully been implemented, it is expected that economic growth, and thus international trade, will accelerate, making specific export-promotion actions less important or even unnecessary. However, in many instances in sub-Saharan Africa (SSA) reforms have either not been introduced to date or their introduction has been partial or ineffective. Accordingly, governments around the world, particularly outside of SSA, have introduced a variety of institutional mechanisms or interventions to enhance exports:

- ***Foreign exchange access facilitation***, including exporter retention of foreign-exchange earnings and "own funds" import schemes

- ***Modification of trade tariff schemes*** to exempt exporters from protective tariffs on imported inputs (duty drawbacks, waivers, exemptions, and rebates; temporary admission; bonded manufacturing warehouses)

- ***Infrastructure or production zones*** (sea/airport development; storage, cold storage, and sorting/packaging facility development; free-trade zones, export-processing zones) often seen as a way of providing improved infrastructure most efficiently to a concentration of export activities

- ***Foreign direct investment promotion*** (tax rebates or holidays, agreements to avoid double taxation, exemption from trade duties, preferential interest rates, unrestricted investment licensing, favorable tax codes, liberal capital repatriation schemes, liberalization of equity capital ownership guidelines, preferential treatment for location in strategic regions)

- ***Export promotion schemes*** (export subsidies, streamlining of export procedures, export market development projects, export-promotion boards, trade fairs, exporter training programs, market information systems, establishment of international market information centers, improvement of domestic quality/standards/ packaging/labeling practices to match international market requirements, and preferential financing arrangements such as export incentive schemes, export credit guarantees, directed credits, export financing at preferential interest rates, export foundations to support export technology and market research and development)

- ***Entrepreneurship or private sector development projects***, which often include export promotion among their strategic objectives

- ***Labor market reforms*** to facilitate private sector development by permitting greater flexibility for movements by firms in and out of the labor market; also

- ***Domestic market reforms*** (removal of parastatal marketing boards, domestic pricing controls), which may be an important precondition to the expansion of primary-sector exports

Conclusions and Areas for Future Research

Many issues remain. With regard to ameliorating differences in labor productivity between SSA and other developing countries, research needs to focus on training and management strategies to increase worker productivity, and on whether those already applied in Asia can be adapted with similar effect on African labor productivity. Incentives structures should be evaluated as to whether they encourage increasing capital or labor intensity of production.

For economists and SSA policy-makers alike, little is known about “the private sector” in that area (domestic and foreign) and its ability to pursue new global trade opportunities. In order to better understand how trade and investment will be delivered to SSA, it must be understood who makes up its entrepreneurial sector. Moreover, trade and investment promotion needs to be reviewed from the entrepreneurial perspective to understand what motivates it to explore commercial relations overseas and, vice versa, what motivates foreign investors to pursue relations in Africa. One hypothesis to test is that investors from South Africa or Southeast Asia may be less resistant to the perception of riskiness of the African investment climate than are investors from OECD countries. The degree to which African entrepreneurs are experienced and capitalized at a sufficient level to reassure foreign investors that they can deliver on order needs evaluation. Researchers need to explore the kind of training required to enable African entrepreneurs to undertake the required market analysis, strategizing for the medium and long term (as opposed to traders who tend to think short term) in order to target foreign commercial relations for new products, new markets, and new modes of business. The effectiveness of existing trade/investment-promotion mechanisms in SSA countries where the underlying fundamentals (economic liberalization *cum* political and social stability) may still be lacking needs inter-country review. Finally, EAGER/Trade researchers should explore how *better-targeted* promotion mechanisms can be designed that respond to the real commercial needs of African entrepreneurs and foreign entrepreneurs in Africa.

Research is also needed on downstream issues, examining how SSA's new trade opportunities affect growth, incomes, incomes distribution, consumption and nutrition, the environment (water and air quality, urban transport infrastructure), worker health and safety, etc. Countries at different levels of per capita income may have different preferences regarding “social issues” such as child labor and the environment, implying that a simple pass-through of standard OECD regulations is probably inappropriate. However, at the extreme, research needs to consider what kind of regulatory structures should be anticipated to “guide” growth in trade and investments without restricting it, i.e., to avoid the most egregious abuses (*inter alia*, worker safety, environmental degradation) that have accompanied similar growth in Asia.

Economic Analysis for Policy Reform in Africa Workshop
July 17-19, 1996
Washington, D.C.

Structural Barriers to Trade in Africa

EAGER/Trade Regimes and Growth Survey Paper

Joseph Stern, HIID
Mary Kay Gugerty, HIID

ABSTRACT

Introduction

Economists have come to recognize that outward-oriented economies grow more rapidly. Moreover there is now a growing agreement on the policy elements that promote successful export-led growth. Yet, despite some measure of policy reform, most of sub-Saharan Africa continues to experience low income growth combined with relatively modest success in developing nontraditional exports. This poor response to policy reforms has led policy-makers to seek to identify the key constraints that appear to impede a more-robust export performance in Africa. In this paper we examine certain key supporting factors in export development and examine the degree to which they are missing in Africa. In particular, we focus upon physical infrastructure and human capital, as well as institutional and political constraints.

Physical Infrastructure

The available data indicate that sub-Saharan Africa supplies less infrastructure per worker than other developing areas. What is less clear is whether this outcome reflects an under-investment in infrastructure in the past or a failure to maintain existing capacity. There is little research that concretely links this shortcoming to the failure to compete in the international market. Such an effort is needed because it would provide a firmer basis from which to identify the required resources and justify their expenditure. We also note that when faced with infrastructure shortfalls, firms often attempt to establish their own infrastructure supplies. This can be inefficient, raising production costs and lowering international competitiveness, but also impacts differentially by firm size. On the whole, larger firms are better able to meet their own infrastructure needs than are small/ medium-scaled firms. Since the growth of small/medium-scaled firms can contribute substantially to job creation and may be an important source of inputs into export-oriented production, infrastructure failures that negatively affect such firms may impose substantial costs. SSA also is poorly provisioned in terms of transport services and this is one area in which it is often difficult to develop private providers. Finally, we note that sub-Saharan Africa also lags behind in the use of modern information technologies. Although some observers suggest that SSA may be able to “leap-frog” over outdated technologies and adopt newer emerging technologies at lower cost, little evidence supports this sanguine view.

These infrastructural weaknesses impose high costs upon SSA enterprises, making them less able to compete on world markets. It is clear that a substantial upgrading of SSA infrastructure is required and, given potential funding limitations, private-sector participation should be encouraged wherever possible. In addition, because of the massive expenditure involved, it is crucial to identify which expenditures might be most effective in removing key constraints to trade.

Human Capital

By now it is commonplace to note that human capital plays a crucial role in economic growth and that education, particularly at the primary level, yields high rates of return. While SSA has invested heavily in education, some studies suggest a negative relationship between primary education and growth in SSA. One possible explanation is that education in SSA has been inappropriate. Further analysis is needed to establish the precise improvements in educational policy that would ensure that expenditure on education yields productive investments in human capital.

In addition to the general shortcomings in education, there is a severe shortfall in the trained manpower needed to develop many modern productive activities. The proportion of the population in SSA enrolled in higher education in the sciences and engineering is quite low. Not only are more trained staff needed, but also supporting staff such as artisans and technicians. Two questions need attention: first, what are the costs of labor market impediments? Second, what formal and informal programs can help remedy the situation? Possible avenues include increased on-the-job training, formal training, overseas training, and the use of apprenticeship traditions. At the moment, there is a clear lack of information on the returns to these various forms of investment in human capital.

Institutional Constraints

Even if macroeconomic conditions are optimal, institutional constraints and bureaucratic sloth can inhibit export development. Although ample evidence exists on the importance of unrestrictive trade policies in the promotion of exports, but there is still near universal neglect in trade theories of issues relating to information requirements and flows, as well as marketing efforts involved in exporting. Studies of SSA institutions indicate a series of institutional bottlenecks: shortage of export credit financing, slow and costly procedures for clearing traded goods, lack of competition for sea and air freight, problems of contract enforcement, and a poorly developed system of setting international payments.

We also note that SSA enterprises need to develop a greater reputation for quality. One option is to make greater use of international organizations, such as the ISO, that certify standards. Moreover, African firms need to work on brand promotion so that African products are not perceived as inferior; regional cooperation and promotion may be important in this area. One option for overcoming marketing difficulties is to use foreign assistance and experts; another is to use trade-promotion offices, which have been successful in some East Asian countries (although their reputation is far from uniformly successful). There is evidence that, under certain conditions, such offices overcome marketing barriers effectively. A final solution might be an increased reliance on foreign investment. Here we note that SSA has been less successful than other areas in attracting foreign investment, presumably for the same reasons that make exporting difficult. While the benefits of foreign investment are not fully established, studies show that recipient firms do benefit from foreign direct investment even if the case for a wider, economy-wide benefit is not well established.

Political and Policy Constraints to Trade

It is in this area that opinions are the most heated and evidence the most anecdotal. For example, it is unclear to what extent political instability and corruption in SSA deter investment. Indeed, these characteristics are present in other regions that have been more successful in attracting investment and developing exports. Nevertheless, we note general evidence from cross-country growth regressions that democracy and stability contribute to growth, although there is little disaggregated work linking particular indices of political stability to growth and export development. Looking across regions and countries, it appears that stability is a necessary, but far from sufficient, condition for trade development.

The legal systems of SSA are often and rightly criticized for their lack of transparency and enforcement. But there is little evidence on the degree to which this contributes to poor trade performance or low levels of foreign investment. Although there have been improvements in the administrative capacity of African economies, African policy-makers cite the slow administrative reform as a key impediment to trade promotion.

Conclusions

This study indicates that, while the literature provides considerable description of structural barriers to growth and export development in Africa, much of the evidence is fragmentary and so broadly based that policy-makers are unable to choose among policy options. Information about the factors impeding export development in sub-Saharan Africa is so general that policy-makers will have difficulty judging the relative importance of various structural barriers. SSA is clearly a “late-comer” to export-led growth, which may have advantages. While there exists agreement on the necessary conditions for successful trade promotion, the sufficient conditions are open to debate and it appears that there are multiple paths to export-led growth. And SSA's late arrival to “openness” may also pose problems. World trade has grown more slowly in recent years, and East and Southeast Asian manufacturers have developed a reputation for quality that will be hard to overcome. In the end, what is needed is a framework that would allow policy-makers to choose specific means of overcoming structural barriers to trade. Research that would help link specific failures to the problem of exporting and then develop specific solutions could make a real contribution to the economic development of sub-Saharan Africa.

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

EAGER/Trade Regimes and Growth Survey Paper

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ABSTRACT

Over the past quarter century the volume and value of trade has stagnated for sub-Saharan Africa. There is widespread agreement that failed statist policies and institutions bear a large share of the blame for this performance. Trade liberalization was therefore among the first of the structural-adjustment policies introduced in the 1980s. The main steps in trade-policy reform typically included reforming exchange-rate regimes, removing nontariff barriers such as quantitative restrictions and import licensing, harmonizing and reducing import tariffs and other forms of border taxation, liberalizing export policies, and eliminating internal trade monopolies.

Research, particularly by the World Bank, suggests that the record of trade policy reform in sub-Saharan Africa is following the same path toward increasing trade liberalization as in other regions of the world in the past decade. Nonetheless, this record masks substantial variation among African countries and a tendency in sub-Saharan Africa for crucial trade reforms to be stalled or reversed subsequent to implementation. Particularly where reforms have not been forthcoming without outside pressure, there are important differences between the prescriptions of reform found in the reform documentation and their actual implementation. In other cases, policies have been implemented, but their effects on the trade environment have not met expectations. Three reasons for this may be noted:

- ***Redundancy***. This occurs when a policy reform is made irrelevant by other policies that continue to counter its intended effects. This is often the case with respect to protective measures against world markets.

- ***Exemption***. Despite reforms, exemptions are often granted to strong interest groups who can make their case to policy-makers. Ironically, these interest groups may be a principal target of the original reform.

- ***Reversal***. Some reversals of government policy are to be expected with changes in government or unforeseen economic circumstances. However, governments may also reverse their positions as a matter of domestic political strategy. This is not surprising within the context of structural-adjustment programs in which policies have been forced upon governments by international financial institutions (IFIs) as conditionality to obtain loans.

Given these problems, despite a decade of intensive reform efforts, the trade environment in Africa remains constrained. Measures of the impact of reforms on the trading environment suggest that nominal protection remains high; some currencies remain overvalued; others are subject to hyperinflation/rapid devaluation; and the procedures and regulations surrounding trade remain slow,

burdensome and restrictive. Here are specific areas which recent studies have identified important failures of reform programs:

- Import tariff rates remain high relative to other developing countries.

- Quantitative restrictions remain on imports, particularly in many of the CFA countries. These restrictions create opportunities for illicit trade.

- Failure to privatize parastatals in many important sectors continue to limit trade opportunities.

- Foreign-exchange markets are narrow, weak and unpredictable. Foreign-exchange controls remain in place, and black market premia for foreign exchange remain important in some countries.

- Export crops continue to be taxed in many countries. This taxation is sometimes disguised in the margins charged for export by parastatal marketing boards. In other cases, rents, created by restrictive export policies, are collected by marketing boards or privileged private exporters as marketing margins.

- Trading is subject to lengthy regulatory burdens and delays, and administrative oversight of these policies is often arbitrary and corrupt. There is reluctance to allow free trade in staple foods, for cultural reasons.

In addition, various complementary measures, which must accompany trade reforms in order to get the beneficial economic effects of trade reform, are also missing. These include physical infrastructure, human capital (especially in technical and managerial areas), and public institutions to regulate markets, assist transactions, and provide safety, quality and other standards for transactions. Internal market policy constraints also remain for certain commodities, which hamper the transmission to producers of incentives created by trade reforms. Finally, reforms of financial, labor and land markets also inhibit investments to take advantage of new opportunities created by trade reforms.

Recent research also suggests that trade-liberalization events over the past two decades in sub-Saharan Africa have often not been credible because of the incompatibility of these reforms with macro-economic conditions in these countries. In addition, these reforms have been inconsistent with the longer run political objectives of the regimes that have enacted them. For this reason, many of the reforms have been reversed or superseded by contradictory policies.

This paper also explores underlying political economic aspects of the policy-reform process, namely, theories of policy reform; the political and economic structures within which reform decisions have been made; the process of decision-making; and the process of legitimizing the policy changes. Sometimes, poor policy implementation has more to do with the intellectual climate and political culture in which the decision-makers operate than with the policy framework per se. The paper identifies a polarized view of the political economy of the reform process. On the one hand, a substantial body of literature criticizes recalcitrant regimes for resisting full implementation of reforms, identifying stress losses policy elites risk incurring, including loss of opportunities for graft and patronage, among the reasons for such resistance. On the other hand, African policy-leaders increasingly criticize the policy-reform process as an imposition of narrow economic models that do not take into account many of the immediate political pressures with which African policy-makers must contend while simultaneously pursuing trade liberalization.

Themes for which the EAGER/Trade project has found demand for further research include the following:

- Exchange regime changes and how to manage them
- Continuing need for tariff protection for infant industries
- Increasing supply responses to trade reforms
- Impact of reforms on fiscal balance
- Role of investment in accelerating trade growth
- Procedures and transactions costs in the new policy environment
- Need for new regulatory institutions and procedures
- Political economy of trade reform.

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The Structure and Process of Policy Making in Africa

EAGER/Trade Regimes and Growth Survey Paper

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ABSTRACT

This paper offers a new theory of the political economy of reform based upon an analysis of transition in economic and political cultural values, attitudes and practices. The paper argues that a modern version of administered trade emerged in twentieth century Africa, as well as in Russia, China and other previously hierarchical and impartially monetized societies. Accelerating monetization of economies is forcing a paradigm shift, which imposes a new way of thinking about economies. In the meantime, African leaders still operate within cultures in which most people view economic management quite differently from market economists.

The goals of market-oriented economic management might be summarized as four points:

- Make GDP grow
- Keep inflation low
- Maintain a favorable current account balance
- Keep unemployment low.

In contrast, African economic management aims to:

- Achieve growth in the loyal community of followers
- Ensure that all members work and produce sufficient food
- Produce a food surplus and local specialties that funnel to the top (minerals and cash crops)
- Trade the communal surplus for luxuries
- Exchange gifts and offer generous hospitality.

The disparity in economic goals helps to explain why certain reforms have been widely resisted, notably those that involve loss of jobs, privatization of parastatals, or liberalization of food exports.

Decision-making processes in African custom also follow a different order from that taken by international financial institutions in negotiating structural adjustment. Debate is supposed to precede decision making and social harmony to follow it. Creating ex-post-facto Aownership@ of imposed policies is very difficult. The EAGER/Trade project attempts a new approach that brings African policy-makers, African economists and American economists together to research policy options. Research projects are demand-driven, with policy-makers rather than researchers in the driver's seat. Policy-makers capable of implementing the options to be researched sit on national advisory committees supervising the research and organizing national roundtables on the topics during the research process. This applied approach is designed to simulate the decision-making steps considered legitimate by African custom and to allow policy to emerge as the result of a wider consensus. This should facilitate the needed paradigm shift and resolve many of the problems of implementation.

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Regional Integration and Cooperation in Sub-Saharan Africa

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ABSTRACT

Regional integration and cooperation agreements in sub-Saharan Africa have yielded disappointing results. They have not led to increased trade neither within the region nor between the region and the rest of the world. Yet, the enthusiasm for regional integration remains. Several new integration initiatives are underway, stimulated in part by the political changes in South Africa and the attention given to the North American Free Trade Agreement (NAFTA) and APEC.

In examining whether efforts at regional integration and cooperation in SSA are likely to be successful, this paper distinguishes between integration agreements (which focus on trade of goods and services and movements of factors of production) and cooperation agreements (which involve selected policy harmonization or joint construction of infrastructure). It does not evaluate monetary unions, which is a topic large enough for a separate paper. Research to date indicates little reason to expect significant gains from regional integration agreements (RIAs) in SSA, although gains are possible from regional cooperation.

Regional Integration: Theory, Experience, and the Outlook for Sub-Saharan Africa

The paper begins by distinguishing between types of trade-focused RIAs, including preferential trade areas, customs unions, common markets, and economic unions. It then reviews the theoretical gains and losses from regional integration. An important point is that although regional integration can generate some economic gains, the gains are always smaller than with more complete integration with the global economy.

RIAs involving industrialized countries have been more successful than those involving developing countries, apparently due to greater integration among the member countries prior to the agreement, better implementation of agreed-upon policy changes, and economic structures that allowed firms to exploit gains from intra-industry specialization and product differentiation.

By contrast, most RIAs involving developing countries have failed to generate significant economic gains. In many cases, this can be attributed to the strategy of using RIAs to foster industrialization based upon regional import substitution. There are no cases of successful RIAs based on inward-oriented regional self-sufficiency. Conversely, RIAs have worked best when member countries have adopted a basic outward-oriented strategy *prior to joining the RIA* and have used regional integration to solidify that strategy. Member countries of these RIAs have seen the agreements as stepping stones toward increased trade with the rest of the world. This suggests that a critical dynamic question is whether RIAs are likely to lead to greater integration with the world economy or are aimed at greater isolation from the world.

RIAs in developing countries also have been plagued by conflicts over the distribution of benefits, especially when there are large differences in income between member countries. Under these circumstances, although there is significant potential for gains from trade driven by differing factor endowments, the bulk of those gains are likely to accrue in the richer country (because it has better infrastructure, a more developed financial system, a larger domestic market, etc.). Conflicts often arise as some members demand compensation from countries that are perceived to gain the most. These conflicts have been strongest in inward-oriented RIAs, where there are few net gains to be distributed and members perceive the RIA as a zero-sum game. The East African Community is a case in point.

In general, the structural characteristics of the SSA countries suggest that they would not be good candidates for trade-focused RIAs at this time. The existing trading relationships between the countries are not well-developed because of inward-oriented trade strategies, weak infrastructural linkages, and the fact that the natural resources many countries export are not consumed by other countries on the continent. Potential gains from regional trade integration will be very limited until the structural barriers to trade are eased. Even then, governments in member countries will have to adopt a fundamentally outward stance and begin the process of global integration before any gains from RIAs can be realized. This change, in turn, may require basic changes in government taxation and expenditure policies, because many African countries are highly dependent on trade taxes as a revenue base.

The experiences of other countries also suggest that a history of both macroeconomic and political stability are prerequisites for success. In an unstable environment, some of the potential gains from integration (especially long-term investment) will not be forthcoming. Credibility must be established in the minds of investors before an RIA can succeed. Similarly, RIAs have worked best when there is a history of political and economic cooperation and support between member countries. These lessons suggest limited potential for RIAs in SSA until greater credibility can be established.

The research to date does not suggest a lack of potential gains from increased trade within SSA; indeed, much work shows just the opposite. Rather, the conclusion is that the institutional mechanism of an RIA is not the most appropriate first step to realize these gains. A trade-focused RIA is unlikely to succeed in the absence of economic and political stability, greater infrastructure and communications linkages, and a fundamental shift toward a more outward-oriented trade policy. Without these changes RIAs could erode, rather than build, the credibility of member governments and may simply divert policymakers' attention from efforts to integrate SSA into the world economy. In these circumstances, the administrative and financial resources devoted to RIAs would be better spent elsewhere.

Cooperation

Most research concludes regional-cooperation efforts have achieved more success in the past and are more likely to lead to immediate economic benefits than are trade-focused RIAs. Cooperation usually involves some form of policy harmonization (e.g., the adoption of common standards and regulations, similar treatment of foreign investors, mutual defense and security) or joint production of public goods, including both infrastructure (roads, railroads, bridges, ports) and institutions (e.g., for education or research). SADC, especially, has achieved success in encouraging regional transportation and communication links. Coordination initiatives provide more flexibility for member countries because they tend to be more selective in their coverage than RIAs. As a result, they require fewer long-term policy commitments. Moreover, cooperation initiatives are less likely than RIAs to encourage direct state intervention in productive sectors. Perhaps most importantly, RIAs lay the foundation for greater trade integration both within the region and with the rest of the world. As a result, the strong consensus in the literature is that SSA would be better off to begin the process of integration through initiatives aimed at cooperation.

Areas for Further Research

Each possible regional agreement is unique, so there is no substitute for solid case-by-case analysis of the potential gains from increased trade or cooperation. The best starting point is a country-by-country analysis of trade potential and barriers, and of optimal and likely changes in trade strategy. With this foundation, research can proceed to evaluate the potential gains from cooperation, shared infrastructure, and trade-policy changes on a regional basis. Research can evaluate whether trade-policy changes are best conducted on a unilateral, bilateral, or multilateral basis. However, researchers should bear in mind the limitations of relying too heavily on multi-country trade models that do not fully account for international flows of capital and labor, economies of scale, or other important aspects of regional economies. Finally, interesting insights are likely to be gained by research into the fiscal implications of tariff reductions and the extent to which fiscal policies may be a significant barrier to the integration of SSA into the global economy.

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Trends in African Trade

EAGER/Trade Regimes and Growth Survey Paper

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ABSTRACT

Introduction

The purpose of this paper is to describe trends in sub-Sahara African (hereinafter Africa) trade and to explain the underlying internal and external factors that contributed to or impeded exchange between Africa and the rest of the world and exchange among African countries.

Export Trends of Africa's Primary Products

In Africa the overall trade performance as measured by annual growth, market share and product diversification has been disappointing over the years, especially after the mid-1970s. Since the 1980s, the growth rate of African exports in value has declined by an average of 2 percent per annum. Similarly, Africa's world export share gradually declined from an average of 2 percent in the 1960s to a mere 1 percent in 1992. A closer look at the commodities exported shows that few African countries have made progress in diversifying their export structure. Additionally, the vast majority rely on one or two primary commodities to generate more than half of the export earnings. The lack of diversification and the high concentration of exports earnings suggest that most African countries are extremely vulnerable to external shocks ensuing a fall in primary commodity prices.

The decline of Africa's export growth has been tentatively explained by two largely opposing schools of thought, one emphasizing external factors, such as the slow growth of world primary commodity markets and their deteriorating terms of trade, and the other underscoring factors “internal” to African countries such as excessive import protection, overvalued exchange rates and high rates of taxation on exports.

Trends in Africa's Food Imports

Food production in Africa has failed to meet the demand of its growing population. While unfavorable climatic conditions coupled with warfare have hindered food production, low producer prices and inadequate technologies and research and development facilities are also much to blame for its decline. This decline, combined with rising urbanization, led to growing commercial and food aid imports. From 1975 to 1994 the region's population grew at an average 3 percent per annum, but urbanization grew at an average annual growth rate of 5 percent during roughly the same period. Cereal imports increased by an average annual growth rate of about 11 percent from 1975 to 1984, minus 2 percent during the following five years and 9 percent during the 1990s. Food aid imports followed similar trends.

Trends in Manufacturing Product Trade

In recent years, the manufacturing sector has contributed less than 10 percent of GDP for most African countries. In the 1960s, manufacturing value-added grew by more than 8 percent per annum, and its contribution to GDP exceeded 15 percent. The decline observed in the manufacturing sector is due largely to resource-based and import-substitution strategies put in place by African policy-makers in an attempt to accelerate industrialization. Both relied upon political criteria rather than economic rationale to guide the choice of investment type, location and management structure. In the case of import substitution, local industries were shielded from foreign competition by high tariffs and quantitative restrictions. This lack of foreign competition isolated local enterprises, allowing them to fall behind technologically. In addition to technical constraints, firms faced a demand constraint. Plant and factories were established to manufacture goods primarily for the domestic market. As real income declined, the domestic market became increasingly narrow and plants and factories operated at low levels of capacity utilization. In sum, this inward-looking strategy discouraged foreign investments, discriminated against exports, and slowed development of manufactured exports.

Regional Trade

Since the early 1970s, regional economic integration has received increasing attention among African policy-makers trying to overcome the narrowness of their national economies. Despite the existence of several regional organizations to promote African trade, in 1991, overall trade amounted to 6 percent of Africa's total trade. Official regional trade levels appear to be the highest among members of the defunct Communauté Economique de l'Afrique de l'Ouest (CEAO). Several arguments have been put forward to substantiate the lack of progress in regional trade, among them differences in historical and cultural background, low levels of income and economic development, inappropriate macro-economic and sectoral policies, and a weak physical and institutional infrastructure.

Care must be used when assessing African regional trade on the basis of official records. A wide body of literature has documented that official trade data are unreliable and that this trade accounts for a small portion of the trade taking place among African countries. Lack of personnel and resources to capture most cross-border transactions partly explains this disparity. Restrictive and lengthy administrative procedures and, most importantly, taxes also create strong incentives for evasion of official trade documentation.

Many comparative advantage studies have examined commodities important in African regional trade. For example, the results of the West African rice commodity studies suggest that Mali and Sierra Leone could efficiently supply rice to neighboring countries. Similar studies in West Africa also show strong comparative advantage in regional trade in coarse grains, livestock products and potatoes. Regional trade requires an harmonization of economic and development strategies and long-term goals.

Nontraditional Exports

Most African countries have relied upon a few traditional commodities to generate much of their foreign-exchange earnings. However, these commodities face increasing demand and supply constraints: on the demand side, world market prospects for some of them appear poor and unstable; on the supply side, population growth is raising the opportunity cost of land suitable for livestock and cash crops. Additionally, mineral deposits and forest reserves are being exhausted. Consequently, future export earnings and growth prospects will rely increasingly on the export of nontraditional goods.

African countries can favorably diversify into high-value primary commodities such as horticultural, marine, and medicinal products because of favorable climatic conditions. Furthermore, these products face increasing demand. Another area of diversification, one probably more important in term of long-term growth, is the production of labor-intensive goods. Although the labor force in Africa is increasing, real wages have at best stagnated. With new countries subject to quotas under the multi-fibre agreement, garment industries are likely to relocate to other regions such as Africa. There is also a increasing demand for Afrocentric products, which creates new market opportunities.

The prospects for nontraditional exports commodities appear very promising for Africa. Whether African countries can take advantage of new opportunities will depend in large part upon their ability to meet demand in the highly competitive market of high-value products. In this respect, the paper includes country case studies in order to identify factors that have contributed to the success stories and the supply constraints and other impediments to growth of nontraditional exports.

Conclusion

Africa has lost an important share of the world market for primary products to more-competitive economies. Distortions introduced by inappropriate macro-economic and trade policies were biased against exports; consequently, producers failed to make the necessary investment to enhance productivity and supply. The import-substitution and inward-looking strategies bore heavily upon the African manufacturing sector, which in the long run became inefficient because of outdated machinery, unskilled labor, lack of technical and managerial skills, and dwindling local markets.

The supply constraints that negatively affected the traditional sector are likely to have the same effect upon nontraditional exports. In addition, to reverse the present macro-economic imbalances, other factors such as weak institutional environments and the lack of marketing finance and market information systems will need to be addressed.

In light of the findings of the paper, it is recommended that African governments invest in both human capital and physical infrastructure. It is also necessary to create an environment that promotes competition in factor and output markets. Equally important is the creation of an environment encouraging foreign direct and joint-venture investments, which will facilitate the transfer of technologies.

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

EAGER/PSG Survey Paper

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ABSTRACT

Market-oriented reforms featured in the structural-adjustment programs of many African countries have not yielded the expected results. Consequently, attention increasingly focuses on the roles of local institutions and, more specifically, on the legal, regulatory, and judicial environment as it influences how these reforms affect economic performance. In a market economy, the role of the LRJ environment is to reduce transaction costs and uncertainty and to increase accountability and transparency. However, in most African countries the LRJ environment is less than adequate — characterized by unbridled executive authority, constraining business regulations, lengthy administrative procedures, and a weak judicial system. Consequently, economic agents often operate outside the legal framework, imposing a cost to themselves and to society.

Firms choose to operate at least partially outside the formal legal structure because to operate within it offers few advantages or is costly. This, however, does not imply that these firms should necessarily be classified as belonging to the informal sector, since in other ways they may operate much the same as do firms within the formal sector. For example, a firm may conduct all of its activities without written contracts but be legally registered and pay taxes.

Although firms often may not perceive the inadequacies of the LRJ environment as a serious constraint to further growth, since these firms often believe they have found ways to work around the system, at least two types of constraints are likely to face them. The first relates to the scale of their activities and the second to the security they feel in making longer-term investments.

While a vast body of literature relates to the role of the LRJ environment in market economies, not much addresses how to implement a sound LRJ system in a developing economy. This survey paper examines property-rights law, contract law, and business regulation within sub-Saharan Africa to see —

- To what extent they form a coherent body of written text and jurisprudence.

- How the body of written law and jurisprudence is applied in practice to create an LRJ environment facing the business community.

- The problems posed by this LRJ environment for the government, legal profession, and business community.

- How business firms react to the LRJ environment, especially in terms of their choices regarding degrees of formality or informality.

- What the costs of informal behavior are likely to be compared with those of acting formally within the existing LRJ environment and within an improved baseline environment.

The survey addresses these questions through a review of economic, legal, and other social science literature dealing with property law, contracts and contract enforcement, and business regulation. The purpose of the survey is to provide a theoretical framework and to specify preliminary hypotheses for later empirical and theoretical research in Ghana, Madagascar, and Tanzania.

Because of the complexity of the subject, it is not possible to summarize each of these major areas of the LRJ environment. Instead, the area of contract law is taken as an example of the approach used throughout the survey.

Contract Law

The paper asks the following questions regarding contract law: What modes of contracting and contract enforcement prevail among entrepreneurs in Ghana, Madagascar, and Tanzania? How do entrepreneurs choose among different contracting mechanisms? How does the choice of contracting mechanism vary with a firm's size, sector, and location? To what extent does the formal contract regime order economic relationships? What are the implications for policy and legal reform to promote private-sector growth?

The contract regime refers to formal and informal norms and processes related to business transactions. These include applicable laws, such as the common law of contract and the civil and commercial codes on contractual obligations; rules and procedures pertaining to adjudication and dispute resolution; and the governance regime applicable to courts and other dispute-resolution mechanisms, for example, the rules and practices comprising judicial review.

In a theoretical world of perfect markets, where contract enforceability is assured, the identity of the parties and the distance between the quid and quo impose no restrictions on the decision of whether to exchange and enter into a contract. Hence, any mutually beneficial transaction is possible.

In reality, however, the decision to exchange and enter into a contract depends upon the institutions that ensure compliance with the terms of contract. In other words, the nature of the available contract-enforcement institutions determines the transactions an individual is ready to assume.

Contract-enforcement institutions can be either formal and legal or informal and indigenous. The neoclassical economics maintains that the legal system is perfect and provides contract enforcement. In practice, however, asymmetric information and incomplete contracts limit the effectiveness of the legal system. The new institutional economics argues that in these cases informal institutions arise to govern the exchange. Other social scientists as well emphasize the role of informal contract-enforcement mechanisms in facilitating exchange.

The firm's choice between formal and informal contracting mechanisms is shown to depend upon — in addition to the nature of the transaction and the cost of using the mechanism — the size, sector, and location of the firm. The survey traces the possible incentive effects of the various formal and informal contracting mechanisms and compares their relative efficiency.

Finally, the survey provides a brief review of the contract regime in Tanzania. Ghana, Madagascar, and Tanzania have divergent legal traditions, ethnic make-ups, colonial histories, economic structures, and business communities. They are also diverse with respect to their regional and international economic ties. Each has received its share of scrutiny by donor agencies examining its economic policies and its legal enabling environment for private-sector development. Hence, they provide an interesting sample of countries for a study of contract and contract-enforcement practices.

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The Existing Legal Framework for Credit and Finance in Ghana, Kenya, and Zambia: Identifying Research Topics, Problem Areas, and Reform Needs

EAGER/PSG Survey Paper

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ABSTRACT

This research project rests on two premises: (1) Insufficient access to credit and finance is a great obstacle to development in many countries, including those of Africa; (2) The legal framework plays a crucial role in facilitating, but also in obstructing, access to credit and finance. Based on these premises, this survey seeks to provide an overview of the legal issues involved in financial-sector development and to pinpoint specific problem areas in the three countries included in the investigation.

The survey is based on information and data collected during my mission to the three African countries in May/June of 1996 in preparation of this research project. The survey aims at a theoretical analysis of the ability of laws and regulations to affect behavior and the interaction between different laws and legal institutions in the context of recent economic histories of the three countries. This background analysis is crucial to understanding why past reform efforts may have failed and what considerations should go into future reforms of law and legal institutions relating to credit and finance.

The major points made in this survey can be summarized as follows:

1. Whereas in the past many developing countries adopted developmental policies founded upon excessive state intervention in economic activities, the post-1980s era has been marked by a significant shift toward greater reliance on private market activities. While the most significant changes in economic policy have taken place in the countries of Eastern Europe and the former Soviet Union, many African countries have undergone or indicated a general commitment to serious economic reforms. Reform of the financial sector, including the legal framework directly affecting the financial sector, is frequently part of the reform agenda. However, many reform efforts undertaken so far have underestimated the implications of old laws still in place, or the functioning of existing institutions, both of which have remained largely unreformed.

2. In practice, legal reforms mainly take the form of new laws and regulations. The experience of Ghana, Kenya, and Zambia demonstrates, however, that legal reform should embody at least three elements: first, the repeal of antiquated laws and regulations, particularly those designed to promote state intervention in the economy; second, the enactment of new laws and the establishment of new legal institutions, including the building up of new regulatory capacities; and third, the harmonization of old and new laws with the goal of building a fairly consistent legal system. For legal reform to be effective, there must be a clear concept of the social group targeted (target group) and the social or economic behavior desired (target behavior).

3. Legal reform should become an integrated part of structural-reform programs, and more attention should be paid to the sequencing of legal and economic reform. Successful privatization programs

require both clear rules on property rights and institutions capable of enforcing them. Law also plays an important educative role in promoting new standards for private business activity. Important examples include competition law, protection of investors' rights, as well as rules governing private financial institutions. Ghana provides an interesting case study for the sequencing of reform of banking regulations, including prudential studies, in the process of recapitalizing banks for creating viable banking sector.

4. Recent experience with legal reform in the three countries provides substantial evidence on the effects law reform has upon credit and finance, these effects should be considered in future reform efforts. Here are a few examples:

- Overtly strict prudential standards may undermine the very purpose of a law. In Kenya, for example, the introduction of new legal requirements in the banking sector intended to limit the percentage of bank assets that could be loaned to one borrower tended to create unexpected difficulties — the problem being that the law was too broad in its definition of “one borrower.” By lumping all affiliated companies and foreign subsidiaries as “one borrower,” the law tended to obstruct the ability of investors to diversify through the use of corporate forms and foreign investment. Also this legal requirement seemed to sabotage the business of Kenya's entire banking industry.

- The legal framework for different types of financial institutions is often inconsistent and designed with no clear vision of either the target group or the services such institutions should provide. Restrictions on the right to take deposits for micro-financial institutions, for example, have frequently undermined their potential to provide credits and have created highly concentrated banking sectors in urban areas. Kenya's experience serves as a vivid illustration of this point.

- Legal changes that undermine confidence in the state's commitment to long-term security of property rights has serious implications for the use of property as collateral and, thereby, for the access of entrepreneurs to credit and finance. A prominent example is Zambia's Land (Conversion of Titles) Act of 1975, by which all freehold interest to land was reduced to statutory leasehold of 100 years. Confidence was undermined not so much by provisions on the duration of the leasehold, but by the fact that the government had taken steps to confiscate title to real property, which could lead to further state interventions.

5. Effective legal institutions are a precondition for law-based financial transactions. Based upon anecdotal evidence, the malfunctioning of courts and, in particular, of agents in charge of compulsory enforcement of court rulings appears to be a serious handicap for effective contract enforcement in all three countries. (Ghana is currently carrying out an infrastructure-support program aimed at enhancing the courts' technical competence.)

This short overview demonstrates that the reform of laws and legal institutions in different countries has several comparable structural features. Future research will focus on these structural commonalities and will also allow us to pay sufficient attention to the specificities of each country's legal system and reform experience in promoting access to credit and finance.

Economic Analysis for Policy Reform in Africa Workshop
July 17-19, 1996
Washington, D.C.

Enhancing Transparency of Tax Administration

EAGER/PSG Survey Paper

Satish C. Wadhawan, Howard University
Clive Gray, HIID

ABSTRACT

This paper seeks to set the intellectual background and provide the conceptual framework for the proposed EAGER/PSG research activity on "Enhancing Transparency of Tax Administration."

Transparency and accountability lie at the very core of good governance and open economic strategies associated with liberalization. In particular, transparency of tax administration provides for an efficient tax system. By limiting the space for political and administrative discretion, it also limits opportunities for corruption and malfeasance in the mobilization and allocation of resources. Transparency as applied to a tax system is reflected in terms of the completeness and quality of information available both to the public and to the decision-makers in the tax administration, especially in regard to the nature, magnitude, and consequences of tax evasion and noncompliance. It is useful to distinguish between "internal" and "external" transparency. While internal transparency refers to the quality and completeness of information available to decision-makers within the tax administration, external transparency refers to information available to the general public. Both kinds are crucial to an efficient tax system.

The hypothesis underlying this research is that enhancing the transparency of tax administration improves revenue performance through better compliance and enforcement. In the context of sub-Saharan Africa, this postulate rests upon at least three considerations: first, it augments pressures on politically influential and financially capable taxpayers (hereinafter termed "oligarchs") to meet their tax liabilities; second, it satisfies other taxpayers that the oligarchs' tax compliance is improving and thereby enhances their own willingness to comply; and third, it diminishes opportunities for corruption in the revenue services (or, what amounts to the same thing, increases the cost to perpetrators).

The reality is that in most African countries, uneven compliance and enforcement cause revenue shortfalls that have two significant consequences: they lead to fiscal deficits that are usually monetized, aggravating inflation and creating macroeconomic instability that in turn discourages investment, job creation, and exports; they also undermine the public sector's ability to provide social and economic infrastructure to support and promote development. These consequences affect equity in various ways: the poor have fewer job opportunities in the formal sector, which lowers incomes, and public education and health systems expand too slowly (or even contract), thus further depriving the poor to improve their lot.

The review of theoretical and empirical research on why people comply or fail to comply with tax-reporting requirements suggests that considerations of both self-interest — including financial and social motives — and moral commitments affect levels of compliance. In particular, the literature provides some support to the postulate that attitudes relating to perceived fairness and equity of the tax

system tend to be related to commitment and tax compliance and that this relationship is closer than more-general attitudes toward law and government. This conclusion is in tune with the generally perceived feeling so pervasive in sub-Saharan Africa and other developing countries that "…it is the little guy that's always paying taxes, while the wealthy and influential get away…" The current state of knowledge about the estimation of the underground economy is also reviewed to specifically identify the pitfalls in these techniques as applied to African countries, so that appropriate modifications can be made.

Various facets of transparencies that are relevant within the context of sub-Saharan Africa are identified and discussed. These *inter alia* include:

- Taxpayer education and services which concern the taxpayers' interface with the tax system as regards his own liability.
- Performance of tax authorities in enhancing compliance through mechanisms such as the office of "tax ombudsman" that look into taxpayer's complaints and assess the evenness of compliance and enforcement to provide a basis for increasing taxpayer willingness to comply.
- Degree of publicity given to *ad hoc* exemptions accorded by the executive branch and/or by the legislature.
- Extent to which foreign agencies fail to assist the tax authorities by providing information about the consumption of taxable goods and services, notably rental real estate.

These aspects are discussed in light of the experience of other countries — including the OECD and Asian countries — that have experimented directly or indirectly along the above lines. The analysis highlights what policy recommendations have been made and how far these have been implemented and with what results. Since little information exists on these aspects in respect to African nations, the main thrust of the proposed research will be to investigate the following aspects of transparency:

- Taxpayer education and services in Africa and initiatives taken to improve them.

- Avoidance and evasion by politically influential taxpayers in Africa and on the results of efforts to increase their compliance.

- Taxpayer attitudes and to what extent noncompliance stems from a perception that "oligarchs" evade a large share of their tax liabilities.

- The breadth and competence of the estimation of real tax bases and degrees of taxpayer compliance and avoidance in Africa. Who conducts such analysis, what techniques are used, how widely are findings disseminated and to what effect?

- Leakage through official tax exemptions. Has the continent seen initiatives to increase the transparency of exemptions and, if so, what have been the results?

- African tax authorities' effectiveness in reducing various forms of leakage and increasing compliance. Is there any information about their response to publicity about deficiencies in tax collection?

- Extent to which urban rental income effectively taxed in Africa, and the information available about cooperation or noncooperation by foreign residents in declaring the rents they pay.

- Forms of external audit and control to which tax authorities subject in Africa. How effective are these? Have there been any initiatives in Tanzania and Madagascar or elsewhere in Africa to exercise the functions assigned to an institutional arrangement such as a special tax ombudsman? If so, what have been the results?

Economic Analysis for Policy Reform in Africa Workshop
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Tax Policy in Sub-Saharan Africa:
Re-examining the Role of Excise Taxation

EAGER/PSG Survey Paper

Bruce Bolnick, HIID
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ABSTRACT

Three basic premises serve as the foundation for this research project. *First*, prudent fiscal management is an essential ingredient in any recipe for achieving rapid, equitable, and sustained growth in sub-Saharan Africa. *Second*, pragmatic tax reforms can make a significant contribution to improving fiscal performance, for stabilization and structural adjustment. *Third*, under the general heading of tax policy, excise taxation warrants special attention.

Being unorthodox, the third premise requires justification. Excise taxes are worth studying precisely because the subject has been relatively neglected, compared to the effort that has gone into assessing value-added taxes, income taxes, and trade taxes in developing countries. One finds a general lack of information on the economic and even fiscal effects of excise taxes in Africa.

Yet, excise taxes are an important source of revenue across the globe. And because excises are among the simplest of taxes to administer, they should be especially useful in Africa. It is surprising, then, that excise revenue as a percentage of GDP in Africa is relatively low, on average. The literature offers no reason for the low revenue yield from excises in Africa. In addition, the large cross-country variance in excise yields within Africa suggests that the potential revenue gain might be even larger in some countries. We hypothesize that many African governments underutilize excise taxes, perhaps by as much as two percent of GDP. Therefore, excise taxation could be an important component of tax reforms designed to close fiscal gaps or to reduce dependence on highly distortionary and inequitable trade taxes.

But are not excises equally inefficient and unfair? The recent literature belies this common perception, providing strong conceptual support for assigning excises an important role in a well-designed tax system for low-income countries. The excise taxes must, themselves, be well-designed. Here again, the literature on taxation in Africa provides little guidance. It is clear from experience that excise taxes have been a prime vehicle for ad hoc measures to deal with short-run fiscal or political problems; the cumulative effect of such tinkering is to create a patchwork excise system that is far from optimal.

The topic of excise taxation encompasses several policy issues that are controversial in their own right, such as the extent to which motor fuel should be taxed, the distributional effect of “sumptuary” taxes on alcohol and tobacco, and the possibility that excise rates may rise so high as to surpass the maximum-revenue threshold, due to strong incentives for tax evasion.

One factor complicating any study of “excise taxation” is that the term has no uniform meaning. The closest thing to an international standard is the system used by the International Monetary Fund

(IMF) in its *Government Financial Statistics* (GFS). Therein, excise taxes are classified as selective consumption taxes on goods (GFS line 5.2). For this study, we use a slightly broader definition that includes excise equivalents in the form of transfers from fiscal monopolies (GFS line 5.3) and selective consumption taxes on services (GFS line 5.4).

Any assessment of various forms of excise tax must proceed from a conceptual platform of generally accepted principles of taxation. Public finance specialists usually judge taxes in terms of revenue yield, equity, efficiency, and the ease and cost of tax administration. Under the circumstances that prevail in most countries of sub-Saharan Africa, we submit that adequacy of the revenue yield and administrative simplicity are of paramount importance; excise taxation scores high on both points.

A vital concern for structural adjustment is that African tax systems have been very distortionary. Even income taxes bear little resemblance in practice to the broad-based general levies that appear in public finance texts. Income taxes are simply another selective tax, but arbitrarily so. The adoption of taxes that are relatively more efficient *in practice* must be an important objective of tax reform. In efficiency terms, well-designed excises score well. They can serve as practical proxies for Pigouvian taxes to correct for external diseconomies or as pragmatic instruments for approximating user fees. Even excises aimed at reducing sumptuary consumption can be viewed as efficiency enhancing — albeit more subjectively — when public opinion endorses these as "demerit goods." Translating these conceptual arguments into practical designs for excise taxation is a difficult problem, upon which the tax literature for Africa is again quite thin. This is a key area of concern for our research.

The discussion to this point leaves equity in a subordinate role. This accords with the literature which questions the capacity of governments in low-income countries to use tax policy effectively as an instrument for redistributing income. A widely held view is that the tax system can do little more in such circumstances than avoid burdening the poorest of the poor — and even this burden may be justified for taxes that internalize externalities or improve price rationing by approximating user fees. It is important, too, to bear in mind that the poorest of the poor in Africa are found disproportionately in rural households whose consumption set may hardly intersect the set of taxable goods, due to product differentiation. Thus — and this needs to be tested — traditional excise taxes on beer, cigarettes, and vehicle fuel may be less regressive in Africa than in parts of the world covered in the literature. Another equity consideration is that adding a few luxury excises to the tax system — we lean towards moderate taxation of motor vehicles — can improve the progressivity of the system, perhaps more so than income taxes.

Other issues relate to technical details of the excise tax structure. The literature gives most play to whether excises should be ad valorem, specific, or specific with indexing for inflation. The issue of excise exemptions, however, has received hardly any scrutiny. Yet some African countries provide military personnel with tax-exempt beer and cigarettes, which can poke large holes in the tax net since exempt goods can easily reappear in the market. Another problem relates to what point in the production-distribution stream valuation should apply for ad valorem excises. For specific excises, the issue is whether or not to differentiate rates by product type. Equally important is a careful appraisal of differences in tax administration between countries and over time, to establish best practices in African circumstances. This list illustrates some of the technicalities that arise in designing an optimal excise system.

We broadly accept the standard prescription found in the literature on tax policy in low-income countries: that a broad-based general consumption tax should anchor the revenue system, with exemptions for basic goods like unprocessed foods to avoid regressivity; that this should be complemented by a limited set of excises to boost revenue and improve efficiency; that the general consumption tax and excise taxes should apply equally to domestic products and imports; that import duties should be used sparingly, providing at most a moderate and fairly uniform degree of effective protection; that export taxes should be eliminated, except to capture resource rents; that income taxes should be consistent with the economic structure and the quality of tax administration in each country; and that income-tax rates should be moderate and applied to as comprehensive a tax base as possible. Within this general framework, our study will focus on the relatively neglected question of how best to design excise systems in the African context.

Economic Analysis for Policy Reform in Africa Workshop
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The Impact of Financial-Sector Reform on Bank Efficiency and Financial Deepening for Savings Mobilization

EAGER/PSG Survey Paper

Sam Ziorklui, Howard University

ABSTRACT

The intellectual blueprint for financial-sector reform can be traced back to the seminal works of Gurly and Shaw (1955), McKinnon (1973), and Shaw (1973), who postulate that government intervention to control interest rates and credit allocation to priority sectors will lead to financial disintermediation and a financial system less able to mobilize savings for investment and growth. Their prescription is complete liberalization of the financial market to allow for a more efficient mobilization and allocation of financial resources for investment and growth.

During the 1950s and 1960s, developing-country governments, including sub-Saharan Africa, intervened in the financial market to control interest rates and direct credit to priority sectors of the economy. However, during the 1980s, changing macro-economic conditions in the developing countries created the need for financial-sector reform as part of a wider structural-adjustment reform in those countries.

As part of Ghana's financial-sector reform program initiated in 1985, and supported by the World Bank and the IMF, the government liberalized the financial market by removing controls on deposit, lending rates, and sectoral credit ceilings. Other policy changes include the restructuring of commercial banks and the passage of new banking laws to lay a strong foundation for safety and soundness of the financial markets. The financial-sector reform was designed to enhance the banking sector's ability to improve saving mobilization and enhance, as well, the allocation of financial resources for growth and development.

The objective of this survey is to report findings of an extensive review of literature on financial-sector reform in developing countries, including sub-Saharan Africa in general and Ghana in particular, and to draw lessons from the experience of other developing countries that could apply to Ghana and to Africa in general. As a result, we may be able to examine and recommend policy measures by which governments and financial institutions can improve banking efficiency to promote financial deepening and savings mobilization for growth and equity.

Various hypotheses have been tested in examining whether financial-sector reform results in efficiency gains of the banking sector. These hypotheses range from the impact on efficiency gains of production, scale, scope, and allocative efficiencies of the financial market after financial-sector reform. Other hypotheses relate to the extent of monetization (financial deepening), savings mobilization, transaction costs, spread between deposit and lending rates, portfolio diversification, and development level of financial institutions and instruments.

Some of the findings of past research on sub-Saharan Africa show that liberalization of the financial markets has had little visible impact upon the supply response of financial savings as

compared with the history of financial reform in other developing countries and in the East Asian countries. Almost a decade after the financial-sector reform in sub-Saharan Africa, the banking system remains uncompetitive and burdened with poorly performing portfolios. Domestic savings remain low, and investment continues to lag behind that in other developing countries. In most sub-Saharan African countries, despite financial-sector reform, the ownership of financial institutions still rests in the hands of the government, and the banking sector continues to direct more credit to the public sector at the expense of the private sector.

The impact of financial-sector reform on Ghana's financial sector is mixed. Despite some significant improvement in economic growth and macroeconomic performance, Ghana's recorded savings and investment, based on gross national income measures, remain very low even when compared with other sub-Saharan African countries. The country's recorded savings and investment gap continues to widen, and the economy's dependence on foreign sources of funds for financing domestic projects remains deeply entrenched.

Evidence from past research shows that most Ghanaians refrain from saving in the formal financial sector because of the lack of access to financial institutions (especially in rural areas), high bank transaction costs, and lack of confidence in the formal banking system. Bank officials are often maladroit in their dealings with bank customers, especially those who are illiterate which alienates potential depositors from the formal banking system.

Comparatively, the rural population saves a greater portion of income than urban dwellers. However, only a small fraction of rural dwellers' savings is held in financial assets; most is held in nonfinancial assets such as buildings, building materials, cattle, or other tangible goods.

An important efficiency feature of financial intermediation is the ability to adapt financial products or instruments and banking services to customer needs so as to attract a greater number of depositors. The government's continued ownership of financial institutions prevents competition and efficiency in the banking sector. The lack of competitive environment and inefficiency of the banking system hamper innovation of financial instruments and products. Because the payment system remains predominantly cash-based, urban currency holdings outside the banking sector remain quite high. Also Ghana's broad money, (M2/GDP) holdings as a measure of financial deepening declined steadily over the years.

Evidence has shown that allocative efficiency, in the form of optimal allocation of scarce financial resources to the most productive sectors of the economy, is beneficial for economic growth and development. However, the Ghanaian government's continued reliance upon the financial market for credit to finance its budget deficit “crowds out” small and medium enterprises from the credit market. This reflects commercial banks' preference for short-term government securities that carry higher yields as compared with lending to the private sector, which is considered to be very risky.

The implication of the above findings is that Ghana's growth can be accelerated by an efficient financial intermediation that provides greater incentives and rewards for the public to hold financial assets in the banking sector. Evidence from the experience of other developing countries show that a necessary condition for the success of efficient financial intermediation includes macro-economic stability of economic aggregates, price stability, prudential supervision and adequate regulation of financial institutions, development of money and capital markets, a strong linkage between formal financial institutions in the urban and rural areas, and efficient risk management. The task of this survey is to draw lessons from previous research and from experience of other countries that will help in designing and implementing this research project.

Economic Analysis for Policy Reform in Africa Workshop
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Financial Intermediation for the Poor: Survey of the State of the Art

EAGER/PSG Survey Paper

Eric R. Nelson, DAI

ABSTRACT

Poor people need financial services. Recent success stories in micro-finance have led to extensions and replications (some targeting the poor, others encompassing the poor incidentally), and a literature to record these innovations. This survey covers a worldwide literature review of the experience of financial intermediation for the poor, with emphasis on financial intermediation to two important groups who are often among the poorest of the poor: rural residents and women. It provides a starting point for research to be undertaken under EAGER/PSG.

This survey analyzes 30 recent survey articles and several evaluations covering over 50 case studies (with some overlap) of financial institutions, NGOs, and policies in several areas: microenterprise, informal, and rural finance; savings mobilization; anti-poverty lending; women's access to credit; public policy and regulatory regimes; sustainability and outreach; successful institutional forms; and NGOs and associations. Despite the importance of economic growth strategies and macro-economic stability, these have been analyzed extensively elsewhere and are not covered. The review continues with an analysis of:

- Financial needs of the poor
- Policies and regulations
- Instruments of intermediation
- New technologies and measurement
- Assessment of performance

The poor and especially the ultra-poor need regular access to adequate food, followed by improved living standards and by income generation and growth. From coping strategies to productive investment, the financial requirements in order of importance are income generation and diversification of revenue sources, savings (and dis-savings), transfers, and borrowing (the focus of credit programs but a practice that increases debt at times of greatest adversity.)

Financial services for the poor pose problems of both policy and program design. Savings or loan sizes are small. The poor are likely to be illiterate, with little or no collateral, and averse to debt risk. Women and women-headed households dominate the rural- and ultra-poor but face constraints from social and legal constrictions on access to resources and public activities, and also from the women's role as food-producer, wage-earner, and mother. Some of the strongest financial organizations are women-only or women-led support organizations formed by women themselves. Women have better repayment records than men, and group guarantees work better with women than with men or mixed groups. Some legislation promoting equal access to financial institutions, and intended to help women, has led to loss of control of women's institutions to men.

A review of ten examples of success (measured by recovery rates exceeding 95 percent, sustainable operations, and large and growing demand for services) in reaching the poor reveals both common features and diversity. Financial institutions moved "downmarket" to service the poor; some NGOs have become financial institutions; and new institutions have appeared to address this market. Successful techniques include the group-guarantee techniques introduced by Grameen Bank and used by ACCION, FINCA, and others; methods of legally charging high market-based interest rates despite restrictive usury laws in Indonesia and Niger; and voluntary savings schemes attracting tens of millions of Indonesian rural residents.

Some successful lenders emulate the informal financial sector by knowing borrowers, sometimes *not* supervising loans, taking loans *to* the client, providing services appropriate to the client, charging commercial rates of interest, and being tough on defaulters. Rather than emulate, others penetrate by lending to clients that are successful "crossover firms" retailing funds within informal networks, while the lender retains traditional formal prudential ratios.

The two principal policy reforms are (1) establishing permissive banking acts legalizing deposit-taking "near-banks" but subjecting them to less onerous (and more participatory) regulatory, prudential, reporting, and other requirements than major banks and (2) reforming usury laws on the basis of consumer-information laws rather than quantitative interest-rate caps. However, these are rare: permissive banking laws have been limited to legalization of community banks or credit unions, and these by juridical status rather than by size or activity. *None* of the "success story" institutions has challenged usury laws. Many developed techniques to avoid these laws while paying lip service to them, which is wise given the symbolic importance of usury laws: current legislative challenges appear unlikely to succeed.

The survey investigates financial instruments that financial institutions provide by for the poor:

- Payment mechanisms (including transfer facilities) that enlarge the coping capability of the ultra-poor. These have included postal savings and transfer schemes and bank branches.

- Liquidity management that rivals the security and convenience of money-keepers (though field experience is constrained by the continued widespread use of forced-savings schemes).

- Deposit facilities, reflecting the crucial fact that not all producers need loans, but most economic agents demand deposit or savings facilities all the time, and that deposits are the source of both sustainability and a market orientation ("getting prices right").

- Credit to the poor, free of distorting and perverse interest rate subsidies, but where evidence is mixed whether credit can be provided for the ultra-poor without an *institutional* subsidy.

While NGOs have an important place in addressing poverty, many are weakened by taking on financial services. NGOs are small-size, high-cost lenders, operating outside the formal financial system without supervision and regulations to protect depositors. Their own governance may be compromised by dependence on donors for funds, which in turn raises borrowers' expectations and lowers willingness to repay. NGOs may lack incentive structures appropriate for market-oriented finance, and linkages with other, broader intermediaries. NGO programs are part of the mix of services needed, not the basis for a unique poverty strategy.

The paper analyzes new technologies that have proven effective in providing financial services to the poor. Emulation of both informal and formal institutional arrangements for interaction with the client includes group lending, both successful and unsuccessful; better loan terms as business relations build; voluntary deposit mobilization; and tools for reducing transactions costs. Innovations — many based on personal computers — now permit cost reduction on existing activities or the introduction of new products that address the needs of the poor.

The paper continues with a review of recent methods for measuring and assessing performance of subsidized credit plans, including Yaron's Subsidy Dependence Index and its limitation for measuring other dimensions of financial services such as the essential savings mobilization and transfer components. It concludes that a diversity of approaches is required to address various aspects and niches of finance to the poor. While the question of whether the poorest of the poor can be served without subsidy remains unanswered, application of these assessment techniques will permit more informed and transparent policy debate. The survey concludes with a recapitulation of lessons learned.

Economic Analysis for Policy Reform in Africa Workshop
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Increasing Labor Demand and Productivity in Ghana and South Africa

EAGER/PSG Survey Paper

Dirck Stryker, AIRD
Selina Pandolfi, AIRD
George Gyan-Baffour, Howard University
Charles Betsey, Howard University

ABSTRACT

As countries move toward greater integration with each other, significant effects are felt upon different sectors of the economy. The efficiency of the process of integration of national labor markets into a greater international market is a function of the uniformity of the markets themselves and of the capacity to reallocate resources toward more-productive sectors of the economy. In developing countries, the link between macro-economic policies aimed at structural adjustment and the labor market is a critical one, since the role of changes in the level of aggregate demand in the adjustment mechanism depends critically on whether the labor market is one in which prices adjust freely and labor is more or less fully employed, or, alternatively, there are numerous market imperfections and substantial unemployment.

The economies of Ghana and South Africa are experiencing substantial unemployment and underemployment. While the underlying causes differ between the two countries because of different historical contexts, there are considerable similarities. South Africa currently faces the problem of how to absorb productively into its economy a third of the potential labor force that is either unemployed or underemployed in low-paying jobs in the informal sector. At the same time, much of the work force is employed unproductively in the formal sector, partly because of obsolete plants and equipment but also because workers lack literacy and basic technical skills.

Most of the labor surplus in Ghana originates in rural areas; that of South Africa is found more in urban or semi-urban areas, where it has been the victim of a history of apartheid. Like that of South Africa, the demand for labor in Ghana is weakened by the prevalence of outmoded capital equipment and by management that is oriented more toward the domestic market than toward exports. Furthermore, the labor market in both countries is heavily influenced by relatively strong labor unions and complex systems of labor regulations.

This survey reviews the theoretical and empirical literature on the labor market as it relates to the problems of employment, underemployment, and productivity in developing countries. The survey is divided into four main sections: globalization of labor markets; demand for labor; Ghana and South Africa and areas for further research.

Globalization of Labor Markets

The section analyzes the main dynamics of labor markets, the labor supply and demand, the relationship between employment and economic growth, and the basic theory of wage determination. While the supply of labor offers little scope for intervention to policy-makers, the demand for labor can be affected by several instruments in order to reduce unemployment and increase productivity. Such instruments may be directed toward increasing the output of labor-intensive sectors and/or increasing incentives for more labor-intensive production. Economic growth is a function of the investment that is made in physical and human capital, resulting in increased productivity and higher wages. At the same time, wages are determined by the interaction of the demand for and supply of labor, as distorted by restrictions imposed on the market by segmentation of the labor market, government regulation, and the level of economic development.

The section further looks at the segmentation and integration of labor markets from the perspective of their eventual globalization. The inability to move across the different segments of the labor market — which is a function of exogenous factors such as age and sex but also of endogenous factors such as the level of skills required/acquired and labor regulations — is in fact one of the main obstacles to integration. The paper then discusses the private and social costs and benefits of market integration, which affects the mobility of labor in space and across educational levels, and highlights how the results of such analysis are subject to the influence of the role government plays in collective bargaining, labor regulations, and the imposition of safety nets when markets fail to adjust in the process of integration.

Demand for Labor

The second section is divided into four subsections: models applied to labor markets in developing economies; sectoral allocation of output in response to policy change; employment in relation to factor price distortions; and labor qualifications and discrimination.

The first subsection focuses on the theoretical literature, highlighting ways that macro-economic instruments usually used to fight inflation and deficits can be used to address labor market issues. It emphasizes the possible contradictory effects when the link between macro-economic policies and the labor market is not clearly spelled out. This theoretical survey presents demand models from Keynes' general theory of employment through Phillips to Lucas' rational-expectations model. It ends with a discussion of structural models such as efficiency wage models and the shirking model.

The second subsection focuses on sectoral allocation of output and productive factors in response to policy change. The major discussion here includes factor price equalization models and the dependent economy model. If wages are rigid downward, trade liberalization will create unemployment, since the absence of a downward adjustment in wages will increase unemployment in the importable sector relative to other sectors, reallocating employment toward the nontradable and exportable sectors. The model states that in the long run the increase in unemployment in the importable sector will tend to reduce wages and decrease the government control over the labor market, so that wages will adjust to market conditions.

The third subsection focuses on the effects of structural adjustment on total and sectoral distribution of employment. This specifically examines the employment relation to factor-price distortions such as minimum wage laws, trade unions and collective bargaining, the implicit contract theory, and other lesser-known theories about labor market distortions, such as the effects of organizational strategies and employers' human resources strategies on wage rigidities. The fourth subsection discusses the role of education in development.

Ghana and South Africa

The third and fourth sections of the paper focus on literature pertaining to the two countries. For each of the countries the survey details characteristics of the labor markets and the patterns of segmentation, such as the structure of unemployment (whether cyclical, structural, seasonal, or frictional); the main reasons for dualism of the economy (between formal and informal, and rural and urban sectors); and the cross-segmentation of these groups according to sex, age, and skill levels. The two sections discuss the causes of such segmentation, focusing on patterns of education and training, the role unions play in industrial relations, the effect of union actions on transaction costs in the labor market, and the presence of capital constraints and of wage differentials.

The sections focus as well on the dichotomy between public versus private sectors, identifying to what extent in the cases of Ghana and South Africa one sector influences the other. Finally, the survey analyzes the issue of labor productivity in both countries. Measurement of productivity is often complex, as it should include a great number of variables such as technology, capital investment, utilization of production capacity, management skills, quality of labor, and the overall structure of the economy. For both countries, the survey identifies factors that have had a major impact on labor productivity, such as socio-political circumstances resulting in the unions mediating the relationship between workers and employers, technological level of firms as a function of the level of management skills, and labor qualifications.

Areas for Further Research

Change in total factor productivity (TFP) is considered by recent endogenous growth theory to be a fundamental factor explaining why similar macro-economic policies produce differing results when applied to different countries "ceteris paribus." Krugmann argues, for instance, that the Asian miracle is doomed to end because of low TFP increases in the countries that have experienced such an astonishing growth in past decades. Low labor productivity can be a plausible explanation of why it is that, notwithstanding the significant efforts made in developing Ghana or South Africa, the levels of unemployment in both countries remain too high.

While much has been said about labor markets on an aggregate level, there is still significant ground that needs to be covered at the national level. The purpose of the study is to assess the specific characteristics of labor productivity in the two countries and ways they have been affected by macro-economic policies. The results of the research will enable policy-makers to adjust their targets of intervention — mainly, but not only in the labor market — in order to best reflect the reality of their economies.

One of the main concerns of working on a country basis is the reliability of the currently available data; thus, the research should also aim at collecting an updated and strong database that will be an important contribution to any future study on Ghana or South Africa.

ANNEX II

Workshop Agenda (General and Detailed)

EAGER
ECONOMIC ANALYSIS FOR POLICY REFORM IN AFRICA WORKSHOP
JULY 17-19, 1996

AGENDA
EAGER/Trade

<u>Wednesday, July 17</u>

1:30-2:00 **Overview of EAGER/Trade, Presentation of Principal Themes**

Speaker: Dirck Stryker, AIRD, USA

2:00-3:00 AIRD Plenary Panel: **New Opportunities for African Trade and Investment**

Chair: Lucie Colvin Phillips, AMEX, International, USA
Speaker: Lynn Salinger, AIRD, USA
Rapporteur: Will Masters, Purdue University, USA
Panelist: John Cockburn, CREFA, Université Laval, Canada
Panelist: Mary Kay Gugerty, HIID, USA

3:15-4:15 AIRD Concurrent Sessions

A. Challenges to Trade Policy Reform *(Location: Room 148-150)*

Chair: Dunstan Spencer, Dunstan Spencer and Associates, Sierra Leone
Speaker: Jeffrey Metzel, AIRD, USA
Rapporteur: John Cockburn, CREFA, Université Laval, Canada
Panelist: Abdoul Barry, AIRD, USA
Panelist: Lucie Colvin Phillips, AMEX, International, USA

B. Regional Integration in Southern Africa *(Location: Reading Lounge)*

Chair: Sam Wangwe, Economic and Social Research Foundation, Tanzania
Speaker: Daniel Ndlela, Zimconsult, Zimbabwe
Rapporteur: Ndaya Beltchika, AIRD, USA
Panelist: Lynn Salinger, AIRD, USA
Panelist: Steve Radelet, HIID, USA
Panelist: Will Masters, Purdue University, USA

4:30-5:30 AIRD Concurrent Sessions

A. Barriers to Cross Border Trade *(Location: Room 148-150)*

Chair: Lynn Salinger, AIRD, USA
Speaker: Abdoul Barry, AIRD, USA
Rapporteur: Steve Radelet, HIID, USA
Panelist: Jeff Metzel, AIRD, USA
Panelist: Lucie Colvin Phillips, AMEX, International, USA

B. Effects of Monetary, Fiscal, and Exchange Rate Policy on Trade
(Location: Reading Lounge)

Chair: Diery Seck, IDRC, Sénégal
Speaker: Dirck Stryker, AIRD, USA
Rapporteur: Selina Pandolfi, AIRD, USA
Panelist: Joe Abbey, CEPA, Ghana
Panelist: Graham Glenday, HIID, USA

Thursday, July 18

8:45-10:00 **AIRD Panel Discussion providing comments on concurrent session themes**

Chair: Dirck Stryker, AIRD, USA
Rapporteur: Lynn Salinger, AIRD, USA
Panelist: Richard Greene, USAID, USA
Panelist: Donald Mead, Michigan State University, USA
Panelist: Joseph Abbey, CEPA, Ghana
Panelist: Michael Chege, HIID, Ghana
Panelist: Dunstan Spencer, Dunstan Spencer and Associates, Sierra Leone
Panelist: Benno Ndulu, AERC, Tanzania

EAGER
ECONOMIC ANALYSIS FOR POLICY REFORM IN AFRICA WORKSHOP
JULY 17-19, 1996

AGENDA
EAGER/Public Strategies for Growth with Equity

Thursday, July 18

10:15-10:45 **Overview of EAGER/Public Strategies for Growth with Equity, Presentation of Principal Themes**

Speaker: Clive Gray, HIID, USA

10:45-12:15 EAGER/PSG Concurrent Sessions

A. LRJ Reforms and Governance *(Location: Room 148-150)*

Chair: Herschelle Challenor, Clark Atlanta University, USA
Member of Friday a.m. panel: Julius Coles, Howard University, USA
Presenter: Dirck Stryker, Associates for International Resouces and Development, USA
Presenter: Fred Boadu, Texas A & M and MayaTech, USA
Presenter: Patrick Meagher, IRIS, University of Maryland, USA
Presenter: Ephraim Ugwuonye, HIID, Nigeria

B. Macroeconomic Stabilization *(Location: Gallery Lounge)*

Chair: Sam Wangwe, Economic and Social Research Foundation, Tanzania
Member of Friday a.m. panel: Joseph Abbey, Center for Policy Analysis, Ghana
Presenter: Jonathan Haughton, Wellesley College, USA
Co-Presenter: Bruce Bolnick, HIID, USA
Presenter: Satish Wadhawan, Howard University, USA
Co-Presenter: Clive Gray, HIID, USA

1:30-2:45 EAGER/PSG Concurrent Sessions

A. Financial Markets *(Location: Room 148-150)*

Chair: Joseph Abbey, Center for Policy Analysis, Ghana
Member of Friday a.m. panel: Sam Wangwe, Economic & Social Research Foundation, Tanzania
Presenter: Sam Ziorklui, Howard University, USA
Presenter: Eric Nelson, DAI, USA

B. Labor Markets *(Location: Gallery Lounge)*

Chair: Fred Opio, Economic Policy Research Center, Uganda
Member of Friday a.m. panel: Benno Ndulu, African Economic Research Consortium
Presenter: Dirck Stryker, Associates for International Resources & Development, USA
Presenter: Fuad Cassim, University of the Witwatersrand, South Africa
Presenter: George Gyan-Baffour, Howard University, USA

Friday, July 19

8:45-10:15 **EAGER/PSG Discussion providing comments on concurrent session themes**

Chair: Bruce Bolnick, HIID, USA
Panelist: Julius Coles, Howard University, USA
Panelist: Joseph Abbey, Center for Policy Analysis, Ghana
Panelist: Sam Wangwe, Economic & Social Research Foundation, Tanzania
Panelist: Benno Ndulu, African Economic Research Consortium
Panelist: Alan Batchelder, USAID, USA
Panelist: Ruth Buckley, USAID, USA

EAGER ECONOMIC ANALYSIS FOR POLICY REFORM IN AFRICA WORKSHOP, JULY 1996 — FINAL AGENDA

DAY ONE: WEDNESDAY, JULY 17

8:00 - 9:00	Registration, Coffee and Pastry
9:00 -9:10	Harry G. Robinson, Vice President for Academic Affairs, Howard University, "Welcoming Remarks"
9:10 - 9:30	John Hicks, Assistant Administrator, Bureau for Africa, USAID
9:30 - 10:00	Jerome Wolgin, Director, Office of Sustainable Development, Bureau for Africa, USAID, "The EAGER Idea"
10:00 - 10:30	Larry Cooley, President, MSI, "Implementing Policy Reform"
10:30 - 10:45	Peter Thormann, Office of Sustainable Development, Bureau for Africa, USAID: "Overview of Workshop Agenda"
10:45 - 11:00	BREAK
11:00 - 12:00	Workshop Outcome Expectations
12:00 - 1:30	LUNCH: Speaker: Jeffrey Sachs, Director, HIID
1:30 - 2:00	Dirck Stryker, Chief of Party, AIRD: "Overview of EAGER's Trade Regimes Component and Presentation of Principal Themes."
2:00 - 3:00	AIRD: Plenary Panel "New Opportunities for African Trade and Investment"
3:00 - 3:15	BREAK
3:15 - 4:15	AIRD: Concurrent Sessions on themes *Group A: Challenges to Trade Policy Reform* *Group B: Regional Integration in Southern Africa*
4:15 - 4:30	BREAK
4:30 - 5:30	AIRD: Concurrent Sessions on themes *Group A: Barriers to Cross-Border Trade* *Group B: Effects of Monetary, Fiscal, and Exchange Rate Policy on Trade*
5:30	End of Day One

DAY TWO: THURSDAY, JULY 18

8:00 - 8:45	Coffee and Pastry
8:45 - 10:00	AIRD: Panel Discussion on Concurrent Session themes and implications for future research agenda.
10:00 - 10:15	BREAK
10:15 - 10:45	Clive Gray, Chief of Party, HIID: "Overview of EAGER's Public Strategies for Growth and Equity Component and Presentation of Principal Themes
10:45 - 12:15	HIID: Concurrent Sessions on Themes *Group A: LRJ Reforms and Governance* *Group B: Macroeconomic Stabilization*
12:15 - 1:45	LUNCH: Speaker: Michael Chege, Visiting Scholar, Harvard University, "The Management and Administration of African Policy Reform."
1:45 - 3:00	HIID: Concurrent Sessions on Themes *Group A: Financial Markets* *Group B: Labor Markets*
3:00 - 3:15	BREAK
3:15 - 4:15	Larry Cooley, President, MSI, "From Analysis to Policy Change: Strategies for Effectiveness."
4:15 - 5:30	BHM: EAGER's Dissemination and Monitoring Strategy: Measuring Impact on Policy Change - Presentation and Discussion
5:30	End of Day Two

DAY THREE: FRIDAY, JULY 19

8:00 - 8:45	Coffee and Pastry
8:45 - 10:15	HIID: Panel Discussion on Concurrent Session themes and implications for future research agenda.
10:15 - 10:30	BREAK
10:30 - 12:00	Panel Discussion: African Perspectives on the Realities of Implementing Policy Reform African Representatives of Major Institutions
12:00 - 1:00	EAGER Research Agenda: Panel of principals synthesize the results of the Workshop and assess impact on the research agenda .
1:00	End of Workshop

ANNEX III

List of Participants

1996 EAGER Economic Analysis for Policy Reform in Africa Workshop — Participant List

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ATELIER SUR L'ANALYSE ECONOMIQUE POUR LA REFORME DE POLITIQUES EN AFRIQUE

17-19 Juillet 1996

Resume Analytique

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Bureau for Africa
United States Agency for International Development
Washington, D.C. 20523

Projet Equité et Croissance par le biais de la Recherche Economique (EAGER)

Preparé pour:

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En collaboration avec

International Science and Technology Institute, Inc.

Novembre 1996

ATELIER SUR L'ANALYSE ECONOMIQUE POUR LA REFORME DE POLITIQUES EN AFRIQUE

17-19 juillet 1996

RESUME ANALYTIQUE

INTRODUCTION

A. But de l'atelier

Mi-juillet 1996, à l'Université Howard à Washington, D.C., le projet Equité et Croissance par le biais de la Recherche Economique (EAGER) de AFR/SD/SA a tenu un atelier réussi de consultations techniques sur les aspects socio-économiques de la réforme en matière de politiques en Afrique. L'atelier avait pour objet d'apporter un feed-back aux participants du Projet EAGER et de renforcer le plan de recherche socio-économique du projet. En outre, l'atelier a permis au personnel de l'USAID/Washington de rencontrer un grand nombre des scientifiques sociaux participant à la recherche du Projet EAGER et d'autres éminents économistes africains disposant d'une vaste expérience dans le but de discuter de diverses idées permettant d'atteindre efficacement les objectifs du projet.

L'atelier a été mis au point par BHM International et International Science and Technology Institute en collaboration avec les bénéficiaires des accords coopératifs de recherche de EAGER, Associates for International Resources and Development (AIRD) et l'Institut Harvard for International Development (HIID). Ces accords coopératifs concernent essentiellement les questions du commerce en Afrique (AIRD) et les stratégies publiques pour l'équité et la croissance (HIID).

B. Structure du Rapport

Le présent rapport traite des présentations, des discussions et des séances parallèles qui composaient l'atelier. Il ne s'agit pas d'une transcription des débats mais d'un rapport qui récapitule ce qui a été dit. Le rapport se fonde sur les notes prises pendant l'atelier, les canevas des discours fournis par plusieurs orateurs et les notes prises par les rapporteurs des diverses séances de l'atelier.

L'atelier s'est consacré surtout aux présentations des chercheurs traitant de leurs plans, activités et résultats. Mais le détail de ces présentations ne devrait pas estomper le critère fondamental de l'évaluation du programme de recherche, à savoir la mesure dans laquelle celui-ci contribue à la réforme en matière de politiques, encourage la collaboration et stimule le renforcement des capacités contribuant ainsi à une plus grande ouverture des économies africaines.

L'atelier visait également à susciter un débat sur la manière d'aborder les années restantes du Projet EAGER. Ce débat s'est déroulé tout au long de l'atelier - parfois explicitement, parfois implicitement - par rapport aux trois facteurs susmentionnés. Les recommandations et les suggestions faites à ce propos seront discutées dans le rapport analytique suivant les synthèses des séances de l'atelier par thème.

POINTS SAILLANTS DES SÉANCES

A. Discours principaux

Jeffrey Sachs, directeur de HIID et Michael Chege, chercheur à l'Université Harvard étaient parmi les distingués orateurs de l'atelier. Monsieur Sachs a noté que, si l'Afrique voulait relancer véritablement son économie, trois grands ensembles de politiques seraient nécessaires:

- Ouvrir les marchés aux échanges internationaux, surtout par le biais de la libéralisation des taux de change; probablement la plus importante de toutes les décisions sur le plan des politiques favorisant la croissance.

- Orienter d'autres politiques et institutions clés sur l'efficacité du marché, surtout en libéralisant les prix, en établissant les droits exclusifs et en diminuant la domination de l'Etat sur les marchés; et

- Mettre en place des politiques visant à faire augmenter l'épargne publique et privée.

Il a également recommandé les investissements dans l'infrastructure ("routes, routes, routes") tout en notant l'importance de contrôler et de diminuer les dépenses publiques. Dans ses commentaires, Monsieur Sachs a encouragé le soutien de l'Etat pour des exportations d'importance critique par le biais d'interventions ciblées telles que les zones franches de transformation pour l'exportation.

Michael Chege a fait une évaluation critique du soutien apporté par les bailleurs de fonds au développement économique en Afrique demandant aux participants de se rapporter à une liste de programmes appuyés pendant des décennies par des bailleurs de fonds en Afrique et leur rappelant le modeste impact net de ces programmes à ce jour. Il a prié instamment les participants de collaborer avec des décideurs africains pour voir comment on peut rendre plus efficace l'assistance au développement.

B. Volet de la recherche: régimes commerciaux

Le volet Régimes commerciaux comporte actuellement cinq thèmes de recherche:

Nouveaux créneaux pour le commerce africain
Ce thème de recherche en cours examine les questions relatives aux échanges outre l'ensemble d'ajustements des politiques macroéconomiques se concentrant sur les problèmes restants tels que l'inadéquation de l'infrastructure, les questions de main-d'oeuvre et de capital humain et la technologie. Ce volet fait une enquête de la littérature et un examen plus général de l'expérience en Afrique subsaharienne en particulier et dans le monde en général. Un examen est également fait des tendances au niveau des échanges par article négociable et ces tendances sont reliées aux conditions actuelles en Afrique. Des recommandations sont faites en vue d'appliquer les

ressources de la recherche à des questions telles que l'efficacité du commerce et des efforts de promotion de l'investissement; cibler les activités promotionnelles pour l'investissement; et les questions de distribution liées à la croissance par le biais des échanges commerciaux.

Discussion

Les commentaires faits lors de l'atelier allaient d'une suggestion en vue d'appliquer les ressources de la recherche aux questions liées à la compétitivité et à une meilleure analyse des distorsions imposées par les politiques existantes au fait d'aider les gouvernements à fixer des priorités pour la réforme du commerce. Lors d'une discussion en plénière en réponse au fait que les priorités d'une partie de cette recherche sur les échanges puissent se prêter à des efforts de trouver des gagnants, une recommandation a été faite pour adapter cette recherche à la discussion de l'économie politique en identifiant des possibilités favorables ainsi que sur la nature, l'ampleur et la distribution des gains et des pertes venant de la libéralisation.

Défis de la réforme des politiques commerciales

Ce thème de recherche a permis de faire un examen utile de l'histoire récente des activités de réforme commerciale en Afrique puisque les chercheurs ont notamment identifié les raisons faisant que les efforts de réforme n'ont pas abouti aux résultats escomptés. Par exemple, dans des pays où les diverses conditions attachées aux prêts ou autre préalable dicté par un bailleur de fonds ont imposé les réformes, celles-ci n'ont souvent été que partiellement mises en oeuvre soit à cause d'un manque de volonté politique soit d'une capacité insuffisante. Dans d'autres pays où les réformes ont été mises en oeuvre, ces dernières ont parfois été moins efficaces suite à une pléthore de barrières et au fait de ne pas avoir pris des mesures complémentaires ou à cause des dérapages dus aux exonérations. Et dans d'autres pays encore, les changements macroéconomiques et les pressions continues exercées par les groupes ayant des intérêts économiques et politiques spéciaux ont fait rétrograder le processus de réforme commerciale.

Discussion

La discussion est venue soutenir l'énumération par les chercheurs des entraves au niveau des réformes commerciales dans tous les pays africains, liste qui serait un champ utile d'analyse dans tout pays où la réforme des échanges commerciaux ne semble pas réussir. L'appartenance au niveau national du processus de réforme a été notée comme un aspect important lors de la discussion, en particulier l'utilité des comités consultatifs nationaux s'occupant de la formulation des politiques. Un participant au moins a proposé de relier les réformes au fait d'adhérer comme membre à des institutions internationales comme le WTO et le GATT comme aide supplémentaire de motivation et de maintien de la réforme du commerce.

Intégration régionale en Afrique australe

Le commerce régional relève d'un domaine problématique évident et important entravant les efforts faits en Afrique pour une plus grande croissance par le biais des échanges commerciaux. Les chercheurs traitant ce thème ont effectué un examen des expériences en Afrique et de la littérature sur l'intégration régionale. Outre l'Union douanière de l'Afrique australe, les accords commerciaux régionaux en Afrique australe ne semblent guère avoir réussi. En règle générale entre les pays de l'Afrique australe, le commerce régional ne représente qu'un faible pourcentage du PIB. Aussi faut-il en retirer comme leçon que l'intégration régionale en tant que but autonome risque d'être un moyen moins efficace d'accroître les échanges régionaux que le fait d'harmoniser les politiques commerciales et de coordonner les projets d'infrastructure nationaux.

Discussion

L'intégration régionale devra probablement attendre que les pays aient des politiques macroéconomiques plus soutenables et des politiques tarifaires et commerciales davantage ouvertes sur l'extérieur. Mais lorsque sont abaissées les barrières en matière de politiques, la coordination des investissements dans l'infrastructure et la facilitation des accords pour des mouvements de capitaux inter-pays prépareraient bien un terrain propice à un commerce régional croissant.

Barrières au commerce transfrontalier

Vu que la question se recoupait à l'évidence avec le thème précédent, un examen analogue de l'expérience et de la littérature a été fait des barrières entravant le commerce transfrontalier. De manière plus précise, voici les principales contraintes entravant le développement du commerce transfrontalier en Afrique: stratégies commerciales autarciques telles que barrières tarifaires et autres barrières commerciales élevées; non acceptation de gains dans le commerce de produits aggricoles; difficultés à transférer les fonds d'un pays à l'autre; réglementations douanières longues et complexes et manque d'infrastructure fiable.

Discussion

La question est complexe vu l'importance des aspects politico-économiques du commerce transfrontalier et de toute la gamme d'agents et d'institutions concernés. Et pourtant, on pourrait évaluer les conditions dans n'importe quel pays donné en fonction de chacun des cinq domaines (contraintes) donnés ci-dessus et cibler en conséquence les efforts de réforme.

Suivi des politiques financières et de taux de change

Bien que ce thème de recherche en soit encore à l'étape proposition, une description sommaire a été faite par Dirck Stryker qui a revu les politiques financières actuelles et celles relatives aux taux de change au Ghana et au Kénya et a fait une brève analyse de la formulation de ces politiques par l'Etat. Monsieur Stryker a proposé une approche progressive à la mise en oeuvre de la réforme des politiques financières et du taux de change tout en notant que l'ouverture du taux de change aux pressions du marché était une mesure qu'il s'agissait de prendre plus rapidement.

C. Volet recherche: stratégies publiques pour une croissance équitable

Le second des deux grands domaines de recherche de EAGER traite de questions afférentes aux Stratégies publiques de croissance équitable (SPC). Ce domaine comporte actuellement des propositions et activités de recherche rangées sous quatre thèmes. Les activités entrant dans le cadre du volet SPC en sont à un stade de développement moins avancé que celles du volet des régimes commerciaux.

Réformes et gouvernances juridiques, réglementaires et judiciaires

Dans le cadre de ce thème de recherche, quatre chercheurs ont évalué (ou évalueront) quatre grands domaines problématiques: la qualité du corps législatif; les problèmes posés par les contextes juridiques, réglementaires et judiciaires (JRJ) en Afrique; les interactions des marchés et des institutions de marché dans le contexte JRJ et les avantages de la réforme. L'objet était de déterminer comment fonctionnent ou agissent les incitations juridiques en Afrique (en faisant une référence spéciale de Madagascar, de la Tanzanie et du Ghana) et dans quelle mesure les analyses des économies institutionnelles et des coûts des transactions peuvent aider à comprendre cela. Le processus de la réforme JRJ a été retenu comme un thème de recherche important au même titre que l'importance de la réforme JRJ pour les marchés financiers.

Discussion

Certains participants ont trouvé que la recherche proposée n'accordait pas une place suffisante aux questions de l'équité bien que les implications du point de vue équité de la réforme JRJ soient d'importance assez fondamentale à la question. Comment changer les lois et le contexte JRJ pour étayer et compléter les changements dans les politiques économiques a été retenu comme question importante.

Stabilisation macroéconomique

Cette recherche se concentre actuellement sur deux aspects de la politique financière, à savoir une plus grande transparence de l'administration fiscale et l'utilisation des impôts indirects dans la mobilisation des recettes de l'Etat. A l'évidence, l'administration fiscale est un facteur important pour la stabilisation financière et un déterminant important de l'impact économique des politiques fiscales. Une plus grande transparence dans l'administration fiscale aidera probablement à venir à bout de certains des obstacles (politico-économiques) entravant la réforme de la politique fiscale et, partant, peut contribuer à une plus mobilisation plus efficace des ressources publiques. Une recherche complémentaire envisagée dans le cadre de ce volet pourrait se pencher sur toute une gamme de thèmes concernant la sensibilisation aux questions fiscales, l'évasion fiscale et l'assiette de l'impôt. La recherche sur les impôts indirects a constaté que c'était une source de recettes sous-utilisée en Afrique subsaharienne et s'est penchée sur les raisons expliquant cette inefficacité macroéconomique.

Discussion

Lors de la discussion, on a noté la difficulté à faire des recherches en matière d'évasion fiscale et d'attitudes du contribuable. Bien qu'il soit plus réaliste d'évaluer la transparence et les coûts de l'exonération, reste la question des gains non couverts par le fisc. Les pertes de poids mort ou perte pour l'économie ont également été identifiées comme une mesure qui peut amener un soutien pour la réforme fiscale. Et, enfin, on a noté le problème (et les gains) liés à la taxation des entreprises du secteur informel.

Marchés financiers

Ce vaste thème couvre tout un important territoire institutionnel et de politiques. La discussion a remarqué que les marchés financiers n'ont pas réussi à vraiment prospérer vu les réformes partielles mises en oeuvre sur l'ensemble de l'Afrique et s'est penché sur les implications de cela pour divers secteurs économiques. A en juger d'après la discussion ouverte et certaines des présentations, certains voient encore les finances essentiellement comme un apport dans les activités sectorielles réelles et non pas comme un marché qui est l'intermédiaire entre les épargnants et les investisseurs. Les contraintes juridiques et réglementaires au développement du secteur financier n'entraient pas dans la portée de ce programme de recherche sauf les aspects relevant de la propriété étatique des institutions financières.

Discussion

Le fait que les systèmes financiers nationaux n'arrivent pas à mieux assurer l'intermédiation entre l'épargne mobilisé et les prêts avec intérêts est une question importante qu'il serait bon d'étudier et d'analyser. Toutefois, c'est une question très vaste et le programme de recherche tel que présenté risque de ne pas être assez délimité pour contribuer à la réforme sur le plan des politiques.

Marchés du travail

Ce thème de recherche vise un certain nombre de questions afférentes au marché du travail dont les compétences, la segmentation, la syndicalisation, l'emploi public/privé, la race/ethnie et le secteur formel/informel. Les pays prioritaires, le Ghana et l'Afrique du Sud, soulèvent un certain nombre de questions importantes pour le programme de réforme, tout notamment la question tacite de l'économie politique pour les agents des secteurs qui ont bénéficié soit d'un traitement spécial soit de bénéfices de par leur appartenance à des syndicats et autres facteurs de la segmentation du marché du travail. Ouvrir les marchés du travail et supprimer les barrières à la mobilité professionnelle sont supposés être des objectifs de la réforme en matière de politiques et la recherche portant sur des marchés du travail spécifiques pourrait aider à atteindre ces objectifs.

Discussion

La discussion a notamment porté sur la difficulté de "gérer" les marchés du travail, par exemple comment absorber une plus grande main-d'oeuvre dans le secteur formel. Les participants ont noté l'importance de la participation du secteur privé à la formation et au développement professionnel. Outre cela, les aspects fondamentaux des marchés du travail tels que les avantages de marchés ouverts et non-segmentés pourraient encourager une participation limitée de l'Etat qui s'occuperait uniquement de vérifier que les normes de santé, de sûreté professionnelle et d'éthique demandées par la société sont effectivement respectées.

D. Communication et diffusion dans le cadre de EAGER

Le contrat de communication et de logistique de EAGER (CCL) facilite la production et la distribution de toute une gamme de matériels du projet. Ce plan mis au point conjointement avec les responsables des deux accords de collaboration pour la recherche est ajusté de sorte à diffuser de manière efficace et en temps opportun les résultats de la recherche. Toutefois le plan ne saurait être mis en oeuvre en l'absence de résultats de recherche. Dans le cadre du plan d'exécution du CCL, les activités envisagées pour le trimestre actuel (jusqu'en septembre 1996) préparent la diffusion (par exemple, mise au point des listes d'adresses, jalons graphiques pour le projet et élaboration d'une stratégie de diffusion électronique) mais il n'est pas envisagé de produire un rapport.

Outre la production et la distribution de matériels, le CCL fournira un soutien logistique aux ateliers et conférences organisés dans le cadre du Projet EAGER, incluant à ce jour l'atelier semi-annuel des régimes commerciaux tenu en juin 1996 en Ouganda et l'atelier à Washington en juillet 1996. L'atelier en Ouganda et celui organisé auparavant au Mali ont réussi à réunir chercheurs, décideurs africains et autres personnes concernées dans le but de débattre et de s'informer davantage des questions spécifiques de la réforme économique. Lors de l'atelier du Projet EAGER, on s'est félicité du fait que ces ateliers régionaux appartiennent entièrement aux participants africains.

Bien qu'on espère que le CCL arrive à influencer le processus de réforme des politiques, les principales activités de recherche par le biais d'AIRD et de HIID ne sont en cours que depuis une année et, aussi est-il prématuré d'évaluer le rôle de EAGER dans la réforme en matière de politiques. Au regard de la formulation du programme de recherche, de la mise en place de relations de collaboration avec des institutions et des organisations africaines ainsi que de l'adoption d'une structure d'exécution relativement complexe, ce n'est que maintenant que le moment est venu de déployer plus d'efforts pour diffuser les résultats de la recherche et élargir le débat afin d'inclure un plus grand nombre de décideurs. De plus, vu le décalage entre l'analyse, le plaidoyer, l'adoption et la mise en oeuvre, on ne saura que lors des dernières étapes du projet et de fait après qu'il soit fini, si ce volet a effectivement réussi à atteindre les décideurs et à influencer le processus en matière de politiques.

RENFORCER LE PLAN DE RECHERCHE DE EAGER

On a convenu en règle générale que le projet EAGER réussissait effectivement à atteindre ses grands objectifs, à savoir recherche utile, collaboration/renforcement des capacités et soutien du processus de réformes des politiques économiques en Afrique. Toutefois, les participants souhaitaient visiblement cibler davantage la recherche et vérifier qu'elle contribue au processus de réforme des politiques. En même temps, les participants trouvaient que le projet devait tenir la bribe plus serrée centralisant ce qui à ce jour a été décentralisé. Toutefois, on ne sait pas clairement comment on peut centraliser effectivement un projet aussi diffus que celui qui vise à influencer la réforme de la politique économique en Afrique par le biais de la recherche économique et de la collaboration avec des institutions et des parties concernées locales.

Toutefois, accorder la priorité à une recherche qui traite d'obstacles réels et présents à la réforme économique est un ajustement qui pourrait être fait au niveau de la formulation et de l'exécution des programmes de recherche.

Un élément important du débat soulevé tout au long de l'atelier concernait l'importance relative devant être accordée à la promotion de la croissance versus l'équité. Ceux qui défendent la croissance partent du principe que, si la croissance est susceptible de mener à l'équité, la priorité initiale accordée à l'équité par contre ne mènera probablement pas à la croissance. Les défenseurs de l'équité ont répondu que, sans soutien global pour les réformes, il sera difficile d'arriver à faire des changements de politiques. Ils ont également noté que la réforme économique ne pouvait en elle-même garantir une distribution équitable des avantages de la réforme.