EAGER Workshop VI: Dakar, Senegal

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Acronym List

AIRD	Associates in International Resources and Development
CFA	Communaute financière Africaine – African Financial Community
CODESRIA	Conseil pour le Developpement de la Recherche en Sciences Sociales en Afrique
CREA	Centre de Recherche Economiques Appliquées
CREFA	Centre de Recherche en Economie et Appliquées
DAI	Development Alternatives, Inc.
EAGER	Equity and Growth through Economic Research
ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
ENA	Ecole Nationale d'Administration
EPRC	Economic Policy Research Center
FDI	foreign direct investment
FINSAP	Financial Sector Adjustment Program
GDP	gross domestic product
HIID	Harvard Institute for International Development
IBI	International Business Initiatives
IRIS	Institutional Reform and the Informal Sector, Howard University
ISSER	Institute of Statistical, Social and Economic Research
ISTI	International Science and Technology Institute
LRJ	legal, regulatory and judicial reforms
MISR	Makerere Institute for Social Research
PSGE	Public Strategies for Growth and Equity
REMIX	a Senegalese consulting firm
REPOA	Research on Poverty Alleviation
SME	small and medium-scale enterprises
UCAD	Université Chiekh Anta Diop
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WAEN	West African Enterprise Network

Executive Summary

The sixth semiannual EAGER Country Workshop was convened in Dakar, Senegal, on November 4, 1998. The now-familiar slate of panel presentations, discussions, and parallel sessions was well organized and managed. A great deal of information was presented on EAGER research undertaken over the past three years, and the implications of the research were explored in several different fora.

Approximately 200 participants attended the workshop, with strong representation from the government of Senegal, interested private stakeholders, EAGER researchers, and USAID staff. The local partner, CREA, provided essential support by ensuring media coverage and drawing Senegalese academics and policy makers to the workshop.

In a departure from workshops, the Dakar workshop took advantage of the opportunity to join with another conference taking place while in Dakar. The second conference, sponsored by the Council for the Development of Social Science Research in Africa (CODESRIA), was entitled **International Symposium on the Future of the Franc Zone**. CODESRIA is an international network of policy-oriented organizations of the type encouraged by the EAGER Project. Given that the future of the Franc Zone is an important policy issue facing some African countries; EAGER participants were able to attend both the opening session and one overview session of the CODESRIA conference.

Exchange rate issues figure prominently in a number of EAGER research activities, and at least one EAGER researcher (Charles Jebuni) presented papers at both conferences. Seeing African researchers and policy makers attending a workshop dedicated to a single policy issue that is current and important to West African countries was unusual. In addition to the usual issues attending exchange rate policies (e.g., the economic growth benefits of free versus controlled exchange, the costs and benefits of floating as opposed to fixed exchange rates, etc.), Francophone African countries face considerable uncertainty from changes that might result from France's entry into the European Monetary Union. Franc Zone countries were well served by the careful analysis of the likely outcomes of the many policy options, as the CODESRIA conference provided precisely that needed analysis.

During the opening session of the CODESRIA conference, Mr. Cornelius Mwalwanda of the Economic Commission for Africa outlined five main challenges faced by Franc Zone countries under the current scenario.

- Will the CFA Franc Zone continue to exist in its current form as the European Union moves toward a single currency?

- As France joins the single currency, will the French Treasury and the Bank of France continue to act as the lender of last resort for the system?

- What instruments will the French Treasury and Bank of France have at their disposal to continue backing the Franc Zone system?

- To what extent will fiscal targets, agreed upon at Maastricht, act as a constraint to the support presently provided by the French Treasury for the CFA country operations accounts?

- Globalization and liberalization of the world economy demand that countries and economies adjust quickly to changes and remain competitive. Will the future of the CFA Franc Zone allow member countries to adjust to changes and take advantage of new opportunities generated by globalization and liberalization?

This set of challenges framed the debate for the sessions attended by EAGER researchers and will likely frame the debate as it makes its way through the policymaking process in Franc Zone countries. It is entirely possible that the need to adapt to events will provide a beneficial prod to governments and will result in new exchange rate policies that better serve economic development goals.

The importance accorded exchange rate issues by partnering with CODESRIA is reflected in an overview study of African exchange rate policies that was presented by Ms. Anatolie Amvouna. In that well-attended parallel session, Ms. Amvouna shared the results of her study of fixed versus flexible exchange rates in Africa while Drs. Marios Obwona and Polycarp Musingizi discussed their research on monetary and exchange rate policies in Uganda. Exchange rate issues were the subject in sessions on restarting and sustaining growth and development in Africa and sessions addressing the impacts of macroeconomic and exchange rate issues on trade.

The EAGER workshop emphasized the theme Restarting and Sustaining Growth and Development in Africa, which is a dominant research theme under the EAGER/PSGE cooperative agreement and among research teams working in five different African countries. The theme embodies three broad categories of research questions:

- Which policies and actions are necessary to ensure effective institutions, competent public administration, and good governance in Africa?

- What are the best approaches to promoting improvements in fiscal, monetary, exchange rate, and debt management policies?

- What incentives and underlying conditions are necessary to ensure investment, factor, and labor productivity improvements and employment growth?

Senegal is one of five countries targeted for research on restarting and sustaining growth and thus figured prominently in several sessions. During the opening plenary session, Mr. Abdoulaye Diagne of CREA, who is undertaking the research effort in Senegal, described his progress to date. His team will assess the scope of action for reducing government intervention in the industrial, services, and financial sectors. It will also assess how government can play a more supporting role in economic development. In addition, the team will look at the role of institutions in the development of the private sector, the role of sound macroeconomic management in growth and development, and the constraints to greater labor and factor productivity.

In addition to reporting on the Senegalese effort, the workshop focused on restarting and sustaining growth research efforts in four other countries: Ghana, Kenya, Tanzania, and Uganda. These efforts all reflect the general questions described above, though each project involves several country-specific factors that arise from the underlying conditions in each country.

Beyond the individual country research efforts, the restarting and sustaining growth and development research theme embodies a number of cross cutting themes that received mention in the plenary session. Professor James Duesenberry presented a paper on the fundamental requirements of good macroeconomic management and noted that African policy makers might benefit from implementing such management. Dr. Dirck Stryker, AIRD, presented a paper on the effects of policy reform on investment, trade, and growth, and Dr. Cheikh I. Niang, University Cheikh Anta Diop, discussed the social elements of growth and sustainable development in Senegal.

A final cross cutting theme addressed during the plenary session was Productivity, as discussed by Dr. Malcolm McPherson of HIID. In presenting material from a draft paper on productivity in Africa, Dr. McPherson expanded and updated his original paper, “Restarting and Sustaining Growth and Development in Africa.” He reviewed the failure of African governments to carry out economic reform in a sustained manner as well as the costs associated with such failures in terms of forgone growth and development in African economies.

Following the restarting and sustaining growth presentations, Sara Sievers of the Center for International Development presented some useful survey results on Africa's foreign direct investment competitiveness. Ms. Sievers pointed out that all of Africa accounts for only 1.4 percent of total world foreign direct investment (FDI). Countries were ranked along several different parameters that reflect decision variables faced by investors. Among those African countries that succeed in attracting FDI, all had small but stable economies and exhibited a significant interest in exports. In his presentation during the same session, Mabousso Thiam of the West African Enterprise Network provided a practical business person's perspective on investment competitiveness.

The workshop provided a forum for presenting and discussing a great deal of research and debating implications for policy reform. Evident in much of the debate was a strong concern for equity and a concern for single-minded pursuit of efficiency goals. Clearly, the premise that economic growth will "float all boats" has its proponents and opponents among EAGER workshop participants. This is also true for the premise that governments should ensure that equity improvements accompany economic growth.

Following the presentation of research results and research proposals, a final plenary session addressed post-research dissemination and policy impact. Participants discussed several significant instances of EAGER policy impact, particularly as related to Mali and Madagascar. The final EAGER Workshop will be the All-Africa EAGER workshop in Addis Ababba from June 21 to 24, 1999. Following the plenary session, the Senegalese Minister of Justice closed the workshop.

EAGER Country Workshop VI: Dakar, Senegal

I. Joint Opening Session with CODESRIA Symposium on the Future of the Franc Zone

Wednesday, November 4, 10:00–12:00

The first session of the sixth EAGER Country Workshop was held at the NOVOTEL Hotel in Dakar, Senegal, in conjunction with the Council for the Development of Social Science Research in Africa (CODESRIA). The latter group was holding an international symposium entitled The Future of the Franc Zone. Given that CODESRIA is an international network of policy-oriented organizations of the type encouraged by the EAGER Project and that the future of the Franc Zone is an important policy issue facing some African countries, EAGER workshop organizers seized the opportunity to link the EAGER Country Workshop with the CODESRIA Symposium.

Following registration for the EAGER workshop at the Meridien Hotel, workshop attendees were bussed to the CODESRIA Symposium at the NOVOTEL.

Introduction and Welcome

Professor Moustapha Kasse, Dean of the Faculty of Economics, Université Cheikh Anta Diop, Dakar, Senegal

Professor Kasse welcomed the attendees, noting the broad representation of countries, organizations, and social science disciplines gathered for the symposium. The wide-ranging attendance is in keeping with the importance of the issue at hand and with the need to tap the ideas from a number of social science disciplines in resolving questions about the future of the Franc Zone. Furthermore, the impressive international representation provides a broad range of perspectives from countries that will experience differential effects from changed relationships between Franc Zone countries and the Metropole.

Among other reasons, the question of the future of the Franc Zone has been precipitated by the imminent change faced by France regarding its monetary policy and the freedom of its central bank to back Franc Zone currencies. With European Monetary Union, the Euro will ultimately supersede the French Franc. Will the CFA peg move from the Franc to the Euro? What are the implications for Franc Zone countries?

Clearly, the time is right for African policy makers to discuss these issues, in regard to both the modality of pegging - and, even, whether to peg - as well as likely substitutes for Bank of France backing for CFA currencies. Professor Kasse encouraged the attendees to question the fundamental arrangement by which Franc Zone countries manage their exchange rates and monetary policies. He also urged consideration of the implications of European monetary policy for Franc Zone countries.

In particular, Professor Kasse cited the need to address the impacts of globalization and trade implied by the Franc Zone countries' monetary and exchange rate policies. If these policies are not perceived as serious, trade and investment in Franc Zone countries will suffer. While exchange rate polices are only part of the equation, they are nonetheless important and help shape countries' participation in the world economy. Therefore, appropriate policies are needed. It is hoped that the symposium can help move countries toward well-considered policies.

Mr. Diery Seck
CODESRIA

CODESRIA is an African institution that brings together the expertise of many African organizations and individuals under a single umbrella. Convening an international symposium that none of the members' organizations would be able to organize on their own is proof of CODESERIA's abilities and infrastructure development. Accordingly, CODESRIA has shown itself to be a viable, Africa-based source for policy solutions needed by African countries. The evidence lies in the usefulness of the symposium's deliberations.

CODESRIA's research centers have worked together to prepare the papers that will be presented at the symposium. The cooperation that went into this effort should provide a model for further cooperation in addressing and resolving the policy issues facing Franc Zone countries, particularly the future of monetary and exchange rate policies and other economic policy issues facing African countries. CODESRIA is proud to sponsor the symposium and thus bring African expertise to bear on economic policy issues facing African nations.

Mr. Abdoulaye Mar Dieye
Chief Economist, UNDP

With thanks and congratulations to CODESRIA for sponsoring the symposium, Mr. Dieye welcomed participants. He noted his expectations for intellectually bold analyses of the issues at hand and encouraged speakers and participants to question the current exchange rate policies advanced by Franc Zone countries. He noted UNDP's pleasure at being involved in the symposium.

UNDP's participation in the symposium derives from that institution's recognition that it is essentially for Franc Zone countries to reassess their current exchange rate policies. In particular, the arrival of the Euro will have a major impact on exchange rate policies as a consequence of the currency itself and through potentially indirect impacts on France's donor activities. In view of European Monetary Union, UNDP recognizes a pressing need for African economists and policy makers to address scenarios that are likely for the future.

Mr. Dieye noted the importance of considering exports in the discussion of the future of the Franc Zone. Clearly trade is an area where exchange rate impacts will have a disproportionate impact. A careful analysis of these impacts will help focus attention on the need for better monetary and exchange rate policies. Such analysis will also help identify the beneficiaries of current policies as well as the beneficiaries of new exchange rate policies.

After noting the importance of having engaging African economists in assessing these issues for African countries, Mr. Dieye wished the participants a successful symposium.

Mr. Cornelius Mwalwanda

Economic Commission for Africa

Mr. Mwalwanda noted that the time was ripe for such a gathering of African expertise to address the future of the Franc Zone. Developments abroad and in Africa pose serious challenges for economic and financial management. The move toward a single currency in Europe, the Asian financial crisis, and the trend toward greater monetary integration in Africa demand careful analysis and consideration. It is imperative that African countries take note of these developments and react accordingly.

The CFA Franc Zone is a framework for monetary cooperation between France and her former colonies in West and Central Africa. The four principles that govern the functioning of the Franc Zone are:

- Fixed parity between the French Franc and the CFA Franc (parity held from 1948 until 1994 at which time the CFA Franc was devalued by 100 percent)

- Free transferability among member countries, as transferability has slipped in recent years vis à vis West and Central Africa

- Pooled reserves and a common external foreign exchange policy

- Full convertibility of the CFA Franc to the French Franc through special operations accounts opened at the French Treasury. The operations accounts hold the foreign exchange reserves of all members of the Franc Zone.

On the basis of these principles, several benefits to the Franc Zone countries are apparent. First, the Bank of France acts as a lender of last resort to the entire system. Second, the French Treasury can provide unlimited support to deficits that may arise in the operations accounts of Franc Zone countries. Third, the Bank of France and the French Treasury hold effective monetary sovereignty over the Franc Zone.

The CFA Franc Zone has served its member countries extremely well over the years, the 1994 devaluation aside. Inflation has tended to be lower in Franc Zone countries than in Anglophone Africa, and the ratio of budget deficits to GDP has been lower in Franc Zone countries. Francophone Africa has been spared the wild swings in exchange rates that have plagued other African countries during the past two decades.

Nonetheless, developments in the world economy and the advent of European single currency pose serious questions as to the form and content of the future of the CFA Franc Zone. In fact, during the Sixth Conference of African Ministers of Finance, held in Addis Ababa, Ethiopia, in early 1997, the challenge of exchange rate movements was a topic of discussion. Of particular interest was the future of the CFA Franc Zone and the movement toward a single European currency. Two papers were presented on the topic: "Exchange Rate Policy of African Countries in the Franc Zone Area: Recent Developments and Future Outlook" by Professor Jean-Marie Gangkou and "Macroeconomic Policies and Exchange Rate Management in Africa: Recent Experience from the CFA Countries" by Professor Allechi M'Bet. The latter presented four different scenarios for how CFA Franc Zone countries might proceed in following the Maastricht Treaty.

Scenario I: Pegging the CFA Franc to the Euro

Scenario II: A multi-currency peg of the CFA Franc
Scenario III: An ECOWAS-wide single currency and
Scenario IV: Break up of the CFA Franc Zone and the creation of separate national currencies.

Scenario IV moves against the worldwide trend toward monetary unions and away from the goals of greater economic integration. In a sense, it represents a step backward for greater African economic cooperation. Still, serious challenges to the CFA Franc Zone make Scenario IV a conceivable option. The challenges may be posed as the following questions:

- Will the CFA Franc Zone continue to exist in its current form as the European Union moves toward a single currency?

- Will the French Treasury and the Bank of France continue to act as lender of last resort to the system as France joins the single currency?

- What instruments will the French Treasury and the Bank of France have at their disposal to continue backing the Franc Zone system?

- To what extent will fiscal targets agreed upon at Maastricht act as a constraint to the support provided by the French Treasury for CFA country operations accounts?

- Globalization and liberalization of the world economy demand that countries and economies adjust rapidly and remain competitive. Will the future of the CFA Franc Zone allow member countries to adjust to changes and take advantage of new opportunities generated by globalization and liberalization?

These are some of the questions that face member countries of the CFA Franc Zone. It is ECA's sincere hope that the debate during the symposium will be conducted in a frank and open atmosphere of mutual understanding. ECA looks forward to working with organizations that seek pragmatic solutions to these issues and, accordingly, welcomes participation in this important forum.

II. Project EAGER Opening Plenary Session

Wednesday, November 4, 15:00-16:00

Chair: **Representative of the Ministry of Economy, Finance and Planning**
Presenters: **Mr. Abdoulaye Diagne, Director CREA, Senegal**
Dr. Dirck Stryker, Chief of Party, EAGER/Trade, AIRD, US
Dr. Clive Gray, Chief of Party, EAGER/PSGE, HIID, US

The opening plenary of the sixth EAGER Country Workshop was opened by Mr. Abdoulaye Diagne, director of CREA, the local sponsor of the workshop. Mr. Diagne welcomed the EAGER participants to the workshop.

Dr. Dirck Stryker
Chief of Party, EAGER/Trade

Dr. Stryker provided a brief description of the EAGER project objectives: to undertake research that will be useful to policy makers and that will help them in choosing appropriate policies for growth and development; to improve the dialogue between stakeholders (e.g., private business people, government officials, academics, etc.) to aid the political prospects for the reform process; and to encourage coordination between international and African researchers. Dr. Stryker described the process by which EAGER/Trade research has been formulated and implemented, with particular reference to the Research Advisory Committees. The Committees that operate in each country where EAGER/Trade undertakes research, comprise government officials, business people, academics, and others with an interest in the reform process. The committees are effective mechanisms for keeping research on track and for ensuring maximum impact in the translation of research results into policy change.

Dr. Stryker announced that the objective of EAGER/Trade is to present final research results at the upcoming EAGER workshop in Addis Ababa in June 1999. The 1999 gathering will be the last of the EAGER workshops. Dr. Stryker hopes that it will provide an opportunity to take stock of both the research undertaken through the EAGER project and the policy impact traced to the research.

Dr. Stryker closed by encouraging the participants to engage in a lively discussion of the issues at hand.

Dr. Clive Gray
Chief of Party, EAGER/PSGE, HIID

Dr. Gray introduced the EAGER/PSGE cooperative agreement. A consortium led by HIID is implementing the agreement. Other members of the consortium include Associates for International Resources and Development (AIRD), Development Alternatives, Inc., (DAI) Howard University; Institutional Reform and the Informal Sector (IRIS)University of Maryland, MayaTech Corporation, and Michigan State University.

The research program for PSGE includes legal regulatory and judicial reforms and governance, macroeconomic stabilization, financial markets, and labor markets. Nineteen studies addressing particular aspects of these themes are currently underway in Ghana, Kenya, Madagascar, Malawi, Senegal, South Africa, Tanzania, Uganda, and Zambia.

Dr. Gray was enthusiastic about the prospects for the current workshop, particularly with regard to the research undertaken in Senegal under both the financial markets and macroeconomic stabilization research themes. He encouraged the participants to bring their expertise and experience to the discussion and thereby enrich the debate.

Mr. Dane Smith
United States Ambassador to Senegal

Ambassador Smith delivered a brief opening address and noted the importance of policy research to economic growth. The practical result of applied research is exemplified by Hamet Ndour's EAGER research on poverty and financial intermediation in Senegal. Ndour's work has brought many important issues to the attention of policy makers in both government and the donor community. As a result, USAID/Senegal has addressed the issue of efficiency in financial intermediation as a central objective in its country program. Barriers to efficiency in financial markets are continuing to be assessed, and Ambassador Smith noted that Senegalese researchers are becoming more involved in the assessment effort. Their involvement will reinforce the domestic orientation of the research and enhance the likelihood that research results will be incorporated into domestic policy development.

Ambassador Smith noted that from the outset of his tenure in Senegal, he has been interested in improving foreign direct investment in the country. It has been his hope that private funds from abroad would contribute to the development of private Senegalese firms. While foreign direct investment has grown over the past three years, it remains limited. Similarly, while government's macroeconomic reform has continued over the same period, many unnecessary obstacles still face private investors.

Ambassador Smith encouraged Senegalese policy makers to take courageous positions regarding reform with the express objective of making both foreign and domestic private investment a more favorable proposition for the investor. To this end, USAID/Senegal and the World Bank have teamed to undertake an assessment of the current regulatory environment requirements facing private investors who seek to invest in private Senegalese businesses. Results of the study are expected early in the new year, and it is hoped that the research will help government target reform efforts to achieve better investment and growth in the Senegalese economy.

Representative of the Ministry of Economy, Finance and Planning

The representative of the Ministry of Economy, Finance and Planning welcomed the EAGER participants and cited his ministry's enthusiasm for the EAGER project’s efforts aimed at fostering faster and more equitable economic growth. These two concerns — equity and growth — are uppermost in the minds of ministry officials as they seek policies that will deliver the type of economy desired by the Senegalese people. Pointing out that Senegal lost much time during the 1980s, the representative remarked that the reforms instituted in the 1990s had not yet delivered the projected economic recovery. He hoped that EAGER researchers might address the failure of Senegal's growth-oriented policies.

The representative assured participants that the ministry was deeply interested in their workshop proceedings and would listen carefully to the research presented during the course of the sessions. Noting that a tripartite committee on Senegalese policy reform is committed to achieving a consensus on efficiency-oriented reform, he encouraged participants to help the committee in its efforts to find the best path forward.

III. Plenary Session: Africa's Competitiveness for Foreign Investment

Wednesday, November 4, 16:10 - 17:40

Chair: **Dr. Habib Ly, Director, Agriculture Policy Division, Ministry of Agriculture, Senegal**
Rapporteur: **Robert Wieland, ISTI**
Presenter: **Ms. Sara Sievers, HIID**
Discussants: **Mr. Paul Kwengwere, Malawi Investment Promotion Agency**
M. Mabousso Thiam, West African Enterprise Network

Sara Sievers, ***Africa's Competitiveness for Foreign Investment: Africa Competitiveness Report***

The Economic Forum at HIID set for itself the task of ranking African countries by prospects for competitiveness vis-a-vis foreign and domestic investment. The rankings were based on six indices, openness, government, finance, labor, infrastructure, and institutions, which, in turn were on survey data and secondary macroeconomic data. Before describing the ranking of African countries, Ms. Sievers placed Africa in a global context by noting the sobering fact that only 1.4 percent of total foreign direct investment is targeted to African countries.

The top performers in Africa were small, but stable economies with solid export bases. Their economies have been well managed over time, and all have a significant interest in exports. The top four countries in the competitiveness ranking were Mauritius, Tunisia, Botswana, and Namibia. Important issues assessed by foreign businesses in their investment decisions verified the rankings. That is, businesses look for stability in government policies. They also consider the size of domestic and regional markets and examine the political stability in countries where they choose to invest. Infrastructure and education levels are other important factors in investment decisions.

Ms. Sievers also characterized the types of investments that tend to occur in African countries as predominantly in the extractive, natural resource sector wherein countries can create an enclave for exploitation of a resource as long as most of the investment is limited to that sector of the economy. Profits from such investments tend to be high, thereby justifying the risk. In addition, agreements between the investor and the government determine the terms under which the investment and repatriation of profits from the investment will proceed.

In keeping with the growth and equity theme, Ms. Sievers also noted that the competitiveness index correlated strongly with the United Nations Human Development Index. That is, countries conducive to foreign direct investment also perform well in regard to general human welfare indices such as life expectancy, literacy, school enrollment, and real per capita GDP. The correlation indicates the benefits to human well-being of national competitiveness.

Discussant: Mr. Paul Kwengwere
Malawi Investment Promotion Agency

Mr. Kwengwere began his discussion by describing the Malawi Investment Promotion Agency (MIPA). MIPA is a product of policy reform in Malawi that attests to Malawi's own recognition that there is a need for an agency that will identify problems and lobby government for changes beneficial to business investment. MIPA undertakes such analysis and lobbying and has been active in establishing a more investor-friendly environment in Malawi.

Regarding the presentation on national competitiveness, Mr. Kwengwere cited the absence of a stronger domestic point of origin for reform policies in Africa. In particular, reforms generated under structural adjustment loans by the international donor community are subject to capricious changes, which detract from the stable government policies that investors prefer.

In addition to external sources of policy reform, Mr. Kwengwere cited the lack of adequate infrastructure throughout Africa as a drag on investment growth. The absence of adequate road systems paired with high energy costs undermines investment in African countries. Moreover, he pointed to Africa's "soft infrastructure" problems such as legal systems, particularly antitrust regulations and investment codes.

Finally, Mr. Kwengwere noted data problems and the difficulty in accurately tracking rates of investment in Africa. He suggested research into improved mechanisms for more accurate monitoring of investment at the country level in Africa.

Discussant: M. Mabousso Thiam
West African Enterprise Network

In response to the presentation on national competitiveness, Mr. Thiam noted that few if any firms would consider as many as 100 factors (as the researchers appeared to have done) in determining whether to invest in a country. Most companies would just look at one or two factors to make their decision.

Moreover, Mr. Thiam felt that an important consideration was missing from the competitiveness survey. In particular, he did not see any measure of the degree of entrepreneurship in the respective countries. Entrepreneurship is a major underlying element that helps determine levels and effectiveness of investment. Conversely, the researchers, he believed, overstated the importance of the policy environment within which businesses operate. It is Mr. Thiam's belief that Francophone countries tend to demonstrate less entrepreneurship than other African countries.

The challenge facing entrepreneurs and the factor that defines levels of entrepreneurship is the ability to adapt to existing conditions. Even in the face of serious regulatory barriers, countries with strong entrepreneurship still continue to perform well. An important factor to consider in this regard is that countries with a vibrant private sector tend to perform well in terms of foreign direct investment. While reforms are important and it is also good to improve the business policy environment, because countries with the worst investment policies do not necessarily have the lowest investment rate. Rather, investment flows to where returns are highest.

Discussion

1. The first point raised concerned the issue of equity. The speaker was not convinced that the competitiveness presentation embodied an equity element. He also wondered why the researchers had not included an agriculture variable in their index.

2. Regarding Mr. Thiam's comments, the speaker agreed that investors' main interest is to make a profit. Senegal has undertaken serious reforms of its regulations and policies yet has not realized large investment inflows. Perhaps EAGER should examine the reasons for the absence of investment?

3. The third speaker concurred with the point that infrastructure needs to be improved if foreign investment is expected to begin flowing into African countries. In addition, Africa's informal sector tends to be particularly strong in Africa. What are the implications for investment opportunities?

4. The return on investment drives investment decisions and explains why high-profit extractive investments are the most common form of foreign direct investment (FDI) in Africa.

5. Standing Mr. Thiam's comments on its head, a large informal sector implies major policy and regulatory constraints. This is a problem and not a solution, particularly when regulations drive formal businesses to the informal sector. Certainly the shift to the informal sector is an adaptation, but not the type that benefits national growth.

Response

Ms. Sievers concurred that a policy environment that encourages local business development also encourages foreign direct investment.

With regard to an agriculture variable, it is true that the study did not dis-aggregate agriculture. While agriculture is extremely important to African economies, so too is diversification. Diversification can help a country avoid the wild swings in growth rates that occur with dependence on a single export product.

Countries that attract FDI in extractive industries have little choice in whom to attract or how to attract them. Attracting investment in the manufacturing sector, on the other hand, leaves a country with a wide array of choices with regard to whom and how. Manufacturing also has a higher multiplier effect.

In regard to the five factors most important in determining levels of foreign direct investment, Ms. Seivers noted that the factors depend on the country in question. In other words, no single set of factors can be generalized across all countries.

Mr. Kwengwere returned to his point regarding capricious behavior on the part of donors. As an example, he cited a situation in Malawi wherein the IMF had recommended tax holidays as an incentive to attract investment. When several large firms responded to the incentive by applying for a tax holiday, they were turned down by the IMF because of the revenues that Mali would forgo.

Mr. Thiam responded with an anecdote about the motivations of many investors. In an airport in an Anglophone country, an older, ex-colonial gentleman detained Mr. Thiam for some time discussing the many obstacles he faced in undertaking business in that country. Policies were horrible and there were labor problems, infrastructure problems, health problems, etc. But, the gentleman concluded, he would stay there until he died because there was no other place in the world where he could make the kind of money that he was making there.

IV. Plenary Session: Restarting and Sustaining Growth and Development in Africa — Progress Report on the Country Studies

Wednesday, November 4, 18:00 - 19:30

Chair: **Mr. Atta-Mill Cadman, Representative of the World Bank, Senegal**
Rapporteur: **Ms. Ndaya Beltchika, AIRD**
Presenters: **Mr. Abdoulaye Diagne, CREA, Senegal**
Mr. Aidan Eyakuze, MA Consulting Group, Kenya
Dr. Waswa Balunya, MISR, Uganda
Dr. Charles Jebuni, Ghana
Dr. Servacius Likwelile, REPOA, Tanzania

Mr. Abdoulaye Diagne
CREA, Senegal

The question addressed by the Restarting and Sustaining Growth and Development activity in Senegal is how to obtain and sustain a rapid growth rate of at least 6.5 percent from agricultural and industrial sectors of developing countries, many of which have experienced:

- two oil shocks in the 1970s interspersed with a boom in the price of coffee;
- good growth rates in the 1980s;
- a decline (-2.7 percent) in 1992 that led to the lowest ever growth rate of 0.2 percent; and
- lower growth rates than expected in 1996 and 1997.

The approach to answering the question calls for analyzing what has or has not worked in the past and then developing growth strategies. In the case of Senegal, the research will be organized around the following themes:

- political institutional analysis, whereby the government is no longer involved in productive activities but rather creates strong institutions to ensure better control of resources for improved distribution;
- the role of institutions in the development of the private sector;
- the role of economic stability via sound macroeconomic management; and
- productivity and competitiveness issues (including internal and external constraints).

Mr. Aidan Eyakuze
MA Consulting Group, Kenya

In Kenya, the Restarting and Sustaining Growth and Development activity will focus on sources of growth. The model will try to explain past growth performance by examining factors such as export growth, change in foreign direct investment/GDP, private investment/GDP, and other variables.

With regard to macroeconomic fundamentals, Kenya's experience shows that the use of interest rates to control inflation is not sufficient. Furthermore, the large domestic debt (20 percent) and its interest payment (70 percent) have led to slow development in the financial sector and have contributed to a bias toward short-term finance.

The main source of growth in Kenya has been agriculture. It is important to note that horticulture, which has performed well, has not benefitted from government intervention. In particular, the government has not involved itself in the flower-export sector.

A final issue is the influence of political factors in the management of the economy. In particular, why is economic management constrained by political expediency?

Dr. Waswa Balunya
MISR, Uganda

While Uganda has experienced good growth rates in recent years, the following questions need to be raised:

- Is the growth rate sufficient to take a substantial portion of the population out of poverty?
- If so, can the growth rate be sustained?

The above questions point to a further set of questions to be addressed under the Restarting and Sustaining Growth and Development activity.

- Why is Uganda's growth rate lower than that of Asian countries (6-8 percent)?
- Are these growth rates sufficient to alleviate poverty?
- Are they sustainable?
- Has income and/or wealth inequality increased with growth?

The primary source of income in Uganda is coffee, a basic commodity. Even though growth rates have been high, they have not been accompanied by investment and a decrease in poverty.

To address the issue of sustainable growth, the team will explore the following themes:

- macroeconomic policy management;
- political institutions; and
- productivity and competitiveness.

Jeffrey Sachs, among others, has raised the issue that Uganda is landlocked. Sachs argues that if Uganda was not landlocked, it would grow faster. What can be done to compensate for Uganda's geographic disadvantage?

Despite reforms, taxation remains high. In regard to revenue sources, analysts can only hope that the government does not take the path of least resistance and resort to taxing imports and exports. So far, the country remains reasonably open.

In an attempt to explain why Uganda does not growth faster and why current growth rates are unlikely to continue, many ask if governance is important and, if so, how. Uganda has gone through a period of democratization. Its citizens enjoy freedom of expression and enterprise decentralization. What happened since 1993 in regard to linkages between governance and economic growth? South East Asian countries, for instance, have grown despite repressive regimes. Is it an issue of culture (separate from governance)? If so, how relevant is this variable and how does one capture it empirically?

Dr. Charles Jebuni
Ghana

The Restarting and Sustaining Growth and Development activity has not yet begun in Ghana. Ghana is one of the earliest reformers in sub-Saharan Africa. Its goal was to repeat East Asian export-led model of growth. To do so, Ghana had to change its model of growth from import substitution to export lead. In doing so, it adopted the following four principles that depart from the consumption approach:

- create a business friendly environment;
- make the private sector the engine of growth;
- create a competitive environment; and
- alleviate poverty through export-led growth.

If Ghana is to grow and sustain its growth, it will need to take into account the path of reforms and likely responses to changes in policies.

Before 1984, Ghana's GDP declined. Capacity utilization in 1984 was 80 percent for industry and services. Between 1987 and 1988, 36 percent of the population was below the poverty line. At the rates of growth experienced during those years, Ghana would need an estimated 15 years of continued growth to make a drastic reduction in its poor population. Therefore, Ghana's government decided to accelerate the country's rate of growth.

Between 1984 and 1991, Ghana enjoyed an average 5 percent annual growth rate for all sectors of the economy. Over the past five years, however, growth has slowed to 4 percent and has been less widespread. The question facing policy makers in Ghana is how to accelerate and sustain growth.

Dr. Jebuni pointed out that it is unreasonable to expect Ghana to reproduce East Asian growth outcomes without attaining East Asian fundamentals. But, what are the fundamentals? In a partial answer, Dr. Jebuni listed the following factors to be examined:

- macroeconomic stability and the pursuit of stable trade policy;
- primary exports as a ratio of manufacturing exports;
- increase in education and quality of capital (human capital and export capital);
- development of skilled labor;
- role of governance in restarting and sustaining growth;
- role of agriculture; and
- role of local demand.

Dr. Servacius Likwelile
REPOA, Tanzania

The Restarting and Sustaining Growth and Development activity in Tanzania will highlight key variables and measure departures from professed policies.

Since 1967, Tanzania has had a socialist orientation. In 1986, the government began to reevaluate its orientation and initiated a succession of reform programs. The shift coincided with a period of economic crisis when all sectors of the economy performed poorly, agriculture included. Nonetheless, the government pushed forward with privatization as well as with changes in investment policies, which have generated growth in recent years. Inflation has slowed and investment has increased, particularly in the trade sectors. Despite this good economic performance, Tanzania still experiences increasing poverty.

In addressing the issue of restarting and sustaining growth, the team will undertake an empirical analysis of institutional issues, the exercise of authority, and technical capacity (efficiency), and the relation between GDP and investment.

Malcolm McPherson
HIID

The above country-specific presentations highlight the role of institutions in restarting growth. The discussions provide an opportunity to move the issue of sustainability onto the agenda while the analyses themselves supplement the EAGER/Trade study on promoting and sustaining trade and exchange rate reform.

The role of institutions begs the question about leadership. Does the competence of political leaders drive development? In terms of institutions, do reforms fail because institutions do not have the power to sustain them? Leadership is tested in all times, particularly in this time of economic crisis. The issues of leadership and sustainability are of prime importance in an era of globalization. How do countries deal with all these shocks? How can countries rebuild some margins to create a cushion against shocks?

Discussion

1. Was China right not to open up so soon? Was Taiwan right not to implement exchange controls? For the CFA countries, should the FCFA break the link and float or should it remain pegged to the Euro?

2. Why should small countries take care of their economies if large countries such as Japan, the United States, and Germany cannot?

3. The issue of access to resources is also crucial, as in the case of water, which is important for a strong agricultural backbone. Donors insist on liberalization, but are often bound by political forces, such as the US government's protection of farmers in Minnesota.

4. Aid from foreign sources should be complementary, not a substitute for attractive policies. Aid in Africa rose from six to 12 percent in the 1980, and is a far higher share of government revenue in Africa than in Asia. Analysts need to investigate the impact of aid dependency on reform.

Comments from the Chair

Mr. Atta-Mill Cadman asked whether the studies have posed appropriate questions. Is it relevant to compare sub-Saharan Africa with Southeast Asia when considering the competitiveness of the environment? Is it fitting to devote some attention to the issue of political commitment versus short-term political expediency? Is there a need to look at sectoral policy versus growth policy?

Mr. Cadman considered the role of the state as mobilizer of resources both to support private sector development and to conduct policy analysis and formulation, thus enabling the economy to adapt to external shock. Private sector growth does not necessarily correspond to a reduced role for the state but rather parallels a shift in the state's role, to a focus on, for example, investments in human capital. In particular, more attention should be paid to the efficient use of public resources?

Comments from the Floor

1. The theme of the country-specific presentation includes equity and growth. Why does poverty persist? Is there a minimum growth rate of GDP beyond which poverty begins to be alleviated? If growth cannot lead to an improvement in living standards, we should be talking about growth without development.

2. The second speaker noted the importance of fiscal policy in restarting and sustaining growth and the danger of macroeconomic disequilibrium. Policy makers can be tempted to slow changes in the exchange rate in order to reduce the inflationary effect of such changes on the domestic economy. The result, however, is an overvalued real exchange rate, which is detrimental to an economy.

3. A comparison of the experiences of African and Latin American countries shows that both regions have endured inflation. However, inflation created less distortion in Latin American economies because of their realistic exchange rates.

V. Plenary Session: Joint Session with CODESRIA Symposium on the Future of the Franc Zone: CFA Zone Scenarios and Perspectives

Thursday, November 5, 9:00 - 11:00

Chair: **M. Sara Ombwona, Cameroon**
Presenter: **M. Celestin Monga, World Bank**
Discussants: **M. Luc Oyoubi**
M. Mamadou Toure

M. Celestin Monga, ***The Future of the Franc Zone with the Advent of the Euro***

M. Monga noted his pleasure at being invited to speak at the symposium and congratulated CODESRIA for its bold approach to a topic laden with political implications. He remarked that taking a view at odds with the status quo can be detrimental to careers.

M. Monga opened his presentation with a strong argument against the CFA/French Franc peg. In his estimation, the CFA Franc Zone is a set of forces that impede economic development of the zone's consistent countries. Consequently, in M. Monga's view, countries should pull out of the CFA Franc Zone as quickly as possible; the question is how so. As support for his view, M. Monga identified and deflated three fundamental myths about the CFA.

The first myth is that the CFA is an African currency. The CFA is not an African currency, indeed, maintenance of the peg requires member countries of the Franc Zone to relinquish one of two important macroeconomic management tools. That is, member countries have no power to exercise discretion over their monetary policies. Because their currencies must maintain parity with the French Franc, member countries cannot use exchange rates to either influence investment or competitiveness of their product in export.

In addition to a loss of maneuverability, the process by which parity is established and maintained is itself flawed. Parity is determined according to a basket of goods that is outdated. No one knows what the true parity is because it is determined by the market. In the meantime, while currencies such as the Indonesian rupiah can fall by 80 percent in a matter of months, and thus make Indonesian goods much more competitive than CFA Franc Zone goods, the CFA exchange rate has shifted only once in the last 50 years.

The second myth is that the CFA is a convertible currency. Convertibility is extremely limited as shown by the cost of moving funds from Dakar to Kinshasa. Transactions' costs for such an exchange are high, and considerable time is required for the transaction to take place.

The third myth is that the CFA Franc Zone is a step toward African integration. In fact, a visa is required for movement member countries, and often such visas can be obtained only from the French Embassy. This does not look like integration.

Finally, M. Monga noted his own hope that one day there would indeed be an African currency that would not be pegged to any other single currency. However, many conditions would have to be satisfied before such a union could be forged. Markets would have to open regionally, labor would have to be free to move between countries, and African nations would have to accept some type of federalism. It is not clear that African countries are ready for federalism.

In closing, M. Monga noted that the most successful African countries have their own currency. They have been free to move both levers of macroeconomic management. CFA Franc Zone countries' adoption of their own currencies may be a necessary prerequisite to monetary union in Africa.

Discussant: M. Luc Oyoubi

M. Oyoubi opened his response to the presentation by noting the significance of European support for CFA Franc Zone countries since the end of World War II, particularly with respect to security support and financial and other development support. In view of the benefits that have accrued to CFA countries, M. Oyoubi feels that it is provocative to talk of changing the current relationship. In particular, he cited the folly of trading the devil you know for the devil you do not know.

To stand at this end of 60 years of the CFA relationship and its success is curious. In response to the question of sovereignty in regard to monetary and exchange rate policies, M. Oyoubi noted that sovereignty is never total. As an example related to exchange rate policy, he noted that even the European Monetary Union provides for differences between member countries.

As for convertibility of CFA member country currencies, he noted that it is the operations account held at the French Treasury that make convertibility possible. That member countries do not supply the other necessary conditions to facilitate inter country exchange cannot be laid at the feet of the CFA arrangement. The operations accounts are pooled accounts that in some years held positive balances and in other years negative balances.

In response to the issue of macroeconomic stability, M. Oyoubi noted that poor quality data are a problem across a number of activities in African countries, but that data limitations do not justify abandoning the whole mechanism. It is possible to establish parity between the CFA and the French Franc and, except for the imbalance in the early 1990's, parity has been maintained.

M. Oyoui agreed with M. Monga that French membership in the European Monetary Union may cause problems for CFA Franc Zone countries. But if CFA countries can begin to converge in their monetary policies, the impacts can be mitigated. On the other hand, disconnecting from Europe could be catastrophic. Are CFA countries ready to establish and operate under an independent monetary authority? Will currencies stand stronger apart than together? While admiring the view taken by M. Monga, M. Oyoubi argued for a more thorough examination of, first, the benefits of the CFA union and, second, the prospects for pegging the CFA to the Euro once the European Monetary Union is more firmly established.

Discussant: M. Mamadou Toure.

M. Toure suggested that M. Monga's viewpoint on the usefulness of the CFA arrangement may derive from the particular conditions of his own country. Given that the benefits to different countries vary, a broader view is in order. In other words, different countries enjoy different levels of development and thereby benefit variously from the relationship. No single arrangement can meet the needs of all member countries.

M. Toure agreed that the CFA Franc Zone has not achieved the promised level of economic integration. He also concurred that the methods used to establish value parity for CFA currencies are outmoded and based on outdated baskets of goods. In regard to the 1993 devaluation, however, he noted that devaluation had improved the export competitiveness of CFA countries.

In closing, M. Toure noted that, in the end, the benefits of the CFA French Franc arrangement are empirical and difficult to analyze. What economic development might have occurred in the absence of the CFA arrangement is unknown and largely unknowable. How one specifies that unknown will determine whether the analysis shows the CFA Franc Zone to have been successful.

VI. Plenary Session: Restarting and Sustaining Growth and Development in Africa — Progress Report on Cross-Cutting Themes

Thursday, November 5, 14:30-16:00

Chair: **Mr. Mame Cor Sene, Director, Economic Policy Division, MEFP, Senegal**
Rapporteur: **Robert Wieland, ISTI**
Presenters: **Prof. James Duesenberry, HIID**
Dr. Dirck Stryker, AIRD
Dr. Cheikh I. Niang, University Cheikh Anta Diop, Senegal
Dr. Malcolm McPherson, HIID
Discussant: **Dr. Diery Seck, CODESRIA**

Prof. James Duesenberry, ***Macroeconomic Management***
HIID

Professor Duesenberry identified the improvement of macroeconomic management as the primary task of restarting and sustaining growth and development in Africa. The following four foci can be identified as part of the overall task:

- maintaining balance between domestic demand and potential output in order to achieve the fullest utilization of resources while ensuring price stability;

- achieving an exchange rate consistent with a sustainable current account and promoting exports needed for growth;

- developing and maintaining an efficient, well-ordered financial system with a structure of interest rates that stimulates aggregate savings and helps bring savings into line with aggregate investment;

- preventing the excessive build-up of public debt and imposing sustainable bounds on foreign borrowing by domestic banks.

While these focus areas are distinguished separately for the sake of the current discussion, coordination across each area is necessary if macroeconomic management is to achieve the goal of optimal growth. Government expenditure policies cannot be considered in isolation from revenue and debt management policies. Exchange rate management decisions depend on trends in the budget deficit and the dynamics of external debt service.

In regard to exchange rate policy, Professor Duesenberry discussed the choices associated with fixed versus floating exchange rates. While many African countries have elected to pursue fixed exchange rate regimes, the necessary conditions for effectively managing such regimes have often been lacking. Fixed exchange rates require a strong commitment to price stability, in fact, inflation has often been a problem. In addition, significant foreign exchange resources are necessary for a fixed exchange rate policy; in fact, few African countries enjoy sufficiently large reserves to maintain fixed rates in the absence of exchange controls. Finally, it is important to know when to stop defending an exchange rate that the market does not agree with.

Floating exchange rate regimes, on the other hand, are neutral with respect to inflation. Under these regimes, trade effects occur by themselves when the external market adapts to the changed value of the domestic currency. On the down side, floating exchange rates can generate surprises for governments, as recently shown in Asia. A successful floating exchange rate regime requires fiscal and monetary discipline.

In regard to fiscal policies, Professor Duesenberry noted the importance of both cost efficiency in government expenditures and the need to ensure the productive use of resources. While governments must identify ways to reduce expenditures, they still need to invest in education and infrastructure if development to occur. Most important, governments should control their reliance on donor credit and not slip into the trap of financing their budgets with donor loans. A better source for cuts in expenditures (including off-budget transfers) might be parastatal budgets.

Regarding monetary policy, governments should identify nominal income targets and not treat price stability as the only goal of monetary policy. Productivity and nominal growth are both important policy goals. Most important, governments need to coordinate fiscal and monetary policies. One means for ensuring such coordination is the creation of a strong and politically independent central bank. Many African countries would benefit from a more capable and independent central bank.

As for the commercial banking system, it needs more prudential supervision throughout Africa. A shift away from economic intervention and toward prudent oversight would imply a move away from government direction of credit flows toward more indirect means of influencing banking behavior. Government securities are one means of providing the banking system with secure and remunerative investments, along with improved use of real property (in particular, urban real estate) for securing and leveraging lending. While the start of the process will likely see an urban bias toward commercial banking activity, smoothly functioning financial markets will expand into rural areas of their own accord. With sufficient competition and the removal of market obstacles, financial markets will also serve the commercial banking needs of small borrowers.

In regard to outward capital flows, African investors have found ways to overcome capital controls and thus move their money overseas. They are more likely to move their money out of domestic markets if they lack confidence in either retaining the value of their money in the local currency or accessing hard currency locally. Opening the capital account is a first step toward encouraging investors to move their funds back to local investments. To attract significant repatriation of capital, however, macro balances must be maintained and, above all, investors must be able to expect stability in macroeconomic management.

Dr. Dirck Stryker, ***Effects of Policy Reform on Investment, Trade, and Economic Growth in Sub-Saharan Africa***

Dr. Stryker presented the results of a study that he and Selina Pandolfi have initiated. The study examines data from 109 countries, 20 of which are African nations. The data include, among others, growth of GDP (as measured by purchasing price parity), growth in capital stock, factor productivity, labor utilization, trade as a share of GDP, foreign direct investment as a share of GDP, domestic savings, and geographic location.

The findings of the study are striking. First, the evidence indicates that an emphasis on policy reforms aimed at opening domestic economies to the world economy produced the intended effect. Policy reforms that increases the relative importance of trade is strongly associated with more rapid capital accumulation. In addition, growth in trade generates higher growth because of increases in factor productivity beyond the effects of trade on investment. Finally, policy reform contributes to economic growth above and beyond the effects of trade and investment.

Given that these findings apply to the full sample of countries, Dr. Stryker asked why Africa has not been more successful in benefitting from the policy reform process? While trade as a percentage of GDP tends to be higher in African nations than other countries, those same countries enjoy a lower overall economic growth rate than the rest of the world. One possible explanation is that investments in Africa tend to be directed to extractive resource-based industries. It follows that population density is positively correlated with growth outside Africa but negatively correlated for African countries because natural resources extraction requires large indigenous populations. Even though investment is negatively correlated with budget deficits for the total sample, the correlation does not hold for African countries because of the type of investments directed toward Africa.

Dr. Stryker found a strong positive correlation between economic openness and growth in trade. Measuring the effectiveness of reform through the ratio of parallel to official exchange rates, he found that higher ratios were associated with lower growth rates. In addition, the legal, regulatory, and judicial environment seemed to be much more important in Africa than in the rest of the world. On the other hand, dummy variables aimed at illuminating whether or not geographic location (e.g., in the tropics, landlocked) made a difference to the economic growth enjoyed by the sampled countries were not significant.

Dr. Stryker found convergence across countries in regard to starting conditions and economic growth over time. Countries that were poorer in 1997 tended to grow faster than richer countries. Size of countries was positively correlated with investment except in Africa. Size also had a positive impact on growth rates.

Dr. Stryker noted that the research is ongoing and identified several areas of focus for future analysis. In particular, he wants to examine the impact of variables such as the legal, regulatory, and judicial environment on differences between African and non-African economic growth performance. Noting the scale of the error term in his regression, he is confident that the introduction of other explanatory variables will be instructive.

Dr. Cheikh I. Niang, University Cheikh Anta Diop, Senegal, *Social Elements of Growth and Sustainable Development in Senegal*

Dr. Niang discussed the methodology and preliminary findings of his research. A large part of this research focuses on why Senegal's existing reform has not had a greater impact on economic growth and what can be done realize a more pronounced effect. The researchers are particularly concerned with the sociocultural elements that determine economic growth.

The research plan developed for the study calls for surveys and focus group discussions with economic agents. The surveys address ethnographic as well as policy and institutional issues. Thus, in addition to the standard analysis of the impacts of savings and investment on economic growth, the researchers are concerned with tribal conflict and the impact of the allocation of resource endowments.

The researchers have determined that the low level of social and economic development in rural and poor urban areas has a major impact on savings and productivity, which is a widely held view in Africa. They also discovered that many economic agents are largely unaware of the government's economic policies. Tribal discord is seen as a brake on economic growth.

In addressing the question of economic growth in Senegal, the researchers found that Senegal's growth rate is lower than that of many other sub-Saharan African countries; capital inflows have been variable. Researchers found that what capital had come into the country had generated much less growth than expected. Furthermore, productivity growth has been low, leaving Senegal relatively uncompetitive compared with other countries.

The researchers proposed that some of Senegal's lack of competitiveness may derive from the indigenous growth policies that the country followed from the 1960s until 1997. It remains to be seen, however, whether public investments in health, education, and infrastructure will yet pay off. Certainly, human capital is positively correlated with higher growth rates. Other factors beyond the control of the Senegalese (e.g., terms of trade) have also hindered growth.

The second part of the research has yet to be undertaken, but it will take a closer look at the implementation of reforms and attempt to explain why they have not achieved better results. The analysis will examine fiscal policies and government expenditure decisions. Further research will explore the sociocultural impacts of growth and development. In particular, the question of linkages between the formal and the informal economy will be studied in greater detail.

Dr. Malcolm McPherson, *Productivity*
HIID

Dr. McPherson presented material from a draft paper on productivity in Africa that expands and updates his earlier paper on restarting and sustaining growth and development in Africa. In his presentation, he reviewed the failure of African governments to implement economic reform in a sustained manner and pointed to the resultant costs that imposed on African economies in terms of forgone growth and development.

The economic history of Africa shows substantial growth between 1945 and the mid-1960s. Since the late 1960s, however, growth has slowed and, in many cases, turned negative. Indeed, GDP growth in most African countries has not kept pace with population growth. Based on growth statistics, Dr. McPherson infers a collapse in productivity in Africa. Among the reasons for the collapse are civil disruption, fluctuating commodity prices, excessive foreign debt, growing aid dependence, over taxation of agriculture, fiscal and monetary mismanagement, lack of accountability, spread of government intervention, the decline in investment, emergence of coping and other defensive strategies, the declining quality of labor, failure of management, lack of regional cooperation, and other miscellaneous influences.

Sustained economic revival will require fundamental changes in the types of resources available to African countries and the way that those resources are organized and used. Representative of the wide range of policies and actions that might help achieve the needed changes, Dr. McPherson suggested:

- attracting foreign capital by creating the conditions that encourage citizens to expand investment. Such a policy will require government to make a credible and sustained commitment to reform.

For that to occur, however, governance will need to improve, the state will need to continue to disengage itself from commercial activities, and the prospects for extended periods of stability will need to improve.

- increasing investments in education and human capital so that new entrants to the labor force over the medium term will have the skills needed to raise sharply the average levels of productivity.

- reversing degradation of the physical capital stock that has been occurring over the last two decades. In addition, African countries could directly benefit from new technological advances relevant to agriculture, industry, transport, and business services.

- formulating an aid and debt exit strategy.

- reducing inefficiency. Most arenas of economic activity in Africa could be effectively restructured to produce immediate and substantial improvements in efficiency. Obvious examples are the continued removal of controls that hinder economic activity, comprehensive reforms of the civil service and public enterprise, rehabilitation of the physical and social infrastructure, the closure of unprofitable activities, and broad-based accountability.

- rehabilitating physical infrastructure. Such rehabilitation would have immediate payoffs by reducing costs to both business and government. By fixing roads, upgrading telecommunications systems, repairing railways and ports, and weatherproofing food storage facilities, governments and their agencies could substantially reduce their own costs and the costs of others who directly and indirectly rely on a properly functioning infrastructure.

Another area where efficiency could be improved across Africa is through action to rationalize the allocation, acquisition, and transfer of land.

Discussant: Dr. Diery Seck

Dr. Seck worried about the propensity to prescribe solutions in the absence of a complete diagnosis of the problem. Dr. Seck felt Professor Duesenberry's suggestions for policy makers failed to demonstrate sufficient specificity. What is the real role of government? As for Dr. Stryker's paper, given that major theoretical approaches have failed, Dr. Seck is concerned about what he regards as number-crunching without theory. He suggests that Dr. Stryker's results should be assessed cautiously because variables are laden with theory. Any exploration of new territory will be undermined by an absence of time-series data.

Comments

1. The first speaker was pleased to hear Dr. Stryker's findings with respect to population density and trade, but noted a lack of dynamism in the model and suggested the a need for more lagged variables. On the other hand, he warned, the model might already embody too many variables.

2. The second speaker expressed his surprise that the presentations did not offer more solutions. He wondered why developing countries are not advised to seek to investment in potentially remunerative industries; to pick winners, as it were.

3. The third speaker noted the need for greater outreach in promoting structural adjustment arguments. He sees a need for a grassroots response, which, in turn, requires an informed populace. He asked Professor Duesenberry for comments regarding rural credit.

4. The fourth speaker was concerned with the epistemological aspects of reform. He felt it was necessary to determine whether reform is on course. Certainly, any approach that offers itself as a panacea must be suspect. He felt that the discussion did not deal with equity issues and noted that further attention should be devoted to the need for greater democracy in Africa. In particular, he believed that greater democracy and more extensive freedom of the press could help put a brake on corruption, which is one of Africa's major problems.

Responses

Dr. Stryker agreed that his work is exploratory. He noted, however, that the introduction of a dummy variable to assess whether a nation's landlocked status makes a difference in a nation's growth rates was not significant. Nonetheless, the R^2s for the regressions were not large, centering around. 4. He supported the idea of introducing a variable to distinguish Africa from the rest of the world to see if, indeed, Africa differs in its response to economic frameworks.

Dr. Niang advised the audience not to leave the important questions to economists. He feels that the issues under discussion need to be addressed by social scientists who are not economists because much about African society breaks with the fundamental assumptions of economics. In particular, African culture is not as concerned with wealth accumulation as other cultures are. Other goals are more important to African society.

Dr. McPherson suggested that it was time to finish the experiment. If a country has relied on subsidies and interventions for 30 years with a low- or no-growth result, perhaps it is time to look for a new approach. In response to Dr. Seck's comments, a simple and fundamental point of the Restarting and Sustaining Growth and Development activity is to determine why governments initiate and then halt reform.

Professor Duesenberry suggested that government expenditures should be limited to what governments can collect through taxes. That is, governments should not rely on donor funds or borrowing from the central bank. Sourcing funds from the central bank often means that society as a whole will pay through the inflation tax, and there is no evidence that such a strategy is any less regressive than more direct forms of taxation.

VII. Parallel Sessions

Thursday, November 5

A. Barriers to Cross-Border Trade, 16:30-18:00

Chair: **Ndaya Beltchika, AIRD**
Rapporteur: **Dr. Eckhard Siggel, Concordia University, Canada**
Presenters: **John Dadson and Gayle Morris, *Cross-Border Trade in Ghana***
Discussant: **Dr. Charles Jebuni, CEPA**
Presenters: **Ms. Emilienne Raparson and Dr. Jeffrey Metzel, *Domestic Marketing of Vanilla Exports in Madagascar***
Discussant: **Dr. Margaret MacMillan, IBI**

Dr. Gayle A. Morris, IBI, and Dr. John Dadson, University of Ghana/Legon, *Cross-Border Trade in Ghana*

The objectives of this study are to interview selected traders to obtain information on the relationships they have established to facilitate cross-border trade and/or to circumvent obstacles to their transborder trade activities; and to combine recorded data on cross-border trade flows with expert opinion on unrecorded trade flows to calculate a total flow of goods across the border.

The method of analysis differs for the two objectives. For the first objective, the researchers used a questionnaire, designed for formal and informal traders as well as for so-called experts on cross-border trade at three geographic border-crossing points. The questions focus on the activities of the traders and the relationships they have established to facilitate exchange.

For the second objective, the researchers will combine formal and informal trade data to develop a set of prior and posterior distributions for use in making inferences based on Bayesian statistics on the total volume of overland trade. The researchers plan to estimate the percentage of overland trade represented by the formal or declared trade data and the percentage of trade represented by informal, undeclared trade. Due to data difficulties, the estimation is not yet completed.

Tentative conclusions at this stage suggest that liberalized trade procedures positively affect cross-border trade; that kinship and other personal relationships are important, especially for female traders; and that police and military personnel are more likely than customs representatives to demand payment from traders.

The commentator (Charles Jebuni, CEPA) pointed to the role of tax disparities in cross-border trade. He suggested that ECOWAS protocols were largely irrelevant to trade between member countries. He further remarked that trade flows varied significantly between different border points: mainly agricultural goods for Burkina Faso and mainly manufactured goods for the Ivory Coast. He also noted the low trade volume per head.

Jeffrey Metzel, AIRD, Emilienne Raparson and Eric Thosun Mandrara, CEDRES, ***The Political Economy of Trade Liberalization: the Case of Vanilla in Madagascar***

Reform of Madagascar's vanilla market has been a struggle in the face of the reform's unexpected consequences and the still-powerful role played by those who benefited under the former market-controlled structure. The objective of the study is to understand the political economy of the reform process and to develop a model that explains how the political economy's supply response to liberalization has been affected by constraints operating on the political economy.

The specific research issues investigated by the study include, first, the extent to which vanilla market reforms have taken effect. In this regard, an assessment of the reform process suggests that conflicting special interests have impeded the process and that the conflict has substantially undermined some of the original objectives of reform.

A second issue is the extent to which financial incentives have changed at each point in the export chain. Survey results are used to estimate producer surplus for four types of actors in the export chain at three points in the reform process. The actors are producers, processors, exporters, and the government. Producer surplus of each group is measured both per individual and in aggregate, before reform (1992-1993) and at two points in the reform process (1994-1995 and 1996-1997). The results are used to evaluate the economic impact of reforms on each set of actors.

A third issue is the performance of the vanilla sector since liberalization as measured by national trends for the vanilla sector and survey trends. Overall, the results suggest that the reform process has stimulated growth of vanilla production and exports but has negatively affected economic welfare.

Based on these assessments, the paper reaches conclusions about the validity of the initial reform proposals, the effects of political economy considerations on the reform process, and the implications of the experience for similar reform efforts. An important preliminary policy recommendation calls for the government to reinstate an export tax on vanilla to take advantage of Madagascar's large-country status in the world vanilla trade.

The commentator (Margaret MacMillan, IBI) congratulated the researchers for their interesting presentation and mentioned the importance of controlling export crops in trade reforms.

B. Labor and Tax Issues, 16:30-18:00

Chair: **Mr. Youssoupha Wade, CNP**
Rapporteur: **Robert Wieland, ISTI**
Presenters: **Professor Pepe Andrianomanana,** ***Role of Excise Taxation in Madagascar***
Fuad Cassim and Balakanapathy Rajaratnam, ***Increasing Demand for Labor in South Africa***
Discussants: **Robert Young, US Department of Labor and USAID**
Graham Glenday, HIID

Professor Pepe Andrianomanana, ***The Role of Excise Taxation in Madagascar***

The study has looked at the actual and potential role of excise taxes in Madagascar in regard to

- elasticity (percentage change in revenue given a unit change in tax level);
- buoyancy;
- "optimal" tax levels for revenue generation;
- equity;
- levels of administrative and compliance costs; and
- the goods and services appropriate for excise taxation.

Madagascar currently levies excise taxes on petroleum products, alcoholic beverages, tobacco, safety matches, consumer durables, precious metals, and other consumer goods such as vegetable oils, sugar, chocolate, second-hand clothing, etc. These taxes are a major source of Madagascar's government income (26 percent of fiscal revenue in 1996).

The researchers developed demand equations for taxed goods that allowed them to estimate the revenue effects of changes in the tax rate. The analysis led to the prediction that there is considerable latitude for increasing government revenue by implementing increases in petroleum taxes. When, however, the researchers discovered that the costs of collecting the oil products tax were high, they subsequently proposed ways to lower those costs. In an effort to optimize tax revenues while minimizing distortions in the Malagasy economy, the government will continue to conduct research into the revenue effects of changes in the tax rate.

Fuad Cassim and Balakanapathy Rajaratnam, ***Increasing Demand for Labor in South Africa***

The study addressed segmentation in the South African labor market with particular regard to active trade unionism, restrictive labor legislation, and the need to absorb formerly disenfranchised workers. Recommendations for increasing labor demand in the face of these factors called for

- accelerating the overall rate of economic growth;

- promoting growth in labor-intensive sectors such as services and small- and medium-scale enterprises (SMEs);

- increasing labor productivity through capital investment, technological innovation, increased training, and education; and

- eliminating the distortions that inhibit employment expansion such as incentives for capital-intensive investment, artificially high wage and benefit rates, and costly government labor regulations.

The presentation outlined the research undertaken for the study and pointed to several confounding pieces of evidence. For example, growth in the informal sector seems to be fairly robust, while growth in formal sector manufacturing has been largely nonexistent. Given the expectation that, with development, the relative importance of the informal sector should decline, the growth pattern is puzzling.

Discussion of the new Labor Relations Act revealed that the trend in South Africa is toward more centralized bargaining for labor, which is seen as a potential brake on greater flexibility and, thus, employment generation. The political realities of labor union power in South Africa require efficiency goals to be moderated by equity considerations, especially with respect to those who currently enjoy the benefit of employment.

Discussant: Robert Young, USAID

Mr. Young complimented the researchers on the comprehensiveness of their research and the great quantity of data that they had amassed. He noted, though, that the discussion made no reference to the policy environment affecting SMEs and asked whether policy is biased toward or against smaller firms, and toward or against agriculture.

In regard to the discussion of labor relations, the traditional adversarial roles still apparently apply. Mr. Young wondered whether there were opportunities for non adversarial dialogue between labor and management. In particular, he asked whether it is possible to bring workers into quality control issues. The workers on the assembly line are crucial to output. If they are involved in production issues, all can benefit. It is a matter of putting the appropriate the incentives in place. Similarly, the unions are an obstacle to needed macroeconomic reforms. Unfortunately, they are often left out of the policy process. Unions may prove to foster, rather than hinder, development if they are included in the debate.

Discussant: Graham Glenday, HIID

In regard to the tax paper, Mr. Glenday congratulated the researchers for undertaking precisely the type of analysis that is needed if governments are to optimize tax revenues without significantly distorting the economy. He was particularly pleased by the approach taken to determine maximum yields for taxes on products. He felt, however, that the paper would benefit from a more detailed discussion of the institutional aspects of tax collection. He wondered about revenue losses due to under-collection and the efficiency of tax administration.

Mr. Glenday pointed out that the researchers had not addressed the allocative effects of product taxes, in terms of substitutes and complements. From a distributional viewpoint, he felt that it was dangerous to analyze products one at a time. He cited the example of Kenya, where taxes on diesel fuel prompted the use of kerosene in diesel buses and for electricity generation. He further noted that informal products or product innovations often evolve in the face of high taxes and that such impacts are hard to anticipate in a model.

Questions from the Floor

1. The first question from the floor addressed the South African labor presentation. The speaker wished to know how the study results would be disseminated and whether labor would be targeted for a role in implementing needed reforms.

2. The second question also addressed the South African labor paper. The speaker asked about the nature of the labor reforms mentioned by the presenters. In particular, the speaker was interested in learning if South Africa's experience paralleled Senegal's experience wherein labor law reform provided for flexibility that led to job losses. In addition, SMEs are good sources for employment growth, but they do not receive the subsidies that go to larger firms thus creating a bias against small enterprises.

3. The third speaker wished to know about the equity aspects of the tax study referenced in the title. The speaker noted that it would be interesting to see the distribution of tax costs across households and to compare the tax burden across economic classes.

4. Following up the previous question, a speaker noted that although it may be less costly to generate revenue through indirect taxes, there may be more equitable ways to increase government income. If government looks solely at optimizing net income, it may effectively reduce equity.

5. In regard to the tax paper, the last speaker wondered whether the team had looked at the impact of the petroleum tax on alternative fuels (e.g., charcoal), particularly as related to the tax's environmental impacts.

Response

Professor Andrianomanana. Excise taxes are easier to collect and more difficult to evade. In Madagascar, 65 percent of tax revenues come from indirect taxes. In regard to equity considerations, it is appropriate to ask if export taxes are consumer taxes. Data analyzed in the study indicated that the petroleum taxes are progressive. However, the study's results were based on household surveys and other research. The team attempted to look at the environmental substitution effect but was unable to produce definitive results because the forestry department did not maintain a sufficient data series.

Fuad Cassim. The team should reassess its findings in consideration of the points raised. It is true that organized labor was not a part of the macro-level reform process, but it is clear that Madagascar was facing a crisis situation that demanded a rapid policy response. While, a consultative process is now in place, the cooperativist model adopted by Madagascar poses some problems. Still, bringing labor into the process can be useful.

Regarding dissemination of the study results, plans have yet to be finalized, but Mr. Cassim presented the study's findings to the Ministry of Finance. In addition, the government is reviewing legislation that would hinder SME development. Mr. Cassim wants to bring NGOs and others into the review process to ensure that the study of constraints generates practical solutions to the problem. The government has proposed exempt SME's from constraining regulations. Such an approach, however, can create distortions by providing incentives for firms to stay small (and, thereby, exempt) even though they might increase their value and efficiency by growing larger. Certainly, the cost of hiring and firing workers has increased recently and thus poses a problem for firms that might wish to formalize their activities but are too small to do so.

VIII. Parallel Sessions

Friday, November 6

A. Governance and Growth in Africa, 8:30-10:00

Chair: **Professor Moustapha Kasse, Chiekh Anta Diop University, Senegal**
Rapporteur: **Aidan Eyakuze, MA Consultants, Kenya**
Presenters: **Dr. Victor Nyanteng, *Governance and Economic Regulation in Ghana.***
Dr. Arthur Goldsmith, *Africa's Overgrown State Reconsidered: Bureauracracy and Economic Growth.*
Discussant: **Dr. Lucie Phillips, IBI**

Dr. Victor Nyangteng, ISSER, *Ghana, Governance and Economic Growth in Ghana*

The paper was not presented.

Dr. Arthur Goldsmith, HIID, *Africa's Overgrown State Reconsidered: Bureauracracy and Economic Growth*

Dr. Goldsmith began by stating the three hypotheses that guided the investigation reported in his paper: African bureaucracies are large; they resist attempts to reduce their size; and large bureaucracies (civil services) are associated with a decline in economic performance.

While data on African bureaucracies are problematic and need to be treated with caution, the paper found that:

- African bureaucracies' payrolls (excluding workers employed by state owned enterprises) are not as large as often imagined.
- the absolute number of civil servants declined by about 100,000 between the 1970s and 1990s. The average central government wage bill also declined, from 7 percent of GDP in 1986 to 5.8 percent of GDP in 1996; and
- large bureaucracies are not necessarily associated with lagging national incomes (as demonstrated by Botswana and Mauritius).

The results were counterintuitive. Professor Goldsmith noted Max Weber's suggestion that a well-organized legal and regulatory framework run by an efficient bureaucracy is essential to growth. The issue is not the size of the bureaucracy, but rather the manner in which the bureaucracy operates.

A closer look at Botswana and Mauritius revealed some common traits, including a merit-based bureaucracy, especially as related to recruitment and promotion practices and a moderate pace of post independence Africanization. The more rapid pace in other countries, while understandable, led to problems of quality. In addition, the Botswana and Mauritian bureaucracies have been politically neutral, as evidenced by the creation of independent public service commissions and democratic supervision of government operations. Moreover, pay and working conditions have remained at high levels, significantly reducing civil servants' incentive to shirk their responsibilities and/or moonlight with second jobs. Finally, the contribution of public enterprises to GDP has remained relatively low.

Discussant: Dr. Lucie Phillips, IBI

Dr. Phillips noted that the paper was timely as the role of government bureaucracies in economic growth is an important issue. It also seems to suggest that smaller bureaucracies are not necessarily desirable.

The discussant voiced concern that an examination of macroeconomic data revealed Botswana and Mauritius as exceptions. Professor Goldsmith revisited theory in an attempt to explain the study's results. It would have been useful to look at the current reality and develop from the analysis a list of criteria that make for good bureaucracies, thereby assisting African policy makers.

Furthermore, Botswana and Mauritius, though interesting cases, are not replicable. What concrete elements that account for their bureaucratic success can be applied elsewhere? The role of the civil service in ensuring economic growth is also not clear. For example, South African interests tapped Botswana's mineral resources. In addition, both Botswana and Mauritius inherited British civil service systems and did not shy away from engaging in capitalism and free-market economics.

The full dimensions of the post-colonial challenges for new African bureaucracies must be acknowledged. While colonial bureaucracies were set up to serve a small number of people, the governments of newly independent African states have found themselves responsible for providing services to their entire populations.

Further research is needed to document the achievements to date in African civil service reform as well as the impact of the reforms on bureaucratic and economic performance. Some countries are reintroducing merit incentives. To predict the effects such incentives will have on the civil service, researchers need to identify when merit examinations and independent public service commissions were eliminated and trace the impact of the associated change. Furthermore, policy makers need to identify whether in country or overseas training can better improve the performance of civil servants.

Comments and Questions from the Participants

1. Can the different British and French colonial experiences help explain the differential bureaucratic and economic performance among African countries?

2. The data seem to show that smaller countries (measured by population) employ a larger proportion of their population in the civil service. Do the data suggest of economies of scale for bureaucracies (a minimum efficient size of a civil service)?

3. What was the political climate that permitted the leadership of Botswana and Mauritius to reduce the imperatives for filling the civil service with relatives, friends, and members of their ethnic groups?

4. A comment on the EAGER project as a whole raised concerns about the failure to question the concepts and methodologies used in analyzing Africa's problems; many of the concepts and methodologies are automatically assumed to be valid. For example, the idea that a 'nation-state'

is an effective unit of organization is imported from Europe and may not be valid or even relevant for Africa. In addition, allocation is important for equity, but no paper in the conference explicitly addressed it.

5. Has the paper considered David Begg's assertion that there is no superiority of performance in private sector management of the public sector?

6. The structure of the civil service needs more explicit discussion (e.g., the ratio of lower cadre employees to managers/supervisors, etc.) in order to draw out some clearer suggestions for improving bureaucratic efficiency.

7. The paper's approach is highly technical. What is the role of politicians in ensuring an effective civil service? The paper needs to recognize that bureaucracies serve political ends, and that political considerations sometimes conflict with bureaucratic efficiency and effectiveness.

8. The paper should separate the experience of the African countries that provide the basis of comparison for Botswana and Mauritius. Some countries have experienced extremely adverse macroeconomic conditions that have led to hyperinflation and falling tax revenues, both of which severely constrain governments' ability to pay their employees. If countries are categorized according to their macroeconomic experience, the paper's hypotheses may not be disproved.

Response

Professor Goldsmith. As mentioned at the outset of the discussion, the data are somewhat sketchy, therefore, it would be imprudent to push the results too hard. The data problem also poses a challenge in expanding the analysis to look at the structure of civil services and its impact on performance. It is clear, however, that the state plays an important role in providing public goods. Furthermore, it is imperative to go beyond this paper to determine the preconditions (sociological, political, cultural, etc.) for a well-functioning bureaucracy.

B. Effects on Trade of Monetary, Fiscal and Exchange Rate Policy, 8:30-10:00

Chair: **Mr. Kwesi Botchwey, HIID**
Rapporteur: **Dr. Malcolm McPherson, HIID**
Presenters: **Dr. Charles Jebuni and Dr. Dirck Stryker,** ***Monetary and Exchange Rate Policy in Ghana.***
Discussant: **Dr. Marios Obwona, EPRC, Uganda**
Presenters: **Drs. Marios Obwona and Dr. Polycarp Musingizi,** ***Monetary and Exchange Rate Policy in Uganda***
Discussant: **Dr. Dirck Stryker, AIRD**
Presenter: **Ms. Anatolie Amvouna,** ***Fixed Versus Flexible Exchange Rates in Africa***
Discussant: **Professor James Duesenberry, HIID**

Dr. Charles Jebuni, CEPA, Ghana and Dr. Dirck Stryker, AIRD, ***Monetary and Exchange Rate Policy in Ghana***

The paper was not presented.

Dr. Marios Obwona, EPRC, Uganda, and Dr. Polycarp Musingizi, Bank of Uganda, ***Monetary and Exchange Rate Policy in Uganda***

The study has two objectives: to examine the importance of fundamentals in the determination of the real exchange rate in Uganda and to determine whether the exchange rate is affected by monetary policy.

The presenters provided a brief look at the Ugandan economy. Growth has been high over the last decade while inflation has been “subdued,” the most recent estimates point to a slight deflation. The economy’s “first class macroeconomic policy” enabled Uganda to endure both shocks (coffee price boom in 1995) and “El Nino”(1996) without major adverse effects. In addition, the country has seen a major build-up of foreign reserves. However, the current account deficit on the balance of payments has been growing and now poses a problem of rising debt. The presenters indicate that policy makers are determined not to let Uganda “fall into the Mexico problem.”

A major policy change has allowed the government to move away from its role as net borrower with respect to the local banking system to a new role as net creditor. The shift has taken pressure off the local money supply and helped reduce the inflation rate.

The analytic approach employed in the study involves standard financial programming (used by the IMF) that focuses on the growth of reserve money. The central bank can take a number of actions such as the sale or purchase of treasury bills, repurchases, and rediscounts to control the growth of reserve money.

Owing to the existence of several committees and working groups, the basic arrangements for policy coordination are in place. The paper sets forth the linkages between the committees and groups as well as their respective responsibilities. The basic point is that the central bank is fully represented in the process of determining monetary (and fiscal) policy and implementing the agreed upon actions.

The study also examined the role of the exchange rate. The empirical analysis uses both single and multiequation techniques in order to:

- determine the importance of fundamentals;
- map out the real exchange path;
- assess linkages between the exchange rate and both monetary and foreign policies;
- determine what the Bank of Uganda can do through its various policy instruments to continue to keep the real exchange on a path that enhances competition.

The model contains five equations: the real exchange rate, exports, imports, government expenditure, and government revenue (taxes).

The results of the analysis provide a number of surprises. Most important, though not explained, is that exports are negatively related to the real exchange rate (the theoretical expectation is that the relation should be positive).

One constraint on the analysis is the continued narrowness of the financial system, which undermines some of the empirical significance of the variables. Banks are overburdened and recently, some have even closed.

Research concludes that, with inflation "subdued," the government needs to shift its focus from stabilization to growth and devote less attention to inflation control. The issue at hand is development of a "competitive real exchange rate policy" that will encourage financial flows without exposing Uganda to "hot" money. The country needs to develop an early warning system along with strengthened supervision.

Discussant: Dr. Dirck Stryker, AIRD

The objective of the research is to estimate the factors related to the "equilibrium real exchange rate" and thereby determine whether policies are leading in the right direction. The paper correctly points out the conflict between stabilization and growth. The results show that in Uganda the "shocks" (coffee and aid flows) have been the main factors destabilizing the economy. By contrast, in Ghana, the shocks derive from fiscal imbalances.

Stryker applauded the institutional discussion but noted a "disjuncture" between the institutional analysis and the empirical evidence. He singled out equation five. The issue is whether the equation should be structural or a reduced form.

Stryker also questioned the source of the data, which remained unreported.

Ms. Anatolie Amvouna, University of Yaounde, Cameroon, *Fixed versus Flexible Exchange Rates in Africa*

The paper uses two approaches to assess the economic performance of African countries "according to their exchange rate regimes." First, it reviews the history of exchange rate regimes in Africa.

Second, it considers the impact of exchange rate policies on economic growth. The two-pronged approach is justified by the changes associated with the advent of the Euro. The principles of monetary and exchange rate cooperation in the Franc Zone are well established and will continue to provide the foundation for continued cooperation with Europe.

The several changes over the last two decades reflect widespread uncertainty as governments select an exchange rate regime that will help them achieve stability and promote growth. The presenter reviewed the range of exchange rate regimes. In 1980, for example, 45 (out of 49) countries had established fixed exchange rates. By 1995, 27 countries relied on fixed exchange rates; 26 countries used floating rates. The data point to a trend toward liberalization. In fact, Appendix A of the research paper provides a list of policies that range from fixed to floating.

Some countries have made various changes including reversals of policies over time. From this, the presenter suggests that countries face considerable "uncertainty." If choices change over time, how do changes in regimes affect economic performance?

A range of issues arises in the choice of an exchange rate regime: stability of the exchange rate; balance of payments effects; real versus nominal targets; and overall macroeconomic performance. Many studies have addressed these issues. This paper briefly covers some of the main findings of the earlier studies by focusing primarily on choice of regimes. Regimes may be categorized as:

- monetary unions;
- currencies pegged to a basket of currencies;
- currencies pegged to the SDR;
- isolated currencies pegged to a single currency;
- independently floating exchange rates; and
- managed floating exchange rates.

The presenter discussed at length the relative performance of each type of regime. Table 2 in the paper ranks each regime type for three different time periods according to a variety of criteria: annual growth of real GDP; annual growth of real exports; change in investment/GDP; domestic savings/GDP; and external debt/GDP. The results show that African countries have experienced a major loss of competitiveness for all three periods especially when judged according to the change in exports/GDP. Declining investment ratios suggest that the dynamics would remain poor for many African countries irrespective of the choice of exchange rate regimes.

Table 3 in the paper compares the policy indicators for each of the regimes over the same periods. The indicators include annual inflation; domestic credit expansion; resource balance/GDP; government deficit/GDP; variation in the real exchange rate; and change in the terms of trade. In turning to the empirical analysis, the presenter discussed the paper's basic equation, which specified the annual growth of real GDP to gross domestic investment, the rate of population growth, the change in the terms of trade, the change in the real exchange rate, initial-period per capita real income, and a dummy for the specific exchange rate.

One of the major results for the period 1987 to 1993 was the negative impact of the monetary union on real growth. By comparison, the freely floating exchange rate regimes realized a positive and statistically significant impact on output performance. Other results, favorable and unfavorable, can be selected from the empirical results.

The study concluded that "African countries should liberalize their exchange rate regimes for the purpose of economic growth."

Discussant: Professor James Duesenberry

Professor Duesenberry noted that the paper provides a thorough literature review. He suggested that it would have been useful for the author to distinguish the *de facto* from the *de jure* exchange rate regimes. Many countries have a fixed exchange rate but retain exchange controls. Duesenberry noted that in such cases the parallel exchange rate should have been used to examine exchange rate effects.

Duesenberry was also concerned about the relationship between investment and exchange rate regime. What is the effect, for example, of an exchange rate regime on investor confidence? More broadly, Professor Duesenberry noted that the paper's empirical approach is fully consistent with mainstream work. That is, panel data are now regularly combined with time-series data. There is, however, a trade off. With too few observations, there is too much uncontrolled variation; with too many observations, there is too much colinearity.

Duesenberry was reassured by the fact that the paper's results were fully consistent with the African experience. Overvalued exchange rates have adversely affected growth and undermined the basis of sustained expansion.

Comments for Ms. Amvouna

1. Why conclude the work at 1993 when more recent data are available? Is hesitancy the best description of choice of regimes? Have many countries rapidly (but perhaps unwisely) become part of an exchange rate union?

2. While the exchange rate results are instructive, they cover too many short periods to gain much an idea of broad trends.

3. The growth rate of GDP is not explained by the policy variable. There are too many shocks.

Comments for Dr. Obwona and Dr. Musinguzi

1. What explains the high anticipated growth of the money supply? Inflation is near zero and real growth is around 7 percent; how can money growth of 17 percent per annum be sustained?

2. Inflation in Uganda may have been "subdued," but it continues. With the rest of the world at very low inflation rates, it would seem that Uganda needs to focus on keeping inflation at a low rate.

3. The choice of foreign aid as a “fundamental” determinant of the real exchange rate is unwise. The “fundamental” should be external debt. The former leads to an appreciation of the real exchange rate; the latter to real depreciation.

4. What are the policy conclusions? They are not clear from the paper. Uganda has a chronic balance of a payment deficit that is addressed with continued foreign aid. The situation is not sustainable. What policies are required to achieve sustainability?

C. Monetary Reform and Growth in Africa, 10:30-12:00

Chair: **Mr. Kwasi Abeasi, Executive Director, Private Enterprise Foundation, Ghana**
Rapporteur: **Dr. Servacious Likwelile, REPOA, Tanzania**
Presenters: **Hamet Ndour, *Financial Intermediation and Poverty in Senegal.***
Dr. Fritz Gockel, *The Impact of Financial Sector Reform on Bank Efficiency and Financial Deepening for Savings Mobilization in Ghana*
Dr. Kofi Osei, *The Development of Capital Markets and Growth in Sub-Saharan Africa: Ghana*
Dr. A.G. Abayo, *The Development of Capital Markets and Growth in Sub-Saharan Africa: Tanzania*
Discussants: **Ms. Ndaya Beltchika, AIRD**
Professor E. Silumbu, University of Malawi

Hamet Ndour, REMIX, Senegal, *Financial Intermediation and Poverty in Senegal*

This study addresses the role of microfinance in tackling the problem of poverty in Senegal. It examines three aspects of microfinance: existing financial controls, the financial behavior of the population, and proposals for a better-functioning, more accessible, and more viable system. Approximately 30 percent of households in Senegal live below a poverty threshold defined as the expenses required to provide 2,400 calories per day per person. Of this population, about 75 percent of households reside in rural areas. Among the rural population, approximately 58 percent of households are classified as poor.

The 1980s saw erosion of the financial environment in which West African financial institutions operate. In Senegal, erosion led to the liquidation of some banks and the subsequent restructuring of the financial sector and promulgation of new financial regulations. It also hastened the establishment of new savings/loan institutions. Eventually, policy makers came to recognize the need to relate the functioning of the financial sector to stakeholder operations.

The new law that resulted from this shift in perspective requires all banks and financial institutions to adopt a "limited liability" corporate structure. Minimum capital for banks is US $1.5 to two million; for financial institutions it is US $600,000. The law does not discriminate between savings and credit cooperatives and their unions and federations. In principle, Senegal restricts savings and credit operations to non-governmental organizations (NGOs) or development projects that receive a special exception from the Ministry of Finance.

Mutual savings and credit institutions and non mutual financial arrangements are Senegal's principal sources of microfinance services. They are based on the principle that groups of people work together when motivated by solidarity and mutual assistance. A 1995 law allows voluntary savings systems to be established as credit unions. Donors support the system.

Forced savings systems are widespread and affect a large population. These flexible systems require no special management or financial control systems. Non mutualist and cooperative systems focus on credit rather than on institutional sustainability. Credit projects tend to stress credit that has the potential of increasing formal savings capacity. The poor have savings capacity in terms of nonfinancial assets (e.g., time purchases of durables, hoarding, etc.).

The sustainability of local financial units is essential for the provision of services to the disadvantaged. Operational efficiency is a pivotal factor. The Senegalese financial environment consists of banks and decentralized systems that operate outside the formal system. Accordingly, researchers need to examine the role of monetary authorities in encouraging greater savings through higher interest rates. On the other hand, if banks are to focus on the poor and small-scale agents, they should be allowed a higher return as compensation for high-risk rates. Issues such as flexibility of the legal framework, access to finance, and tariff setting require attention.

It is clear that the poor in Senegal constitute a potentially large market for microfinance. Unfortunately, through examination of the system shows that supply does not meet demand. One way to improve financial services is through increased competition. Intermediation that favors the poor requires a competitive environment. Another way to improve financial services is to develop interest in financial transactions with the poor. Revisions in the legal and regulatory framework are needed, specifically the integration of all financial services within the legal and regulatory framework and liberalization of interest rates offered by mutual savings and credit organizations.

Discussant: Dr. Ibrahim Kinto

The paper did not take into account difficult-to-handle issues and did not consider reality. For instance, it did not properly consider the issue of growth. The present legal framework does not meet the needs of the rural population. It is therefore essential to examine the experiences of other countries (e.g., Mali, where loans increased substantially after farmers became organized). Senegal's policy regime must permit loans to reach the rural world. Products with the potential to bring money into the country need to be identified.

Researchers need to take note of the fact that the rural world is not bartering, instead, it uses money in other countries. In the case of Senegal, post independence monetary policy has been counterproductive. Farmers sit idly with no money to finance investment and with no access to industrial products, lose their competitiveness. Efficiency should be stressed.

Dr. Fritz Gockel, University of Ghana, *The Impact of Financial Sector Reform on Bank Efficiency and Financial Deepening for Savings Mobilization in Ghana*

Ghana provides a classic example of a financially depressed economy. Before reforms, state-owned financial institutions dominated the financial sector. Credit policy was driven by the government's desire for economic growth based on sectoral credit guidelines. Under such policy, banks complied with sector-specific credit ceilings. Eventually, the system found itself burdened with nonperforming and uncollectible assets, which triggered the reforms undertaken since 1988. Those reforms were aimed at removing the vestiges of repression in the financial markets in order to promote financial market efficiency and savings mobilization.

The study examined the institutional and policy changes initiated under Ghana's financial sector reform, the impact of reform efforts on the efficiency of savings mobilization and credit allocation to the private sector, problems encountered after reform, industry-specific micro-macro linkages, and banking efficiency and performance. Researchers collected primary data on bank managers, bank staff, regulators, bank examiners, and bank depositors, as well as data from the Bank of Ghana.

Results of the study show that Ghana's banking sector has benefitted from efficiency gains that followed the implementation of financial sector reforms. Commercial banks and social security banks have been privatized. In addition, 18 new universal banks offer all financial services. The commercial, social security, and universal banks all evolved from institutions formerly in the banking system. Computerization is the order of the day. A lack of efficiency has dictated the closing of banks in rural areas.

Despite reforms, savings mobilization has not improved, it is about 18 percent of GDP, while the currency ratio remains at 40 percent. Reasons include macroeconomic instability and unorthodox policy. Inflation remains high; inflation targets are not consistently met, leading to doubts about the credibility of policy makers. Exchange rate stability has not been realized, resulting in the dollarization of the economy. The spread between lending and saving rates remains high.

On the policy front, the restructuring of banks has led to demonetization and a consequent impact on savings as people fear government seizure of assets. With regard to bank efficiency, liquidity ratios have improved, indicating some improvement in efficiency. However, with the government as Ghana's largest borrower, government paper dominates assets. The construction industry is the largest private sector borrower. Some evidence suggests that high lending rates are crowding out the private sector.

Market share analysis shows that new banks are catching up. Bank efficiency is an issue that demands constant vigilance. Reliance on government paper raises questions about the future use of credit if government borrowing diminishes. The place of rural banks in terms of the mobilization of finance from rural areas also needs to be reconsidered.

Discussant: E. Silumbu, University of Malawi

The discussant complimented the author on performing a sound analysis, maintaining a strong focus on the study's objectives, and using appropriate methods to address those objectives. The discussant did, however, note a few problems. The first is the lack of response to the inter sectoral transfer of resources. Reforms have not adequately transformed the political economy of the country. That is, it is unreasonable to expect those who make the laws to enforce them.

The second problem stems from the need to supplement the study results with statistical tests that measure the response of savings and/or investment rates to reforms. It is important to capture the substitution effect. The third problem is the decline in efficiency at the real sector level. In the absence of a transmission mechanism, it is difficult to determine real versus financial sector performance or the attractiveness of treasury bills relative to other investments.

Dr. Kofi Osei, University of Ghana, *The Development of Capital Markets and Growth in Sub Saharan Africa: Ghana*

This preliminary report covers background, objectives, methodology, and work to date. After years of economic decline, Ghana, in collaboration with IMF and the World Bank, introduced a Structural Adjustment Program in 1983. One objective of the program was to increase the mobilization of private sector resources. Indeed, after implementation of the financial sector adjustment program (FINSAP), new banks emerged. But mobilization of long-term capital did not materialize as expected thus raising questions about the effectiveness of Ghana's financial sector reforms. The reforms stressed the role and function of the capital market in enhancing allocative efficiency by channeling credit to the economy's productive sectors. Capital markets are viewed as capable of providing wider avenues for the mobilization of domestic capital in the form of stocks, bonds, and mutual funds.

The objectives of the study are to:

- examine the structure of the Ghanaian capital market and the financial institutions that intermediate in capital markets;

- analyze of the impact of prudent regulations and recent policy changes on the development of the capital market;

- assess the role of financial sector reform in the development of efficient capital markets in Ghana;

- examine the prerequisites for further deepening Ghana's stock market; and

- assess the benefits and challenges of promoting regional and international links within the Ghanaian capital market.

The study methodology calls for gathering primary and secondary data from various financial institutions that operate in Ghana's financial services industry. A questionnaire sought primary sources on sources of financing, structure of capital, institutional capacity, rules of trading, etc. Problems encountered in the field included interviewers' failure to honor appointments.

The study intends to use growth models to look at growth. The study created an index based on market capitalization and volumes of trade and used this index to examine market performance. Researchers still face some challenges in the future as preliminary results have not yet been analyzed.

Dr. A.G. Abayo, *The Development of Capital Markets and Growth in Sub-Saharan Africa: Tanzania*

This interim report notes that Tanzania has instituted many reforms in the financial sector, particularly in the banking sector. However, reforms have not extended to the non-banking sector, especially the stock exchange, which is a better resource mobilizer and an effective tool for poverty alleviation. The strength of a stock exchange as resource mobilizer lies in its simplicity, thus making it inviting to the majority. Entry and exit are easy, while hedging risk pressures on management to perform.

Questions guiding the Tanzania study are similar to those guiding the Ghana study. The aim is to assess the impact of financial sector reforms on capital market development; to examine the existing stock exchange and its role in encouraging the growth of capital along with the main prerequisites for the development of a stock exchange in Tanzania and the linkages between capital market development and economic growth; and to find ways and means for Tanzania's capital market to develop regional and global linkages and thus attract capital from a wider environment. The study also examines the structure of the capital market and other nonbank financial institutions, the associated constraints, and the impact of the regulatory framework on the development of capital markets in Tanzania.

The study provides a historical review of policies for the years 1961 to 1991. During that period, financial sector reforms sought to restructure the legal framework and thereby create an enabling environment and eliminate government economic intervention. Specifically, the reforms were intended to encourage the establishment of private institutions, strengthen regulatory and supervisory powers, to spur privatization of commercial banks for efficiency and effectiveness in resource mobilization, and liberalize interest rates. Whereas Tanzania went through the 1970s and 1980s with only two commercial banks, 18 commercial banks now operate in the country. Dar Es Salaam stock exchange, however, has thus far listed only two companies.

The study methodology called for the collection of primary data by means of a questionnaire administered to a sample of 422 respondents. The response so far has been encouraging. The process of analyzing the data has begun and suggest significant changes between the pre- and post-reform periods.

Discussant: E. Silumbu, University of Malawi

The two studies share several similarities, especially in terms of research questions. Both are also at a preliminary stage. The Ghanaian study shows some pertinent findings that point to constraints associated with the regulatory framework. In addition, the study amply addresses the crowding out of the private sector via treasury bills. Dr. Silumbu hopes that these issues are discussed in the questionnaire.

The studies need to follow up on the questions they pose more specifically. A table that shows the structure of resources and investors, especially within the structure-conduct-performance model of industrial economics, would be useful. Nonbank institutions and their increased role in resource mobilization also deserve discussion.

The dominance of parastatals (85 percent of value) in the Ghana Stock Exchange is alarming and raises questions about the valuation procedures of government shares given that some parastatals are loss making institutions (see the Zambian example of mining).

Another issue relates to manpower issues, i.e., the education of workers before establishment of the stock exchange. The issue of public relations is also pertinent. Usually, people are told only of the advantages of stock exchanges, not the disadvantages. The public needs to know the dynamics involved in order to see the effect of inflation, currency movements, and interest rate changes. Finally, models are needed to spell out what happens on the ground and to defend against speculative aspects, although the authors need to honor the study's stated objectives.

Given that the stock exchange has just begun operations, the Tanzania study appears to be too ambitious. A more useful course would be an investigation of financial deepening.

Discussion

1. The banking system is suffering from gross distress, nonperforming assets, and a noncompetitive financial system. Sub Saharan Africa is a regime of capital scarcity. Incomes are low and the impact of the interest rate on savings is small. Growth rates therefore cannot be sustained. In the short to medium term, foreign inflows are needed, but they must be non-debt flows. Africa, however, is marginalized from such flows. The confidence problem is overplayed.

2. The attitude of bank managers is another problem. Payment of workers through banks increases transaction costs. The wide and increasing spread between saving and lending rates is indicative of a capital shortage and undermines competitiveness. In addition, banks fail to engage in outreach and do not provide needed customer service. Finally, the analysis of capital market development must be viewed specifically in terms of African incomes, as saving mobilization is uniquely difficult in Africa.

D. New Opportunities for African Trade and Investment, 10:00-12:00

Chair: **Ms. Nofissatou Konare, MCIA, Mali**
Rapporteur: **Professor Arthur Goldsmith, HIID**
Presenters: **Mr. Massa Coulibaly, *Structure of Incentives and Manufacturing Competitiveness in Mali***
Benjamin Nganda, Germina Ssemogerere, and Eckhard Siggel, *Structure of Incentives and Manufacturing Competitiveness in Kenya and Uganda*
Dr. Aloys Ayako, Marios Obwona, Dr. Lucie Phillips, and Dr. Margaret MacMillan, *Foreign Direct Investment in Kenya and Uganda*
Discussants: **Dr. Benjamin Nganda, University of Nairobi, Kenya**
Dr. Germina Ssemogerere, Makerere University, Uganda

Mr. Massa Coulibaly, ENA, Mali, *Structure of Incentives and Manufacturing Competitiveness in Mali*

Mr. Coulibaly's study attempts to identify the comparative advantage of a sample of Ivorian and Malian enterprises as indicated by their unit costs. The study concludes that due to protectionism, competitiveness is a more important issue in local rather than international markets. For local companies to become more competitive, internal infrastructure improvements are needed as well as improvements in the legal and regulatory environment.

Benjamin Nganda, University of Nairobi, Kenya, Germina Ssemogerere, Makerere University, Uganda, and Eckhard Siggel, CREFA, Laval University, Canada, *Structure of Incentives and Manufacturing Competitiveness in Kenya and Uganda*

Mr. Siggel provided an overview of a parallel study he is conducting in Kenya and Uganda. The goal of the study, which is following the same methodology as Mr. Coulibaly's study, is to examine the dynamic aspects of competitiveness and to determine whether Kenyan and Ugandan firms have become more or less competitive since structural adjustment in the mid-1980s. Germina Ssemogerere summarized her findings for Uganda. The major issues in that country, which has a small manufacturing sector, are the exchange rate (which is market-based), finance (which is oligopolistic and therefore expensive), the investment code (which is not focused on manufacturing), tariffs, infrastructure (especially public utilities), and the lack of human capital and research and development. Due to these constraints, the most favorable direction for trade is mainly toward the west, rather than eastward toward Kenya.

Benjamin Nganda's research on Kenya reveals similar but somewhat different constraints from those identified in Uganda: an underdeveloped capital market (firms often rely on self-financing), problems in the labor market, lack of foreign exchange, infrastructure (provided by firms themselves, thus raising costs), and a harsh physical environment. Kenyan manufacturing thus adds relatively little value.

Dr. Aloys Ayako, University of Nairobi, Kenya, Dr. Marios Obwona, EPRC, Uganda, Dr. Lucie Phillips, IBI, and Dr. Margaret MacMillan, IBI, *Foreign Direct Investment in Kenya and Uganda*

The session's final study addresses FDI in Africa. In particular, the research question is whether FDI is a leader or follower phenomenon. That is, does FDI stimulate local investment and growth, or is a dynamic national economy a prerequisite to attract FDI? For an answer, the researchers rely on econometric analysis and case studies of Kenya, Uganda, and Mauritius. Margaret Macmillan presented the cross-national research, which indicates that FDI precedes local investment in general. The reasons are probably suggesting wide latitude both for courting foreign firms and also for helping local firms.

Lucy Phillips's Mauritius case study seems to bear out the econometric results. That country created a favorable business environment for both foreign and local investment, though it took about a decade for international companies to respond. At independence, Kenya and Uganda recorded similar initial conditions of about $500 per capita GNP, but neither performed as well as Mauritius. The main reasons according to Aloys Ayako and Marios Obwona are not resources but rather the various policies and institutions in place in those countries.

IX. Afternoon Sessions

Friday, November 6

A. Plenary Session: Barriers to Business Expansion in Africa, 15:00-16:30

Chair: **Representative from the Ministry of Justice**
Rapporteur: **Mr. Robert Wieland, ISTI**
Presenters: **Mr. Paul Kwengwere, Mr. Mabousso Thiam, and Ms. Ndaya Beltchika,** ***Barriers to Business Expansion in Malawi and Senegal***
Ms. Emilienne Raparson and Ms. Ndaya Beltchika, ***The Cost of Doing Business - The LRJ Environment in Madagascar***
Discussants: **Professor Sakho, UCAD, Senegal**
Dr. Arthur Goldsmith, HIID

Dr. Dirck Stryker introduced the session by describing a practical approach to determining the constraints faced by businesses seeking to expand their enterprises. Rather than starting at the policy level and attempting to identify obstacles in the regulatory environment, Dr. Stryker suggested that researchers directly ask entrepreneurs to identify the principal constraints that impede expansion. This transaction cost approach would allow researchers to prioritize constraints in terms of costs imposed on businesses. The approach has been proposed and received approval for application to two countries: Malawi and Senegal.

Ndaya Beltchika, **AIRD,** ***Barriers to Business Expansion in Malawi and Senegal***

Ms. Beltchika described the range of the survey that she expects to undertake in Senegal. The level of detail required for the transaction cost approach demands a lengthy survey instrument. It is designed, however, with the entrepreneur in mind and seeks to extract the maximum amount of information in the minimum amount of time. Still, the data requirements of the transaction cost approach may limit cooperation by entrepreneurs.

Initial (informal) interviews with government officials and businesspeople have generated information on entrepreneurs' perceptions of a range of constraints/business expansion issues, including:

- transportation infrastructure;
- availability of needed technical and managerial skills;
- access to telecommunication services and other utilities;
- tariffs on imports of capital equipment;
- the power of labor unions;
- lack of transparency in the legal regulatory and judicial environment;
- uneven treatment of firms (with respect to formal and informal firms); and
- the attitude of government officials toward the business community.

Paul Kwengwere, MIPA, Malawi, ***Barriers to Business Expansion in Malawi and Senegal***

Mr. Kwengwere introduced the Malawi segment of the study by noting the serious constraints to business posed by the country's limited infrastructure. While Malawi's economy has been based on agricultural production, sustainable growth in the future will require diversification away from an agricultural base. The current study will examine constraints faced by exporting firms or firms with export potential.

Interviews with government officials and business persons have identified priority constraints, including:

- poor telecommunication services;
- high labor turnover rates;
- lack of working capital and term finance;
- absence of duty-free access to inputs;
- poor access to temporary employment permits; and
- personal safety issues.

The study will rank the constraints and develop recommendations for policy makers. The survey phase of the project is now getting underway in Malawi.

Mr. Maboussa Thiam, WAEN, Senegal, ***Barriers to Business Expansion in Malawi and Senegal***

Mr. Thiam discussed the research project from the viewpoint of the entrepreneur and characterized the enterprise as a process that the entrepreneur plans and adapts as necessary. Because of his familiarity with the conditions of the business, an entrepreneur is able to identify his problems in short order, though he may be less able to remedy problems external to the firm. For solutions to external problems, the entrepreneur might seek the assistance of public servants or researchers. It is in this area that the current study can be useful.

Another issue raised by Mr. Thiam was that of generalizations across firms. In terms of policy or regulatory reform, one size does not necessarily fit all. For example, electricity costs may be a minor cost for some firms but a significant cost for others. These differences need to be taken into account if the current research is to be useful to firms.

In closing, Mr. Thiam noted that, with respect to government policies, he will be satisfied if ways can be found to reduce the negative impacts of interventions. He is less sanguine about finding ways that government policies can favorably influence business development.

Discussant: Professor Sakho

Professor Sakho discussed the body of law as a constraint to business development. Whereas the law should support economic development, it has not done so in Africa. Laws should provide behavioral rules that support economic development and thus need to be rationalized. In regard to differences across countries, business laws need to be harmonized.

An international institution called OHADA has been created to undertake work with the objective of rationalizing and harmonizing laws across some African countries. OHADA has sought to simplify laws, but it is not clear that the institution has succeeded to date. In particular, labor laws are a problem, along with national levies and exemption systems. Exemptions and waivers from levies are particularly prone to abuse. They tend to create hills and valleys in the playing field and raise obvious equity concerns.

Litigation is an extremely expensive, time consuming, and most uncertain undertaking in Africa. Alternative forms of dispute resolution therefore represent another important area for further work. Arbitration can play a role. But, in the end, there is a pressing need for further refining the legal, regulatory, and judicial framework in Africa.

Ms. Emilienne Raparson, SOATEG, Madagascar, and Ms. Ndaya Beltchika, AIRD, *The Cost of Doing Business - The LRJ Environment in Madagascar*

Ms. Beltchika began the presentation with an overview of her legal, regulatory, and judicial (LRJ) work in Madagascar. She has focused on the institutions of law and law enforcement and the transaction costs imposed by these institutions on businesses in Madagascar. The Malagasies are currently developing a new body of commercial law that will promote private enterprise and growth. Unfortunately, jurists who do not have a complete understanding of the concerns of the business community are developing the code. However, they recognize that the recruitment of legal and business specialists would provide the necessary expertise and have therefore invited EAGER researchers to participate in this activity.

Mme Raparson gave a more detailed description of the work on the new commercial law in Madagascar. The survey initiated under the project encountered problems, including interviewee burn-out. Some of the information sought by the surveyors is not tracked by the respondent firms while some is perceived as private (and therefore not to be shared). Given these findings, the survey approach will be revised, and researchers will initiate new discussions with entrepreneurs.

Nonetheless, the interim findings indicate that labor laws are a major problem in Madagascar. For example, ministerial approval is a prerequisite to firing a permanent employee. As a result, most firms hire employees on a seasonal basis.

Export-oriented firms find Madagascar’s business regulations particularly onerous. Such firms must comply with regulations as a condition of enjoying duty-free or other incentive benefits. Moreover, absenteeism is a problem for firms. Malagasy employees have the right to one month of paid leave (30 days) each year. Unpaid leave is allowed up to six months. Workers are also entitled to another ten days of leave for family events.

With regard to working hours, overtime limitations constrain businesses. Overtime is limited to 20 hours per week; nighttime shifts are prohibited. In addition, the government categorizes all workers and has established a pay scale according to the categories. As a result, professional employees are trained for menial jobs. Furthermore, with many new technology positions not covered by the government categories, pay scales for those positions are difficult to establish.

Another problem facing Malagasy business is the relative absence of financial services and the limited range of available financial instruments, especially term credit; in addition, credit costs are high. Financial sector reform has been underway in Madagascar but has not to date generated significant improvements. Some private banks now exist, but many of the old problems remain.

The lack of development in the financial system is linked to the absence of adequate legal protections for contract enforcement. Problems in property registration and enforcement make it difficult to secure loans. As a substitute for real property security, banks impose costly loan feasibility studies on borrowers and then pass on to borrowers the costs of securing and/or appraising loans.

To date, the study points to the need to educate the masses concerning the locus of the problems. The labor movement, in particular, needs to recognize the costs that burdensome regulations impose on firms and thus potential employees.

Discussant: Dr. Arthur Goldsmith, HIID

Dr. Goldsmith applauded the researchers' work, noting that it provided substance to the often empty phrases such as "the need to build a more business-friendly environment." Providing needed substance is an important first step that will help raise awareness of the problems. The second step is to put change into practice. Consciousness-raising may not be sufficient for this task. It may be necessary to look at the existing regulations to develop a better understanding of why they are constituted in their present form.

There are two categories of foolish regulations. The first embodies regulations that were once reasonable but have outlived their usefulness. Such regulations should be relatively less difficult to change. The second category of regulations, however, may be somewhat more difficult to change. Those are regulations with a "latent function," or regulations that serve a hidden purpose. To change those regulations, it is necessary to determine who currently benefits and then create a coalition that can triumph over the beneficiaries.

Comments from the Chair

Noting the importance of judicial security, the chair congratulated the researchers for applying themselves to this important issue. Creating an enabling or a business-friendly regulatory environment is a risk that few are willing to tackle in Francophone Africa. Linkages between government officials and agencies and the regulated industries preclude much talk of change by domestic reformers.

Yet the lack of transparency undermines investment. Investors need some measure of certainty before they invest their money. In the current context of secrecy and hidden purposes, investors face great uncertainty. An example of the problems faced in regard to LRJ reform is Senegal's new competition law. The law has been formulated but not implemented.

Weakened consumer confidence in locally produced products is a further cost of the absence of transparency. If consumers perceive that the government does not adequately enforce consumer protection regulations, they will not buy domestic products. Similar examples abound wherein the short-term benefit of a few firms dominate to the detriment of business in general and economic growth in particular. These obstacles remain, but so far the Ministry of Justice has not been able to address them successfully.

Comments from the Floor

1. The first speaker pointed out the need for benchmarks when appraising the business environment. He also noted that society as a whole must determine its future direction. It is not worthwhile to ask jurists to determine such direction. Then, once decisions have been made about society's future, lawyers should be engaged simply to draft the needed laws.

2. The second speaker addressed the survey approach with respect to identifying underlying problems. In the case of problems such as prejudicial practices in lending and investing (e.g., toward Lebanese and French firms and away from Senegalese firms), the issue would not surface up if only French and Lebanese firms were interviewed. Furthermore, growth in foreign investment should generate greater investment in local (Senegalese) enterprises.

3. The third speaker pointed out that, due to exchange controls, it is easier to obtain currency on the street than at banks. Obviously, the informal market is often more efficient, although it may undermine formal private investment. Approval in Senegal under the current investment code takes one month. In the United States, similar approval takes three hours. Legal transfer of funds across borders in Francophone Africa is so expensive that almost everyone carries money illegally, leading to opportunities for rent-seeking by customs officials and border guards.

4. The fourth speaker pointed out that OHADA may have an ulterior motive in creating a regional market for larger French firms, thereby undermining the current arrangement in which many smaller-scale informal (Senegalese) firms dominate.

Response

In regard to the final point, while a regional market might benefit French firms or larger-scale firms, we must decide whether we value efficiency over domestic production of all goods. If the local firms that operate in regional markets are capable, they too will take advantage of the benefits of regional legal harmonization.

B. Strategy for Disseminating Research Findings, 17:00-18:00

Chair: **Dr. Clive Gray, HIID**
Presenters: **Professor Pepe Andrianomanana**
Mr. Kwesi Botchwey, HIID
Dr. Dirck Stryker, AIRD
Ms. Nofissatou Konare, MCIA, Mali

Dr. Dirck Stryker

Dr. Stryker initiated the discussion by describing the EAGER research dissemination process. The structure agreed upon for disseminating research results requires each research effort to produce a final report. The report undergoes a review process that involves the principal investigator(s) and the associated research advisory committee. Each report must contain a complete record of the research, including methodology, data sources, analysis, findings, and policy implications.

The final report then becomes the basis for shorter discussion papers and/or issues papers whose intended audience is wider than the audience for the final reports. In addition, policy briefs focus more narrowly on the policy implications of the research and target policy makers and other stakeholders.

This dissemination process is designed to maximize the impact of the applied, policy-oriented research undertaken through the EAGER Project. It is not the whole story, however, in regard to EAGER's efforts to achieve a practical impact on the policymaking process. Many of the policy impacts achieved thus far, have occurred outside the formal dissemination process. An example of post-research policy impact is provided by Professor Andrianomanana's tax compliance work in Madagascar.

Professor Pepe Andrianomanana

Professor Andrianomanana described his research team's work on tax compliance in Madagascar in terms of its dissemination and policy impact. After completing its study, the team organized a workshop with representatives of the government's tax administration agency, the national employers' association, labor unions, academics, and others who had a stake in tax compliance.

The team ensured broad dissemination of the issues to be discussed at the workshop by inviting the media and by securing the participation of a senior government official (in this case, the vice prime minister for the budget). The national newspapers carried stories about the workshop and the research team's findings. The research had generated some fairly sensational estimates of the costs of tax evasion to the public purse and this helped generate public interest in the debate.

During the workshop, the various participants were given the opportunity to address the issue from their individual perspectives. The empirical research undertaken by Professor Andrianomanana's team provided background for the discussion, and rendered meaningless the common dodge that "more research needs to be undertaken." At the end of the workshop, participants agreed on a series of recommendations, including publication of tax waivers, publication of lists of tax evaders (and potential tax evaders), and other transparency enhancing steps.

The publication of the lists of infractions and waivers braced the business community, which responded by forming its own tax policy group. In time, the group organized and promoted its own workshop and invited Professor Andrianomanana's team. The IMF became involved in the process and has picked up some of the team's recommendations in its own country policy program. Professor Andrianomanana modestly estimated that this effort had probably had some impact on tax compliance regulations and enforcement in Madagascar.

Dr. Kwesi Botchwey

Dr. Botchwey emphasized the importance of disseminating EAGER research results to policy makers through as many different channels as possible. The money spent on EAGER, and the time devoted by researchers, can be justified only if the findings reach policy makers in a format that enables them to understand the practical implications of the research for policy. Dr. Botchwey urged the teams engaged in the various EAGER studies to interact intensively with their research supervision committees (RSCs) and to take the time to prepare policy briefs and other reports that address the concerns of potential users.

Mme. Nofissatou Konare

Mme. Konare praised the EAGER research process as one that has allowed involvement by all stakeholders from the outset through implementation and completion. When she returns to Bamako, a roundtable discussion on competitiveness is to be held. What new information is needed for informing other researchers? What lessons have been learned? The roundtable discussion will be followed by media dissemination through the local language press. At the end of the day, participants will know, based on the results they achieve, whether they have succeeded.

C. The All-Africa EAGER Conference, Addis Ababa

The final issue discussed before the conclusion of the workshop was the upcoming final All-Africa EAGER workshop in Addis Ababa, Ethiopia. The workshop is scheduled for June 22 through June 24 and will be held at the ECA Conference Center. ECA has excellent conference facilities and will assist in coordinating the workshop. Participants will stay at the nearby Hilton Hotel. USAID has agreed to fund travel and accommodation for 100 African participants.

Conference themes will be selected through a consultative process. EAGER researchers were encouraged to make suggestions on how the workshop should be organized and who should be invited. Circulars from the EAGER Cooperative Agreement Recipients will solicit researchers' input. In the meantime, thoughts regarding either the organization of the conference or the list of invitees are welcome and should be sent to the heads of the EAGER Cooperative Agreement Recipients (e.g., Dr. Dirck Stryker or Dr. Clive Gray) or to Lisa Matt, who is in charge of communication and logistics for the EAGER project.

D. Concluding Session, 18:00-18:30

Chair: Minister of Justice, Senegal
Presenters: Mr. Abdoulaye Diagne, CREA, Senegal
Dr. Dirck Stryker, AIRD
Dr. Clive Gray, HIID
Professor Moustapha Kasse, Université Cheikh Anta Diop, Senegal

Mr. Abdoulaye Diagne, CREA, Senegal

Mr. Diagne expressed his appreciation to the Minister of Justice who came to the workshop to take part in the concluding ceremonies. He thanked Professor Moustapha Kasse, Dean of Faculty of Economics of Université Cheikh Anta Diop for his participation in the workshop. He also thanked the principals of the two cooperative agreement recipients for their confidence in choosing CREA as the workshop's local sponsor. Finally, Mr. Diagne expressed his sincere wish that the debate undertaken at the workshop would prove useful to policy makers in Senegal and elsewhere in Africa.

Dr. Dirck Stryker, AIRD

Dr. Stryker congratulated the workshop participants for fully engaging themselves in the debate and applauded the workshop organizers for the flawless logistics. He thanked USAID for its sponsorship of the conference. He expressed his satisfaction with the workshop's successful execution and the learning that he believed it facilitated.

Dr. Clive Gray, HIID

Dr. Gray thanked the participants and organizers for making the workshop a success and made special note of the role played by CREA. He noted that there is much that remains to be done in the EAGER project's final months. He also encouraged participants to continue with the high level of work that is reflected in the EAGER research.

Professor Moustapha Kasse, Université Cheikh Anta Diop, Senegal

Professor Kasse noted his pleasure in participating in the workshop. He expressed his confidence that EAGER is a timely and useful project and that growth with equity are worthy goals to be pursued by researchers in Africa. While investment and growth are of the utmost importance for Africa, equity and fairness in the distribution of the benefits of economic growth cannot be ignored. Professor Kasse was particularly gratified that the EAGER project promotes this same vision.

Minister of Justice, Senegal

The minister added his thanks and voiced confidence in the choice of Senegal as the conference site and CREA as the local sponsoring partner. He felt the conference was a major event in the promotion of African policy development capability.

As one who is entrusted with the business of governing, the minister noted that growth and, more importantly, equitable growth, are of supreme importance for the government. The assistance provided to policy makers through research such as that undertaken by EAGER researchers is inestimable. Governments benefit when the pitfalls of policy reform are pointed out to them. Furthermore, growth that leaves a majority of the people behind is not what government seeks; help in avoiding such an outcome is desperately needed.

The legal dimension of economic development is extremely important, but it has not always been regarded as such. It is particularly gratifying that EAGER research activities are beginning to look at the importance of the LRJ environment in regard to policy reform. It is to be hoped that the focus on the LRJ environment will lead to the development of better laws and better systems for implementing them.

Certainly, much has been accomplished here, but much remains to be done. The EAGER workshops and others indicate that we are on the right track. If this thread is maintained for the remainder of the project, it is certain that much good will result.

Thanking all of those who had traveled far for the workshop, the minister closed the conference.

List of Participants

A.G. Abayo, Director of Operational & Financial Services, Capital Markets and Securities Authority, Dar es Salaam, Tanzania

Kwasi Abeasi, Executive Director, Private Enterprise Foundation, Accra, Ghana

Djimé Adoum, Consultant, BHM

Gassana Alioume, Connaissaire a l'Après Barrages, Ministère de l'Economie des Finances, Sénégal

Scott Allen, Senior Policy Advisor, USAID/RCSA, Gaborone, Botswana

Anatolie Amvouna, University of Yaounde, Cameroon

Professor Pepe Andrianomanana, Directeur, Centre d'Etudes Economiques, Antananarivo, Madagascar

Thiambane Asanlaye, Consul National Jeunesse Sénégal, Sénégal

Aloys Ayako, University of Nairobi, Kenya

Cheikh Ba, Etudiant, Institut des Droits de l'homme, Sénégal

Magatte Ba, Consultant, Institut Africain de Management, Sénégal

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Saer Badiane, Promoteur économique, Complexe de Transformation des Produits de la Mer, Sénégal

Mamadou Bah, SONEPI, Sénégal

Waswa Balunywa, MISR, Uganda

Ba Bassirou, USAID, Sénégal

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Mbaye Baye Selle, President, Groupement Joef Joel, Sénégal

Ndaya Beltchika, AIRD

Cheikh Sadya Beye, Inspecteur des Impots, MEFP, Sénégal

Abdoulaye Biaye, Programme du Troisième Cycle Interuniversitaire, Sénégal

Diagne Birahim, Deputé, Assemblée Nationale, Dakar, Sénégal

Kwesi Botchwey, HIID

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Mamadou Diatta, Journaliste, Sud Communication, Sénégal

Adama Diaw, Chef de Département, Faculté des Sciences Economiques et de Gestion

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Serime Diop, Ministre, Ministère de la Justice, Sénégal

Lumme Diouf, Directeur de Cabinet, Ministère de l'Economie des Finances et du Plan, Sénégal

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Papers Presented

Anatolie Marie Amvouna, “Determinants of Trade and Growth Performance in Africa: A Cross-Country Analysis of Fixed versus Floating Exchange Rate Regimes, Final Report,” CERDI, July 1998.

Pepe Andrianomanana et al., “La Politique Fiscale en Afrique Subsaharienne: Les Droits D’Accises a Madagascar: Principaux Resultats,” HIID/PSGE, September 1998.

Aloys Ayako, Lucie Phillips, and Marios Obwona, “Foreign and Local Investment: Case Study of Mauritius,” AIRD, January 1998.

John Cockburn, Massa Coulibaly, and Eckhard Siggel, “Structure of Incentives and Manufacturing Competitiveness in Mali,” CREFA/University of Bamako, October 1998.

John Dadson and Gayle Morris, “Cross-Border Trade in Ghana,” IBI, November 1998.

Arthur A. Goldsmith, “Africa’s Overgrown State Reconsidered: Bureaucracy and Economic Growth,” HIID, November 1998.

Charles Jebuni, “Monetary and Exchange Rate Policy in Ghana.”

Servacius B. Likwelilie, “Restarting and Sustaining Growth: Tanzania Country Study, Progress Report Notes,” November 1998.

The Mayatech Corporation, “Abstract: Alternative Institutions for Promoting Accountability, Transparency and Openess in Government Behavior,” November 1998.

Malcolm McPherson, “Abstract: A Framework for Sustained Increases in Productivity in Sub Saharan Africa,” HIID, October 22, 1998.

Malcolm McPherson and James Duesenberry, “Abstract: Restarting and Sustaining Growth and Development in Africa: The Macroeconomic Management Dimension,” HIID, September 1998.

Hamet Ndour, “Financial Intermediation and Poverty in Senegal,” REMIX, February 1998.

Njuguna S. Ndung’u, “Kenya Macroeconomic Management,” University of Nairobi, October 1998.

Benjamin Nganda, “Kenya Country Study, Production, Productivity and Competitiveness,” University of Nairobi, October 1998.

Benjamin Nganda, Germina Ssemogerere, and Eckhard Siggel, “Industrial Competitiveness in Kenya and Uganda,” November 1998.

Cheikh I Niang, Helene Benga, and Moustapha Diagne, “Aspects Sociaux de la Relance et Developpement Durable (Cas du Senegal),” UCAD, November 1998.

Marios Obwona and Polycarp Musinguzi, "Monetary and Exchange Rate Policy in Uganda," EPRC/Central Bank of Uganda and IBI, November 1998.

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Jeffrey Sachs, "L'Afrique sur le Chemin de la Croissance," *Jeune Afrique*, vol 1942, 31 Mars au 6 Avril 1998.

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Sam Ziorklui and A.G. Abayo, "Capital Market Development and Growth in Sub Saharan Africa," Howard University and ESRF, November 1998.

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