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Privatization Strategies in Africa

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Privatization Strategies in Africa
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Washington, D.C.

Paul Ballard, Principal Economist and Head,
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The World Bank,
Washington, D.C.

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Belhadj Merghoub, Director,
Washington Office
African Development Bank and Fund
Abidjan, Côte d'Ivoire and Washington, D.C.

Keynote Luncheon Address:

Ellen Johnson-Sirleaf, Vice-President,
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About the Center For Economic Research on Africa:
The Center for Economic Research on Africa seeks to foster closer understanding of economic relations between the United States and Africa. Through its research program, it is concerned with examining the scope and consequences of economic policies within Africa, United States economic policies toward Africa, and how specific policy alternatives bear on economic relationships between the two regions. The Center operates with financial support from academic, government, professional, and business organizations, and works in close collaboration with the Department of Economics of Montclair State University.

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Introduction

As the dramatic events in central and eastern Europe of the past year and a half have demonstrated, privatization has become a major instrument of global economic reform. While the pace of economic restructuring has acquired new momentum from the collapse of the Soviet Union and the end of the cold war era, privatization's role in this process often has been misunderstood and all too often imperfectly applied. Nowhere has this been more true than in Africa, where economic reforms have been much debated and implemented even prior to the recent political changes in central and eastern Europe. To examine the role of privatization as part of African development strategies, the Center for Economic Research on Africa, working in collaboration with the African Development Bank, AMEX International, Equator Advisory Services, the International Management and Development Group, and the World Bank, sponsored a conference on May 4, 1992, the results of which are published in this volume.

Economic Strategy in Africa during the Post-Independence Era

For most countries in Africa, privatization represents a radical departure from the economic policies of the past three decades. It is radical in that it represents a fundamental turning away from reliance on government intervention as a major, if not the central, instrument of public policy. It is also radical in that it implies an outward focused strategy based on greater participation in the global economy. For African countries, such a shift in policy carries major implications for the future economic development of the region.

To understand why African development strategy relied traditionally on extensive government intervention, it is useful to place privatization in an historical context. When most African countries achieved political independence from England, France, and Belgium in the early 1960's, public policy was then framed typically to counter the perceived negative legacy of European colonialism. The goal was, first of all, to overcome development deficiencies wrought by the colonial experience and secondly, to accelerate economic growth at rates that would permit African countries to reduce the time needed to achieve the living standards of western industrialized countries.

Much of post-colonial policy in many African countries was based on the underlying notion that European powers had pursued colonial development of the continent guided by narrow economic self-interest, and that whatever benefits that accrued went almost exclusively to Europe. Whether by default or by design, such policy was thus seen as having hampered industrial and social development of Africa.

The cold war fueled much of the economic policy debate in Africa during the 1960's and 1970's. Some writers produced works critical of "uneven development", "unequal trade", and "accumulation on a world scale" as neo-colonial exploitation.Under colonialism, and under the emerging "neo-colonial world order" of post-colonial Africa, multinational firms were often seen as dictating uneven terms of trade to poorly prepared African institutions. Market forces were thus viewed typically as equivalent to dependence on monopolistic structures in international and local trade, and thus as unsuited for Africa's economic development.

A number of writers sought to formalize Africa's development choices as an example of "dependency theory." Dependency theory comprised a body of writings pointing to the unequal outcomes arising from participation in the global economy, echoing Lenin's 1916 thesis on imperialism as the highest stage of capitalist exploitation. The focus of dependency theory in Africa has thus been to buttress suspicion of the market as a positive force for economic development, that African countries were bound to lose economic ground by relying on market-oriented strategies, and that successful development required an alternative strategy.

With African firms and local market forces in general seen as either weak or non-existent, some writers called for a fundamental withdrawal of Africa from the world economic system, as had occurred in the Soviet Union and China at various points in the twentieth century. Development would thus be based on the principle of local economic self-reliance rather than on the uncertainties of participation in the presumably unequal stakes of the global economy.

The Arusha Declaration of 1967, issued by then President Julius Nyerere of Tanzania, echoed the concerns of many Africans regarding the risks of participation in the international economy. It emphasized that neither international trade, international private investment, nor international aid, would be sufficient to respond to the imperatives of African economic development. If necessary, African countries should thus withdraw from the global economic system and adopt policies more appropriate to local opportunities for development rather than participate in the distorting economic choices presented by the global economy. Self-reliance would thus provide a more suitable strategy for Africa's economic development, a notion that few observers of Africa seemed to question at the time.

Self-reliance meant that classical economic notions such as comparative advantage through specialization in international trade could not work to the benefit of African countries. As an alternative to comparative advantage, the call of self-reliance for an inward-focused economic strategy was considered by many as more logical until such time as African countries could participate in the world economy on a more equal basis.

Self-reliance in Africa also called for an expanded role of government planning in the economy. In this context, African economic entrepreneurs were often viewed at best as parasites seeking to take unfair advantage of haphazard opportunities much as had been the case with multinational firms, while government planning was seen as benign and representative of popular aspirations.

As African countries embraced inward-looking policies, they established a growing number of economic controls. Import substitution industrialization, government marketing boards, producer and consumer price controls, fixed interest and exchange rates, and an expanding list of state and parastatal enterprises were thus seen as not only logical but essential to the economic transformation of Africa.

As government controls were extended in Africa, emphasis was also given to accelerated national investment. These investments were often outlined in multi-year development plans, and were devoted initially to accelerated development of physical and social infrastructure. Drawing on international sympathy for Africa's development challenge, African political leaders, in contrast to the theme of local self-reliance, often turned to international public assistance as a principal means of financing broad-scale public investments. Since many private economic institutions for modernization were seen as either lacking or non-existent, public institutions garnered the major share of these investment flows. Given the political pressures of the cold war, all too often western industrial countries were prepared to devote international aid to the underlying pattern of public sector control of Africa's economies, all of which is now being called into question.

Africa's Economic Performance in Retrospect

If one looks at basic economic and social indicators for Africa during the first decade of independence, there is clear evidence of a more rapid pace of change. By and large, African countries did succeed initially in expanding national investment rates and economic output at rates in excess of population growth, thus raising real incomes per capita. They also succeeded in expanding basic physical infrastructure, in increasing the proportion of the population enrolled in schools, and in broadening the range and depth of health and social services. Public documents, often in the form of annual and multi-year plans, tracked the progress of African countries in achieving a number of these economic and social benchmarks, just as they articulated even more ambitious goals to be accomplished in the future.

As long as Africa's growth in real per capita income was positive, there seemed to be little reason to question the soundness or the efficiency of the various programs of expanding public intervention. Yet the cumulative effects of Africa's state-driven policies, combined with shifts in the international economic environment, eventually led to a slowdown in economic growth, with absolute declines in real per capita income in many countries during the 1980's. Western industrial countries whose economic policies were presumably guided by market principles, largely ignored the consequences of these policies in Africa until the distorting effects became pervasive, symbolized by the increasing inability of African countries to service the mounting levels of external public debt.

Evidence of the limits of Africa's post-colonial economic strategy lay not just in rising levels of external debt. It was also reflected in the growing inability of countries to sustain economic growth at rates in excess of population growth, and of a growing inability to provide basic food security, for which drought and famine became the frequent signs of Africa's weakening state of development.

By the mid-1980's African governments had become so overextended that many were devoting more than twenty percent of export earnings just to service international debt. When coupled with an unexpected decline in the prices of primary comodities on which many of these countries depended, a change in economic strategy became inevitable. It was out of this context that Africa's shift to structural adjustment, and subsequently to privatization, became central to current economic strategies.

Structural Adjustment as a Basis for Privatization in Africa

Africa's debt servicing problems provided an early warning sign of the underlying weakness in African economic policies. In consultation with the IMF and the World Bank, African countries coupled debt rescheduling with programs of structural adjustment. Structural adjustment was designed to restore financial credibility to Africa's overstretched public sector, and to create an enabling economic environment conducive to accelerated economic growth.

Structural adjustment focused initially on such obvious targets as limits on public sector spending as a way to reduce external public debt. Gradually, structural adjustment came to embody adjustments in foreign exchange rates, adjustments in real interest rates to positive levels, reductions in factor and commodity price controls, and reforms of public sector enterprises. While these changes produced major dislocations in economic structures, they also led to the policy of privatization, both for the revenues such sales could generate for Africa's debt-ridden governments, as well as for reducing the level of public sector borrowing, all with the goal of permitting African governments to concentrate resources on those activities most suited to public sector intervention, notably physical and social infrastructure investments.

As the presentations in this volume make clear, privatization in Africa has taken many forms. They include: asset sales, outright liquidations, rehabilitation programs, management contracts, and performance contracts. Three of them are discussed in some detail in this conference: the transfer of assets from the public to the private sector, the transfer of management of public assets from the public to the private sector, and the liquidation of non-performing public sector enterprises. As such, privatization has not been presented as a panacea for Africa's economic problems, but one which can do much to contribute to a positive enabling economic environment, particularly it privatization is pursued in the sense of broad-based continuing economic reform.

As of 1990, Africa had a total of 2,754 censused state enterprises, of which 2,103 were in Sub-Saharan Africa. For Sub-Saharan Africa, these enterprises accounted for between five and thirty-five percent of Gross Domestic Product, for between fifteen and forty percent of national investment, for between two and thirty-five percent of formal sector employment, for up to sixty percent of domestic credit outstanding, for up to eight percent of external public debt, and for between two and five percent of government net expenditures.

In terms of privatization based on asset sales, between 1983 and 1990, 127 public enterprises in Africa were sold to private investors, with plans for another 107 to be sold under way. At the same time, 187 public enterprises were liquidated, with plans for liquidation of another 52 under way. Fifty-six public enterprises were rehabilitated during this period, with 28 more scheduled for rehabilitation or already under way.

Management contracts have been issued to 57 public enterprises, with performance contracts for another 30. The ratio of combined asset sales and liquidations to the current number of public enterprises is fifteen percent, and which when added to rehabilitated enterprises and those with management controls and performance controls rises to just under twenty-two percent. Taken together, these figures suggest that privatization has been pursued on a substantial scale in Africa, and that it is now a firmly established part of the policy reform landscape.

Implications for the Future

The World Bank, which along with the IMF, the African Development Bank, and other international development institutions, has an obvious stake in the outcome of African economic reforms. Over the years World Bank officials have developed a close monitoring system to assess the performance of structural adjustment programs in the region. Thus far, for countries participating in structural adjustment programs, there is evidence of higher rates of growth than for countries which have not done so. What remains is to be seen is how much privatization can contribute to Africa's economic performance.

As African countries pursue privatization strategies within the context of structural reform, apart from the obvious economic and social dislocation that such reform will produce, it is clear that long-term positive economic growth can be achieved. At the same time, privatization, particularly in its narrow sense of asset sales, is not likely to serve as a panacea for Africa's economic problems, as pointed out by Ebenezer Akuete of AMEX International. As significant as public enterprises have been to Africa, they still do not represent the overwhelming share of public sector output, and they account for a diminishing share of formal sector employment. In addition, privatization *per se*, unless coupled with complementary economic reforms, does not guarantee that African countries will prevent a reversion to the kind of economic dependence on which so many early policies of economic development were based.

One policy area that is linked to the privatization debate is political reform. For privatization to succeed, African countries are now faced with reform of political institutions. As noted by conference panelists, political reform means a shift from one-party states to political pluralism, to the strengthening of an independent press and judiciary, in effect, to a system in which individual property and civil rights are guaranteed, and in which there is greater accountability for public policy decisions. This is a tall order, albeit a crucial one for Africa. For it to succeed will involve some of the kinds of pressures witnessed in central and east European countries as they engage in a similar process of reform.

As pointed out by Paul Ballard of the World Bank, when privatization is broadly defined and applied, it can contribute to a positive economic enabling environment in which entrepreneurship and innovation can flourish, in which there can be substantial improvements in economic efficiency through enhanced mobility of capital and labor resources, and in which African countries can participate increasingly in the global economy in areas in which they can achieve strategic positions. Despite the sometimes rancorous debates of the past few decades, comparative advantage, for example, does count for economic performance, not in a limited static sense, but in a dynamic one in which changes in the global economy produce new opportunities for enhanced international production and trade.

As noted by Belhadj Merghoub of the African Development Bank and by Ellen Johnson-Sirleaf of Equator Advisory Services, Africa has enormous economic potential. The challenge for Africa today is to strengthen economic incentives for improved efficiency and to promote through a positive public-private sector partnership the kind of economic environment which will enable Africans to enjoy the benefits of a growing international economy in which they will play a growing and vital role. As emphasized by Anthony Grant, privatization provides an opportunity for African countries to counter many of the negative media impressions which international corporate executives have come to hold of the region, and which have restricted the possibilities for expanded international investment and improved technological transfer. In so doing, it is clear that the private sector, which has long been neglected in Africa's development strategies, will be in a position to provide important positive leadership in this process.

Phillip LeBel,
Director, CERAF

Privatization Strategies in Africa

Phillip LeBel, CERAF.

Good morning. I am Phillip LeBel, Director of the Center for Economic Research on Africa, and Chair of the Department of Economics and Finance of the School of Business Administration at Montclair State University. Welcome to today's conference.

I am delighted that we have been able to organize this event. This is the sixth annual international conference that we have organized, and complements the ongoing research and publication activity of the Center. CERAF, the Center for Economic Research on Africa, was established in late 1986 as a non-profit research institute based here at Montclair State, with a goal of increasing public understanding regarding economic issues in Africa, U.S. policies toward Africa, and how economic policies in the two regions affect the prospects for closer economic ties. We do so through events such as this conference, the results of which are published and distributed to the international public policy community, as well as through publication of research monographs by scholars here at Montclair State, and by scholars working elsewhere in the United States and in Africa, as well as through the provision of specific technical services to the international public policy community.

The purpose of our conferences is to bring together experts from a variety of public policy institutions to address a contemporary issue affecting Africa's economic alternatives. As you can see, we have chosen "privatization strategies in Africa" as our conference theme for this year. Privatization is a major issue in Africa, and it echoes to a certain extent some of the events which have been taking place elsewhere throughout the world, in particular, the events that are unfolding in central and eastern Europe. Our panelists bring to this conference important insights on Africa's policy perspective on privatization, as well as what are the implications for privatization strategies now being implemented.

Before I introduce our panelists, let me first turn to the Dean of the School of Business, Dr. Albert Rossetti, who would like to send his greetings to you.

Albert Rossetti, Dean, School of Business.

Thank you, Dr. LeBel. On behalf of the School of Business Administration, I am delighted to welcome you to Montclair State, and especially to the sixth annual CERAF conference. As you probably might be aware, the faculty of the School of Business are very much concerned and aware of many of the events that are taking place on an international basis. In fact, on May 14, our School of Business Administration will have approval for a new concentration in International Business, and which we are confident will help educate a new generation of leaders in an increasingly interdependent global economy.

For the last six years, the Department of Economics and Finance has undertaken the responsibility to sponsor this particular conference. Any issue that is affecting the economics and social structure of other locations in the globe are of extreme importance to our faculty in the School of Business. I am delighted to have you on our campus and I know in talking to our panelists that you are going to gain a lot of insight into some of the questions around the economic issues that are facing Africa, and therefore facing the rest of the globe. Again, on behalf of our School of Business Administration, a sincere and genuine welcome to each of you who are visiting our campus. Thank you, Dr. LeBel, and the Economics and Finance Department, for doing all of the work that has to be done in order to sponsor something like this. Thank you very much.

Phillip LeBel, CERAF.

Thank you, Dean Rossetti. As I mentioned, the issue of privatization is one of great importance to Africa and to the world at large. We started planning for this conference a number of months of ago. What we wanted to do is to bring to the campus individuals who had experience on “the firing line.” While academic scholars can contribute much to our understanding of public policy issues, and we support this activity through our research monograph publication program, we try in our conference series to bring together individuals who have direct responsibility and influence in shaping the policy-making process.

In the program that you received this morning, there is a list of acknowledgments. I would like to add my public acknowledgment to those who have helped to organize this conference. We receive support from many sources within Montclair State. I thank in particular the members of the Global Education Program, a new initiative inaugurated by President Irvin D. Reid in 1990, Dean Rossetti of the School of Business Administration, and Dean Philip S. Cohen of the School of Humanities and Social Sciences. In addition, I would like to recognize our Administrative Assistant of the Center for Economic

Research on Africa and Secretary to the Department of Economics and Finance, Mrs. Ida Fazio, who has handled our registration and numerous other details in preparation for this conference.

Secondly, I would like to thank Dr. Glenville Rawlins, Deputy Director of CERAF, and member of our faculty in the Department of Economics and Finance. He has also been instrumental in making this conference a success, both in helping to shape our conference and research agenda, as well as in his assistance in handling a number of logistical details in conjunction with this conference.

Finally, there is also a list of students in your program who have been extensively involved in this conference. Without their participation, I assure you that this conference would not be a success. While there is a listing of individual students in your program, let me note two organizations that have been instrumental in helping with this conference. One is the Economics and Finance Society of Montclair State, whose president, Leticia Garcia, is also one of our guides. In addition, I should like to note the help of Alpha Kappa Psi, the national business honor fraternity, and in particular Caswell Ewan, who has done much to coordinate the involvement of student volunteers. We try to involve students in virtually all aspects of our conferences. We are delighted with their participation, as we think it makes it more meaningful for them as well as for our participants.

In terms of our program, I asked our panelists to send us copies of their résumés so that I could share briefly with you something about their background and experience. I am not doing to do justice to them in this summary review. All I can emphasize to you in this process is to demonstrate that they are all highly experienced in their respective domains of responsibility. I am sure that what they are going to share with us to today will reflect that experience and expertise.

Let me start with Mr. Ebenezer Akuete, Vice-President of the International Division of AMEX International, a management development firm based in Washington, D.C. Mr. Akuete has thirty years of development experience in the public and private sectors, notably in macroeconomic analysis and policy formulation, international economic development, public policy issues, private sector development, and project design, management and evaluation. He has worked previously as a macro economist for U.S. AID in Lesotho, with the United Nations Development Programme, and was a Fulbright Scholar at Johns Hopkins University. In addition, he also worked as a Foreign Service

Officer in the Ghanaian government. He thus brings to us quite a bit of experience, and we are delighted to have him with us this morning.

Our second panelist is Mr. Paul Ballard, Principal Economist and head of the Private Sector Development and Industry Unit, of the Africa Technical Department in the World Bank. He has been in this post since 1987. He is responsible for coordinating overall private sector development efforts in Africa, and in undertaking operational work in industrial and private sector development projects and programs across the continent. His specialization is in the area of restructuring and private sector finance. Prior to that time he was senior economist and sector coordinator in the industrial development and finance division of the western Africa projects department, and before that he worked in the east Africa projects department, also in the industrial development and finance division. We are pleased to have someone so qualified to address our conference theme.

Our third panelist is Mr. Anthony C. Grant. Mr. Grant is director of international programs with IM&D, otherwise known as International Management and Development Group, Ltd. They are based in Alexandria, Virginia. His responsibility is in overseeing the firm's global marketing activities and in advising corporate institutional and government clients in business developments and in region-wide strategies. A number of the clients include: General Motors in Africa, General Electric in eastern Europe, and the Republic of Senegal. Prior to his current position, Mr. Grant worked for Citibank in Africa, with experience in Zaïre and in Congo, and he has also had experience in the Middle East and in Europe. We are also delighted to have Mr. Grant with us.

Our fourth panelist is Mr. Belhaj Merghoub, Washington bureau chief of the African Development Bank. This is an office that was just opened up in March of this year. This reflects the growing size and importance of the African Development Bank to development alternatives in Africa. They chose, in my opinion, someone who is extremely well qualified to direct their Washington office.

Mr. Merghoub has more than twenty years of experience in international finance and economic development in Asia, Europe, the Middle East, and Africa. His responsibilities have included raising finance capital for investments in developing countries, negotiating at the highest levels of government and industry loans for multi-billion dollar investments, including management of portfolios thereof, evaluating macroeconomic performance of borrowing countries and in determining credit-worthiness, directing and articulating lending strategies to borrowing countries.

Countries where Mr. Merghoub has exercised these responsibilities include: China, India, Pakistan, Algeria, Egypt, Iran, Morocco, Hungary, Yugoslavia, Angola, Côte d'Ivoire, Ethiopia, Kenya, Zaïre, and Zimbabwe. To this we also add that he has been responsible for managing and directing multidisciplinary teams of international experts responsible for designing and evaluating policies, operational procedures and investment codes, as well as managing multibillion dollar budgets and staff at all levels.

Prior to joining the African Development Bank, he had also worked for the World Bank as an operations division chief, and had a number of comparable responsibilities at that institution. He thus shares considerable experience with two of the major institutions that have been and continue to function as significant players in devising economic strategies with African countries.

I would also like to introduce to you at this time our keynote speaker, holding off on a presentation of her credentials until we gather at our luncheon. She is Ms. Ellen Johnson-Sirleaf, vice-president with Equator Advisory Services in Washington, D.C., a division of Equator Bank. Equator executives have extensive experience in this particular field in Africa, and I will share further details with you when we convene for lunch. Again, to all of you, I am delighted that you are able to be with us this morning.

In terms of our procedures, we will first allow for an initial round of presentations by our panelists, with each speaker having approximately twenty-five minutes. I will proceed alphabetically by name of individual as opposed to institution. Following this initial presentation, we will then provide each speaker an opportunity to comment and react to presentations by their colleagues, after which I will then turn over to members of the audience the remaining time for questions and answers.

Let me also mention that we have on display in the hallway a number of publications. CERAF has been publishing not only the proceedings of each of our previous five conferences, and which we have available for sale in the hallway. In addition, as I mentioned, we publish research monographs, and have on display some thirty-five titles thus far produced.

In addition, I am pleased to bring to your attention two related publications. One is an organization with which CERAF has developed an affiliate relationship, the African Finance and Economics Association. AFEA is launching a new journal, the *Journal of African Finance and Economic Development.* The editor, Dr. Christopher Ngassam of the University of Delaware, has expressed his greetings to this conference as well as the inaugural issue of the journal, which will be available shortly to academic scholars and members of the public policy community. It is a journal designed to promote scholarship in the field of economics and finance regarding Africa’s economic policy issues. I think that the journal will contribute as well to increased public understanding of these issues as time and events unfold.

There is also outside another journal that is being launched at this time out of Oxford University. It is called the *Journal of African Economies.* A sample copy is on display, as well as a flier listing the contents and editorial policy of the journal.

Finally, I was just given an announcement by Mr. Randall Robinson, Executive Director of TransAfrica Forum. On June 5, there is going to be a foreign policy conference in Washington, the eleventh annual forum. The topic is “After the Cold War: Will the U.S. Abandon Africa and the Caribbean?” They have invited a number of distinguished panelists, including Carol Lancaster of Georgetown University, Arthur Helton of the Lawyers’ Committee, Mr. Richard Bernal, Jamaican Ambassador, Dr. Francis Deng of the Brookings Institution, among others.

I also received notice of a summer program sponsored by the Economics Institute in Boulder, Colorado. Each year, they organize this institute to provide training for professionals in technical fields. Some of these courses focus on Africa, and which may be of interest to some of you.

Ebenezer Akuete, AMEX International.

Good morning, ladies and gentlemen. First of all, I would like to express my deep appreciation to Dr. Phillip LeBel and his organization and staff, for the invitation to be here today. I would also like to thank you for all of the nice facilities which you have placed at my disposal to make my stay a pleasant one. Further, I would like to say that I am particularly happy about the subject you have chosen.

By the very questions posed for our discussion, it would seem to me that however pertinent privatization is to Africa’s economic recovery and development, it is not the panacea to all of the continent’s economic woes. Neither is it capable of solving all of the difficult and sometimes intractable economic problems which are intertwined with the myriad of social and political factors one finds in every African society. If indeed privatization is not the ultimate solution to the problems of Africa’s economic recovery, then why is that objective being pursued with such singular purpose, particularly by the multilateral and bilateral development agencies and governments?

At this stage, I would like to confine my preliminary remarks to only one aspect of privatization, that is, the public enterprise sector of Ghana. I will leave the broad questions of privatization, including the legal and regulatory framework problems, the institutional capacity issues to two of my colleagues who are here, and who represent institutions that are involved in that exercise. During the discussions, I hope to participate and contribute to these issues beyond the direct focus of the remarks which I am now presenting.

The Economic Context of Privatization in Ghana

First of all, let us look at Ghana's economic setting between the period 1983 and 1988. You may recall that in April 1983, the government of Ghana, with the assistance of the World Bank and the IMF, embarked upon a program of comprehensive economic recovery with the overall objective of arresting over the short term the country's drastic economic decline over the preceding twenty years. For the medium term, the objective was to set the economy on the course of a satisfactory path of sustainable growth and progress. The long term goals were, and still are, to consolidate the gains which might have been achieved in the medium term, and to pursue further the process of economic and financial reforms for accelerated growth and sustainable development in order to raise the living standards of the population.

By most accounts, and despite any problems that remain, the economic recovery program, or ERP, has achieved significant results in revitalizing the economy. Indeed, according to the World Bank, and almost all of the multinational donor organizations and financial institutions, Ghana's structural adjustment program is among the most successful in Africa. That is quite correct, but one might wonder under what conditions and at what cost? This may be the focus of another discussion.

At this point it may suffice to note that Ghana's implementation of the ERP has indeed produced some worthwhile results. Over the period 1983 to 1988, real Gross Domestic Product grew on the average by over six percent per annum. The inflation rate dropped from a high of one hundred forty-two percent in 1983 to twenty-seven percent in 1988, and declined further to about twenty-five point two percent in 1989.

All of these developments were accompanied by redirecting various economic and financial incentives into productive activities and into exports. Some of these were liberalization of the exchange rate, elimination of import and export price controls to improve marketing efficiency, as well as tax and tariff reforms to enhance national revenue, and bring about equity and fairness. Above all, the government of Ghana was able to eliminate all outstanding arrears in external debt payments, and it also removed almost all restrictions on current international transactions.

In spite of these achievements, it was realized, and quite rightly so I believe, that to have sustained growth, the government needed to make a more rational and judicious allocation of the nation's scarce resources. This stands in contrast to previous practices, when funds were allocated to projects of doubtful economic viability. Hence, a re-evaluation of the government's policy was made to identify the priority areas and projects which needed to be revamped and to improve efficiency. Further, it was considered necessary to reduce the financial burden on the treasury, which had arisen because of the various subventions used to cover operating losses of public enterprises, and to guarantee repayment of loans for commercial credit which the public enterprises had acquired from banks and other financial institutions and suppliers. It was within this economic context that the government of Ghana set about reforming the public enterprises as an integral part of the structural adjustment program.

In order to give full weight to the government's commitment to that exercise, the State Enterprises Commission was given overall responsibility for the reform program. The SEC, as it was called, has further been supported by the establishment of the Divestiture Implementation Committee, or DIC, which is an inter ministerial committee with representation at cabinet level.

The Economic Significance of Ghana's Public Enterprises

What was the public sector like at this time? The importance of the public sector in Ghana can be seen in considering the following factors:

1. In 1987, Ghana's public sector consisted of two hundred and thirty-five enterprises. Out of this number, as many as one hundred eighty-one enterprises were either wholly owned by the government, or in which government had a majority of shares. For the remaining fifty-four, the government was the minority shareholder.

2. Public enterprises in Ghana have provided as much as 55 percent of formal sector employment in the country.

3. Studies conducted by the World Bank on one hundred state enterprises show that between 1980 and 1982, the operating deficits of these enterprises increased from about 0.2 to 0.4 as a percentage of Ghana's Gross Domestic Product, or GDP.

4. Government subsidies to public enterprises comprised about 9 percent of government expenditures.

5. The survey also showed that within the same period, the outstanding debt of these enterprises to domestic banks rose from 21 percent to 37 percent of total domestic credit, while their external debt increased from 15 to 18.5 percent of national total external debt.

6. Between 1980 and 1986, the public enterprise sector share of domestic investment averaged 25 percent of total investment. Its share of total domestic credit was 18.6 percent, and its share of national external debt was 14.9 percent.

You have heard the traditional argument about the need to reduce the role of the public sector in the economy as a step in promoting efficiency. This picture which I have just illustrated shows clearly an over-extended, financially burdensome, public sector within the economy. It also shows to what extent the private sector was restricted.

Ghana's Strategy for Privatization

The government set about full or partial divestiture of about 30 public enterprises, and began to implement measures designed to improve the management and performance of a number of them considered to be "core enterprises." With these objectives, the thrust of the Ghanaian efforts has been on divestiture and restructuring, coupled with improved financial management and administrative structural changes. Today, and four years after the exercise was begun, only 38 enterprises had been divested or partially liquidated by end of 1990, leaving 197 enterprises still in the public sector.

According to official statements, the government plans to divest about 25 other public enterprises, out of a list of 42 such companies. In addition, the government is also taking steps to divest 47 plantations. Furthermore, to facilitate decision-making on their status, public enterprises have been classified into the following four categories: a. strategic; b. non-strategic; c. viable or partially viable; d. and non-viable enterprises. In cases where the government has decided to retain control or ownership, efforts are being made to monitor and improve their financial and management performance through appropriate institutional and administrative reforms.

Mechanisms of Privatization

Privatization has taken all kinds of shapes and forms. What has been the Ghanaian experience? Various studies indicate that the process of privatization has taken completely different forms in different countries, ranging from the sale of shares to the general public to the sale of shares to private buyers. In between these two methods, there are management and lease contracting arrangements, sometimes referred to as non-sale privatization, or privatization of management and operations. By this method, private sector management technology and skills are provided under contract for a stated period for an agreed fee. The objective here is to increase efficiency of management and operations without losing national assets.

There is also the new private investment, or capital increase method which many have found to be particularly useful for rehabilitation and expansion of public enterprises. This method involves the infusion of new capital into the business by opening up equity ownership to the private sector through the sales offering of additional shares and not the sale of existing shares. The additional capital subscription reduces the shareholdings of the government while creating a joint public-private venture.

In other cases, public enterprises which are not considered viable as going concerns are dissolved and liquidated. Their assets are sold to private parties without any assumption of existing liabilities. There is also the re-organization of public enterprises into what has been called component parts, or fragmentation. This method involves the disintegration of an enterprise, or its re-organization into separate entities and subsidiaries where applicable, and selling off some of its operations while retaining others.

Finally, there is the management-employee buyout option. Under such an arrangement, employees buy the shares of the enterprise and become owners. From the very beginning of the public reform exercise, the government of Ghana aimed at re-capitalization and rehabilitation in order to achieve improved viability through equity participation. Hence, for the majority of public enterprises, including the thirty-one recently scheduled for privatization, Ghana has opted for the new private investment model. In another six, the government has entered into management performance contracts. There are a few others which have been divested but the actual provisions of the arrangements are not yet clear. We shall discuss this shortly.

For the remaining enterprises, there is no strong evidence available yet as to the intentions of the government regarding which form of privatization is likely to be applied. What are my general observations on all of this?

Assessing the Significance of Ghana's Privatization Policies

First, while there have been real changes with regard to privatization, there still remain doubts as to the depth of commitment to the program's implementation. From the Ghanaian side, some of the difficulties have been the problem of the valuation of tangible assets such as commercial property, while others have arisen in the valuation of intangible assets such as goodwill. There is also a lack of government expertise as to how to resolve these issues. It is thus problematic as to whether there is a fair exchange involved when the government contemplates any change in its asset holdings.

External evaluations will be useful, but it seems that the cost of engaging two or three different companies or groups in order to obtain reasonably accurate evaluations is rather high. There is also the absence of well-developed financial intermediaries. Until fairly recently, many African countries did not have any stock exchange markets. Even those which exist today are not fully operational. There is therefore the clear possibility that the values set on any public enterprise will not be a true reflection of its actual worth.

In either of the above cases, there is not only a potential loss of revenue to the government, but the fact or perception that low prices have been offered and accepted will lead to open criticism of the government for giving away "national treasures." On the other hand, high price quotations of these assets will result in a lack of sales and make future sales much more difficult.

I would like to illustrate these points with two cases. One was the Abbott case of 1967, and those of you who are Ghanaians will recall this. The other was the sale of the Intercontinental Hotel which was recently carried out by the government. In 1967, the American pharmaceutical firm, Abbott, came to Ghana and decided to buy up the Ghana Pharmaceutical Industries firm. The price it offered was to some people fairly reasonable. Others thought it was not. There was hue and cry over the negotiations, and the

Commissioner for Industries had to resign over the issue. The agreement was canceled, and Ghana Pharmaceuticals is still being run by Ghanaians today.

In contrast, there is the case of the Intercontinental Hotel. To this day, the Ghanaian public does not know exactly how much the Ghanaian government got for this sale. The most troubling aspect to local Ghanaians was that it is known to have been sold to a group of Libyan financiers. In such a situation where the public have no input, and in which rumors may abound, public confidence in privatization is often bound to be weak.

There is also another question regarding foreign investment versus national economic security. Significant amounts of foreign investment, whether in the developing countries or in industrialized ones, raises issues of grave concern. The questions of political manipulation, and/or economic sabotage, can lead to national destabilization. Hence, the need to safeguard “strategic industries”, e.g., telecommunications, radio and television, electricity, utilities, and railways. Developing countries are wary of this possible danger, and Ghana does not seem to be an exception.

In addition, there is the question of creating a conducive economic environment. Perhaps Ghana has no problems of satisfying potential investors about creating, or having in place, a conducive economic environment. Free transfer of capital and earnings, tax holidays, duty-free imports of capital goods, and other items are all available. But considering that all of the economic reform programs and related programs had been implemented by a military government without any opportunity for input from groups or individuals outside the immediate allies and friends of the prevailing regime, there are doubts in some quarters as to whether what exists today will be there tomorrow. Once the use of force, or even the threat of the use of force, is raised, there is an understandable concern on the part of potential investors.

Another issue of concern is the question of privatization and indigenous ownership. In many instances, there is not sufficient domestic capital to purchase public enterprises which may be for sale. But if there is sufficient capital, will the offer be fairly given, and accepted without political bias? One way or another, and no matter who they may be, politicians often feel compelled to demonstrate their power to their opponents and even to their allies. In other words, the question is whether the government today will sell any assets to private persons who are known to be of a different political persuasion? The answer is that they will not.

Privatization and Indigenization of Industries

Ghanaian nationals are involved in many areas of private sector activities, including agriculture and industrial manufacturing. Several of these nationals have also been investing in real property at home. So far, it appears that they have not shown any interest in the public enterprises, presumably for the same reasons given above. However, if the opportunity to invest is good, and the rules are transparent, then this can be done as easily as has been done elsewhere.

I would like to give you an example of a company called SOFIG, *Société Financière et Industrielle du Golfe,* or the Gulf Financial and Industrial Corporation. Established in 1986 by Guinean expatriate nationals, it is a holding company engaged in a number of diversified investments initially in some 13 companies in Guinea Conakry, with just under 500 full-time employees with hundreds of part-time employees and construction workers.

Four and a half years ago, SOFIG executives realized that the government was going to sell public enterprises, and they were concerned that foreigners would come from abroad and acquire strategic dominance. SOFIG officials mobilized almost U.S. $5 million in capital, and bought several state enterprises in Guinea. Today, the value of SOFIG is about U.S. $9 million, the investment is in 23 enterprises, small and medium-size enterprises, real estate development and management, industrial operations.

From the foreign investor's standpoint, some of the issues to be covered are legal ones. The question is what does the legal framework look like. There are still significant restrictions on foreign participation in business in Ghana, especially in the selection of sectors and/or activities. Certain areas are considered as off limits to the private foreign investor. In other instances the extent of participation by foreigners is restricted in terms of the number of shares that may be acquired. These then become real obstacles to foreign entry into the economy. The result is that by and large, we may have a reasonably good environment for investment, but the response will be relatively feeble, as it is at present.

Labor laws present another challenge to the privatization process. Reforms in labor laws which would give complete authority and freedom to the investor about hiring and firing are often advocated by multilateral organizations and foreign investors as well. This is a complex problem in most of Africa, particularly where other means of gainful employment are often limited. Consequently, mass dismissals of workers, or their re deployment, which amounts to summary dismissal, has all of the ingredients for causing social and political unrest. Usually, the foreign investor is not very sensitive to these considerations.

These are just a few examples of problems faced by Ghana and many other developing countries engaged in the process of privatization. However, there is one other question which we need to note: the attempts by foreign investors to dictate the terms of privatization agreements to the detriment of the host country.

Inherent Risks in Privatization

Here is one example which can be multiplied several times over. In 1985, the Togolese government decided to sell two textile mills, ITT and TOGOTEX, to a company called Pan-Africa Company, consisting of a group of American and Korean investors. The purchase price was U.S. $9.3 million, plus additional investment of U.S. $2.4 in new equipment and operating capital. According to the final agreement, 35 percent of the project was to be equity financed, and 65 percent by debt.

As part of this agreement, Pan-Africa sought other privileges under a *Convention d'Etablissement*, or Settlement Agreement. This required the Togolese government to provide, among other things, "a stable and favorable political regime." Now, this was translated to include free repatriation of capital and earnings. In addition, it provided for customs and financial guarantees about which the government had no quarrel. But here is the juicy part. The company decided to get an assurance that the Togolese government would not establish or encourage the establishment of other textile enterprises with the same product lines, that is, woven garments based on African prints. The Togolese government was thus presented with a Hobson's choice: "take it or leave it", with definite restrictions imposed on its sovereign rights. Yet Togo signed the agreement, ostensibly because it needed the money to meet more urgent demands, and perhaps in order to ensure job security for the 5,000 workers in the plants.

Does Africa Gain from Privatization?

The questions one would ask are these: First, wherein lies all of the advantages of privatization under competition? Second, is privatization only good for foreigners with money to invest? Third, would they accept this kind of condition on themselves in terms of operations in their own countries. Finally, who benefits from the privatization process and who should benefit? Given the inherent risks of privatization in Africa due to events now taking place in eastern Europe, perhaps the following facts may be useful.

1. As far back as 1990, when all of the transitions to a market economy were taking place in eastern Europe, there was conclusive evidence that on a per capita basis, Poland and Hungary alone were due to receive as much as ten times of the European aid given to all of Africa.

2. For good measure, one may also note that Central and Latin America were to receive 34 times the U.S. aid given to Africa, and Israel was to receive 700 times this amount.

3. Africans have taken up structural adjustment programs, have devalued their currencies to levels which could be profitable to outsiders, downsized their public enterprises, and reduced government payrolls as asked. They have cut down on health, education and other vital services, and in poor countries and communities, where people do not have enough to eat, and yet can send their children to school free of charge, there is advocacy of cost recovery, i.e., that people should start to pay fees. But here in the U.S., with all of their resources, primary and secondary education remain free.

Conclusion

For Ghana as well as other African countries, the gains expected from structural adjustment, especially foreign investment and capital flows, have not been realized to a great extent. Regrettably, Africa seems to have been effectively marginalized even as it has pursued structural adjustment and privatization with unparalleled vigor. Some may argue that there is still political and/or ethnic strife in Africa, and these things tend to ward off investors. The question is whether we are not seeing the same things on a much larger scale in eastern Europe today. Are we therefore to look to other factors other than the well known economic and political requirements to create the “enabling environment” for Africa’s economic recovery? I am not sure, but I hope we will find some of the answers to these questions during the course of our discussions. Thank you very much.

Paul Ballard, The World Bank

Good morning, ladies and gentlemen. First of all, I’d like to thank very much Dr. Phillip LeBel, Dean Rossetti, and all of the colleagues at Montclair State University for having invited me to speak to you today on the topic of privatization strategies for Africa. Looking around the audience today at the audience and at the illustrious speakers on the podium, I think we are in for a very interesting debate and discussion on what I think is a very important and vital topic for Africa's development.

Privatization Narrowly and Broadly Defined

What I would like to do to start with is pose the question of what we mean by privatization. I think that in a very real sense, the preceding speaker, Mr. Akuete, has posed it in the form of a number of challenges. I think we can look at privatization in a narrow sense as a process in which there is a transfer of ownership assets from the public to the private sector. However, such transfers of assets do not necessarily by themselves achieve the objective of privatization. In a broad sense, privatization really refers to bringing about a shift in economic activity and providing the environment that will encourage increased activity by the private sector in the economies where governments are practicing such a policy. I think this is the general thrust of privatization, not only in Africa, but also elsewhere.

In a way, transfer of ownership of assets is really only a part of the process. I think there is a broader process of privatization that involves other elements which I would like to address in a minute. I also think that, as Mr. Akuete already referred to, there are other ways in which privatization in terms of the injection of private money, and in terms of private management and know-how, can be achieved. There are ways of contracting out to privatize management of operations, of transferring public sector activities to private sector operators, removal of public sector monopoly powers, particularly in agricultural marketing, in urban transport. We have seen that in many African countries, such transfers encourage both large and small operators, essentially indigenous operators, to increase their participation in the economy.

Also you can have the shifting of management services to the private sector. There are some interesting cases which we have seen in the last few years.

Narrow Approaches to Privatization in Africa

Taking the rather narrow approach, to start with, why privatize? As we know, over the past decade, and I am talking generally now, and not just for Africa, though I think parts of these lessons are relevant for Africa too, governments in increasing numbers in developing countries have undertaken programs to divest themselves of state-owned enterprises.

Between 1980 and 1991, about 6,800 enterprises have been privatized in developed and in developing countries. Of those, about 4,500 were in the former East Germany, and were privatized in the past 18 months. This has been one of the most interesting experiences, and probably not repeatable in other parts of the world. Worldwide, privatization through sales of asset shares has reached up to U.S. $185 billion or more, and the pace seems to be increasing.

I think there are several reasons for the trend to privatization throughout the world. Generally, while there have been exceptions, many state-owned enterprises, as I think Mr. Akuete very ably pointed out for Ghana, have incurred major financial losses for governments, have resulted in being very inefficient investments, and losses have amounted to a very significant share of GDP. The average for the sample of African countries which we tracked for the 1989-1991 period, was about 5 percent of GDP, in terms of losses as a percentage of GDP.

When protected by government subsidies, monopoly powers, or trade restrictions, over-extended and poorly performing state-owned enterprises also can actually crowd out and stifle private investment in a very important way. In fact, they can reduce competition and the stimulus to competitiveness and growth which comes from private sector investment, and thus the stimulus to income growth.

The Historical and Institutional Legacy of Public Enterprise in Africa

While in principle, state-owned enterprises ought to be able to operate efficiently, in practice governments have found it very difficult not to intervene and provide subsidies and privileges in the form of cheap credit, tax exemptions, and so forth. I think that by the 1980’s all of these factors were contributing to the need to review the situation, particularly in the case of African economies where the desire to build up in the post-independence era a diversified industrial structure resulted in sizable investments in parastatals. These often occurred at a time of major booms in exports when major investment programs were launched, and which proved difficult to sustain over the medium to long term. The result was that in many African countries, public enterprise sectors came to dominate the modern sector of economic activity, both in terms of levels of investment and in terms of output.

In practice, policies that placed heavy emphasis on state intervention to achieve rapid modernization often resulted in a number of problems. One was that where state-owned monopolies emerged, particularly in the case of state marketing boards in Africa where highly distorting price controls were used at levels well below export parity, there were serious consequences in terms of agricultural output, and also in terms of reducing incomes of farmers. Such controls also reduced the incentives for farmers to produce, and also in the process, they tended to isolate African producers from world markets.

Another consequence of excessive state intervention has been that government investment and budgeting systems, particularly in terms of the investment criteria that have been used, often have proven to be singularly ineffective in stimulating commercial business activities in which public enterprises have been generally engaged. In a number of cases, it has proven to be very difficult to apply a very decentralized corporate approach to the management of enterprises. So for these reasons, I think that public enterprise reform and privatization have been key elements of structural adjustment programs in Sub-Saharan African countries.

Assessing Africa's Experience with Privatization

Broadly speaking, I think that the aims of privatization in Sub-Saharan Africa have come to mean a number of fundamental goals. One is to improve the efficiency and effectiveness of productive activity. Another is to stimulate the expansion and recovery of productive sector activity and exports by giving price incentives and market access to private producers. This has been particularly important in agriculture. Countries such as Ghana, Tanzania, Madagascar have seen significant results from structural adjustment in terms of rates of economic growth over the past few years. The items I have referred to have contributed substantially to such growth. To give you one example, in the case of Tanzania, the liberalization of the grains trade, which you probably know was previously under the control of a single monopoly marketing board, has resulted in a situation in which there has been a substantial expansion of grain production in a relatively short period of time to the point where the market is virtually self-sufficient today.

A second objective has been the reduction of the fiscal deficit, or drain, and rationalizing overstretched public sector activities. This objective has been adopted and pursued not so much because of a belief that government doesn't have a role to play in the economy, but more because government needs to concentrate its efforts, given the restricted resources it has at its disposal, in those areas that are the highest priority public good activities, particularly education, infrastructure, and social services.

I would like to turn to the main dimensions of African privatization to date. Maybe I can complement on a broader scale the points already raised by Mr. Akuete. Let me start in terms of transfer of ownership, that is, the narrow definition of privatization I referred to earlier. Over the 1980 to 1991 period, and mainly in second half of the 1980’s, about 375 public enterprises have been privatized in 22 countries. About 310 of these were concentrated in 10 countries, mainly in Nigeria, Togo, Guinea, Ghana, Senegal, Madagascar, Côte d’Ivoire, Mauritania, Mali and Niger. In addition, a number of other enterprises, many of which were already defunct, or not operational, have been liquidated, or their assets sold off.

In terms of sector composition, so far, privatization has tended to focus in Africa generally on medium-sized enterprises in the productive sectors and in services, and less so in larger-scale public enterprises in what have been considered to be strategic areas such as in utilities and infrastructure. This has been an important distinguishing characteristic of African privatization as compared to other countries, notably in Latin America and in the OECD countries.

The results of privatization today in Africa present a mixed picture, but with some promising aspects. Promisingly, quite a large number of firms have been successfully privatized. Some have attracted foreign investors, as for example, in textiles in Togo. A number have been sold through public share offerings, in particular through local stock exchanges as in Nigeria and in Côte d’Ivoire, or through private placement. In several countries, the fiscal drain of public enterprises, and their effective crowding out of private sector activities in terms of access to credit and financial markets, has been reduced significantly. In the case of Guinea, for example, prior to the privatization program, over 90 percent of the credit of the economy was going to public sector enterprises, and this has been reduced substantially.

On the other hand, in a number of cases, government enterprises have been privatized with, as Mr. Akuete has pointed out, the transfer of government subsidies, or trade protection, to private enterprises. The process by which this has taken place has been less than transparent. In some countries, the sheer size of the public enterprise sector means that even after the first phase of privatization reforms, a substantial public sector remains which still constitutes a significant area where important reforms are still needed.

Lessons from the Privatization Experience in Africa

I think that there are a number of important lessons from experience relating to this narrow focus on privatization which I think need to be brought out. Let me state them briefly.

1. First of all is the need for a high level of transparency of procedures in terms of posting notices, competitive bidding, and the like, to enhance the interest of investors;

2. Second, involving the private sector in the process is also a very important dimension for a successful program;

3. Third, setting clear overall objectives and a time frame for implementation rather than having a set of *ad hoc* privatizations occur is essential;

4. Fourth, attention should be given to measures to improve long-run economic efficiency combined with reductions in the fiscal burden of governments rather than emphasis on short-run fiscal and financial gains.

Translating the Lessons of Experience into Policy Initiatives

Steps for Narrow-Based Privatization

While it is true that a higher sales price may appear attractive to governments and to countries in general, this needs to be weighed against the conditions of sale, e.g., whether or not taxes and subsidies, whether or not monopoly rights are going to be transferred with the privatization sale price. If such distorting allocations are going to be retained for designated firms to be privatized, then one would expect those factors to be included in the sale price. If not, it is better to create a clear framework in which the conditions for a competitive market structure will emerge through suitable economic incentives, and then arrange for privatization steps in such a way that they contribute toward the realization of a competitive market structure.

In terms of valuation, clearly the sale of state-owned firms should be based on market value. There have been some attempts to use book value with the result that in some instances, sales prices have had to be reduced. However, it is the future profitability streams of firms which needs to be a key benchmark. That being said, clearly in the case of small economies with thin capital markets, the difficulty is how one comes up with an appropriate valuation.

In Africa, some interesting approaches to the valuation of firm assets have been tried. In Nigeria, for example, they have tried to take as a yardstick the average return on capital in the sector in which the enterprise exists and use that as a yardstick to provide a reservation price for the privatization. There are other ways in which this could be done. One approach might be to go first for privatization of management before asset sales are considered.

There are also approaches such as providing non-voting stock in companies which would enable government and indigenous investors to participate in the process. Cash sales are preferable to credit, or installment sales. The reason for this is that you want the private sector to take over as cleanly and as efficiently as possible. Clearly, a key and delicate and legitimate issue is the one of assuring local access to ownership. This must be balanced in such ways that one ensures strong and effective management. Corporate governance means that distributing shares across too large a number of shareholders may pose a problem.

Attracting management know-how and expertise through foreign investment is also important. Also there is a need for suitable timing of settlement so as to create momentum for the process to take place in a forthcoming market. As I think Mr. Akuete has mentioned, technical capacity to manage privatization requires skills that are often not found in governments. They are more found in merchant banks, in investment houses, and in the private sector. Associating these skills is a key part of the process. Clearly, this relates to the issues of the enabling environment and of the depth of capital markets.

Prior establishment of an appropriate regulatory and legal framework to ensure competition, contestable markets, and to remove barriers to entry is clearly critical. To avoid creating unregulated private monopoly in transferring public sector assets is critical. In this context, sequencing is very critical. The reason why this is so is that there are certain types of activities, particularly in the productive sectors where once the economy-wide regulatory framework has been created, it ought to be relatively easy to privatize. On the other hand, natural monopoly areas often require sector-specific regulation which, as we have seen in a number of African countries, are very important. We are working on a number of cases at the moment where this is a key issue.

Finally, I think that a key point here is that privatization works best in those countries that have a market-friendly environment. Now what do I mean by a market-friendly environment? This is a clear and transparent legal system for business which provides for clear establishment of property rights. In a number of African countries, this poses quite serious issues for investors, not just in terms of purchasing existing enterprises, but also in terms of launching new ones. Improved legal systems are needed for prompt and low-cost settlement of contract disputes, for handling bankruptcy proceedings, allowing firms to gain protection from their creditors during which time they can re-organize as in the chapter 11 provisions of the U.S. commercial system. It also means labor regulations which are equitable in the sense that they may provide for adequate severance pay, but at the same time are flexible in terms of hiring and firing by firms. Well functioning capital markets are also critical to this environment.

Steps for Broad-Based Privatization

Coming on to the second area of privatization, which I think we might say is the area where African economies have performed even more strongly in the last few years, let us consider broad-based privatization. These measures relate to expanding private-sector activity in general.

One of the most obvious is the need to progressively reduce the monopolistic structure of industries throughout the economy. As I mentioned earlier, this is particularly important in agriculture, and has contributed to rapid agricultural expansion in areas where such ending of state agricultural marketing board monopolies has been present.

Another area is in transport and in services. In Ghana, the King of Kings Bus Service took over from the state-owned bus company and provides a much more effective public transport service. Equally, you have the case of veterinary services in Uganda, where basically a formerly public sector profession has been allowed to organize itself an independent private profession to provide more effective services to farmers.

Similarly I would point to the case of cotton ginning in Kenya, where you have private ginneries providing an important and growing contribution to the production of cotton in a situation where the public sector has been essentially inefficient and unable to meet local demand. In these areas, I think that considerable scope exists for this kind of broader liberalization.

A related point here is that external competition from imports combined with domestic competition are critical to provide the stimulus to exports and innovation. To give an idea of what I regard as a very challenging experience that I heard about in Mozambique, a country which has unfortunately faced a prolonged period of civil war, there is a textile plant which is a state-owned enterprise, and which was leased to a group of foreign textile investors from the Far East which is now exporting garments to the European market. There are also other cases such as in Niger, where a textile company that was formerly losing money as a state-owned enterprise, is now exporting production to Nigeria, and it is the fashion designs of Niger that are providing the stimulus to its new-found markets.

Another part of the broader approach to privatization relates to what we might call alternative approaches to outright sale of assets. There is a range of approaches which Mr. Akuete referred to, and I would just like to point out that these are some areas that offer prospects, both in terms of a transition to privatization through asset transfers over time, but also of considerable improvements in efficiency and productivity. A key approach which is starting to take hold is to contract out to private management and operation a number of public sector services. The assets of a public power or water company remain under government ownership, but the operation and management are provided by private sector operators on a commercial risk basis. I think these are the key words.

Privatization of management has provided two success stories, in Guinea Conakry and Côte d'Ivoire, respectively. The results have been very significant in terms of the improvements in productivity and also in terms of financial performance. In the case of Guinea, the water supply system has seen an increase in collections from about 20 percent to over 70 percent in the first 18 months of that program. At the same time, registered water connections have gone up in Guinea by over 400 percent during the same time. The company has thus enjoyed considerable gains in performance.

In the power project in the Côte d'Ivoire, a private operating company was set up, and this has resulted in considerable improvements in terms of dependability of electricity supply. It has also improved the corresponding financial results for the company.

There are various approaches to contracting out for public works. This involves both large and small-scale programs. In the case of Senegal, a non-profit private company has been established by the government which contracts out municipal works to small-scale local contractors. The interesting thing about this project is that has been able to speed up the disbursement of project funds considerably. It has also managed to rapidly develop a large network of local contractors and by providing them with the technical assistance and support that they need for purposes of contract bidding and in carrying out the design work, improve their productivity and performance. This is now being looked at as a model that might be applied to other regions in the Sahel.

A further area where the private sector is very important in the provision of social services has been on the training side. Across Africa, particularly in vocational and technical training, there are many private vocational and technical training institutes. Two interesting projects, one in Togo and one in Côte d'Ivoire come to mind. They really are aiming at trying to improve the efficiency of training and the efficiency of job placement by basically monitoring the performance of both public and private training institutions participating in the project. By looking at their ability over time, they are better able to place graduates in the job market. This is a demand-driven approach to vocational training and which is proving to be very important.

Similarly, private delivery of business support services, an area which in the past was largely determined by public sector agencies, has shown renewed vigor in some fundamental areas. They include such examples as export marketing and product design in Kenya and Madagascar. Private sector consultants are being used on a partially subsidized basis initially to assist local exporters in improving the design of their products and in increasing access of local products in international markets.

The final area I would point to is the strengthening of local capital markets. Here, leasing, venture capital funds, restructuring of stock exchanges in the cases of Nairobi and Abidjan, are proving to be very important adjuncts to the transfer of assets side of privatization. In the case of Côte d'Ivoire, the Abidjan stock exchange is in the process of being studied to see how it could be improved, in terms of its ability to handle transactions, its efficiency, and ultimately with the possibility of geographic regionalization so that it serves a larger catchment area in the francophone west African market. These approaches I wanted to mention because I think they have very significant potential for broader application in Africa. They are part of the emerging trends in privatization in the region.

The other point I would make is why is privatization in a broad sense important to Africa today. It is because Africa is faced clearly with a rapidly changing international environment in at least three respects. Political and economic changes in south Africa are going to have far-reaching consequences for the region in terms of possibilities of opening up new markets and in expanding competition. Another consideration is the single market initiative of the European Economic Community, which poses both a challenge and an opportunity for a vast market of substantial purchasing power for African exports in the medium and long term. Thirdly, there are the major changes taking place in eastern Europe. These developments pose challenges to Sub-Saharan Africa, but also major opportunities. It is really how Africa can involve the private sector and in creating a positive environment in both domestic and international markets that will do much to determine the success of the continent in the evolving global economy.

In this context, I think it is very important to situate the debate concerning privatization in the context of these global changes. There has been a globalization of markets for manufactures, and also a situation in which it is no longer cheap labor and cheap commodities which provide the basis for a competitive edge, but rather it is product quality, the ability to design a product to meet the needs of the market and meet timely delivery that are key to success in export competitiveness. Similarly, the globalization of financial markets means that investment funds are moving between different alternative opportunities for investment across the world much more rapidly than in the past. This again is something that offers an opportunity as well as a challenge for Africa, as I mentioned in the case of deeper and more open capital markets.

Sustained technological development, management and marketing efforts helping to create modern enterprise economies are clearly key for participating in these trends. Clearly what is important is to find ways to reduce the isolation of African economies from world markets. In the past three decades, Africa's share of world trade has dropped by 50 percent, and the challenge that Africa is facing is really one of catching up. How can one provide the basis for a more competitive market situation in which the private sector can contribute its part alongside government in creating the conditions for growth.

In conclusion, I would just like to point out that this is a key dimension of World Bank strategy. In 1989, the Bank published a study on Africa called the *Long-Term Perspective Study for Africa: from Crisis to Sustainable Growth with Equity.* One of its key messages was that it is the combination of sustained growth and equity that are the key dimensions for future development in the region. Creating the environment for a stronger involvement of the private sector and the stimulus of competition that is needed are important aspects of both sustained growth and creating the conditions of equity. Thank you very much.

Anthony Grant, IMD&G

Thank you for the opportunity to be here today. I have found your institution and campus to be quite attractive and I am enjoying my visit. My discussion on privatization will call on the experience of my firm in Africa but also in eastern Europe.

The activities that we are engaged in involve both the private and public sector. We find that the perceptions of problems differ markedly when seen from either the private or public perspective. In many cases, proposed solutions do not always turn on the notion of a partnership relationship between the public and private sector. We believe that the process can be made much more fruitful through better understanding by the parties of the interests that they have in identifying suitable solutions that redound the general benefit. The goal is to increase faster rates of economic growth in Africa. The process depends to no small extent on privatization, and on a broader liberalization of the enabling environment.

Africa finds itself increasingly at risk of marginalization in the world economic system. Privatization offers opportunities for Africa to again be connected to the international economic system. Part of what I am going to emphasize is that careful attention has to be made to the national and regional context of privatization, that is, there is tremendous historical diversity, and specific political circumstances of individual countries can not be overlooked in order to design correctly a connection to the world system.

Since 1985, Sub-Saharan Africa has seen a very substantial decline in the net flow of direct private investment. Our firm performed a study, recently updated, trying to examine what were the reasons why U.S. businesses in particular, had a reluctance, and I might add, a continued reluctance, to invest in Africa. This reluctance, one could even say, extends so far as even the willingness to explore potential business opportunities. There is often a widely held corporate attitude of resistance to expanding business investment in Africa. It is very striking, given that there have been very important policy modifications and changes on the part of African states, and these modifications often occurred even prior to 1985. In the face of tremendous effort and sacrifice to bring about these policy changes, why is it that American business is so reluctant, outside of a selected number of sectors such as mining or energy, to explore greater business opportunities in Africa? Put more simply, if things are changing in Africa, why not invest?

U.S. Business Perceptions of the Investment Climate in Africa

Let me refer to some of the specific findings of our study. We basically sent out a questionnaire to over 100 leading American firms which by the nature of their activities, should have an interest in some of the business opportunities available in Africa. Some of the findings we collected are the following:

1. **Weak Transportation Facilities**
   The overall low level of African development, especially with respect to transportation facilities, with respect to communications facilities, were often cited as a very significant constraint which corporate leadership noted as a principal reason why they did not have a greater interest in Africa;

2. **Education and Training Cost Disadvantages**
   They also noted what they perceived as the poor level of education in African countries, and hence, the workforce that they might be able to employ would be one as technically under trained, and in some cases, perhaps even barely literate. Hence, the cost of starting up a business operation in Africa, including the cost of training a workforce, was thought to be highly prohibitive, given also the transportation and communications constraints.

3. **Press Images of Corruption in Africa**
   Image was also a consideration. Africa receives terrible press in the United States, not only the corporate, but also the public image being one of abject poverty. The image is also one of corrupt governments, which, when taken together, very much discourages potential investors. Obviously, senior management must also provide a rationale, and make certain presentations, particularly for a significant investment, to its board or to stockholders, and therefore, this public image is an inhibiting factor.

4. **African Country Markets Are Too Small**
   The small size of African markets was also frequently cited in our findings. Many countries have between 3 to 6 million inhabitants, which when combined with relatively low levels of per capita income, definitely reduces the attractiveness of doing business in such a small market.

5. **Regional Market Integration is Too Limited**

Adjacent to this would be lack of effective regional economic cooperation. However, a market can be small if it still permits you to have entry into a neighboring country market. While there are some efforts, such as through SADCC, the PTA, and ECOWAS, to a large measure these institutions have not gone sufficiently far to permit entry into a small market with regional connections as firms would normally expect to be able to do.

6. Scarcity of Foreign Exchange Discourages Investment

Another finding was the lack of foreign exchange availability. Africa was seen as the region, much more so than Latin America, that has been almost completely drained of foreign exchange.This spills over directly into questions of profit repatriation. It also touches on the opportunities for being able to import new machinery and equipment, spare parts, and the like.

7. African Governments Have Weak Business Advisory Services

Managers also pointed to the failure of governments to establish and sustain clear organizational structure that would permit the potential investor to operate within a reasonable set of expectations. The investor often neither has the time nor the resources needed to really take leisure to understand the culture of a particular country in terms of the bureaucracy they are going to encounter. They might often have to interact with three or four different ministries in order to get a decision, and the cost of securing such approval is often prohibitively costly in terms of time and effort spent. Most investors want to know rather clearly what the playing field is going to be like before they act. It does not necessarily have to be a perfectly level field, but it does have to be one in which critical constraints must be made clear at the outset. Investors are simply not going to invest in a country if the rules are constantly being subject to revision in a relatively arbitrary and capricious manner. Consistency and predictability are thus key to the investment climate.

8. African Tax Laws Discourage Foreign Investment

Tax laws tend generally to inhibit foreign investors. Sometimes there are statutory advantages given to certain parts of the local sector which may be competitors. I touched on this to some extent in reference to the lack of training of labor. Yet even beyond this, regulations by labor ministries themselves can be designed in such a way as to make the cost of labor prohibitive, particularly in comparison to the underlying productivity of labor, and thus of the investment.

9. **Investment Information is Costly to Acquire**
There is also a lack of reliable investment information that actually reaches the corporate boardroom. By and large, African governments have not proven themselves to be very effective in providing accurate and timely information to investors. Often, information about opportunities might be left in an embassy with a commercial officer, or perhaps a significant minister. Occasionally these officials may take trips to discuss conditions within their own country, but often there is a serious lack of up to date information and relatively little commercial sensibility in the patterns in which this information is diffused to the business public.

OPIC, the Overseas Private Investment Corporation, organizes investment missions where potential investors from a particular segment of industry, are taken on a whirlwind tour of Africa, two days in one city, three days in another, etc. There is a lot of handshaking and seminars, but much more than this needs to be done to increase the level of understanding as to the extent of real investment opportunities.

Our firm, through various mechanisms, often gets to address board members of major corporations. We find widespread ignorance regarding changes in Africa and of existing and evolving investment opportunities. The public image of Africa is very much the same image that senior executives often have, i.e., it does not extend very much beyond drought and coups d'état. We also find that corporate executives often find it difficult to make the correct contacts with the African private sector, reflecting to some extent inexperience in the region, but also confusion as to local institutional organizations. This also includes identifying African partners in order to understand exactly how to deal with local regulations and complexities in the local environment.

One could say even further that there is a question of who are legitimate local partners. There is typically no local credit bureau, nor a Dun and Bradstreet that one could consult to look at the previous history of a firm and to identify prospective local business partners, for example.

U.S. Business Perceptions of their Competitive Potential in Africa

On the U.S. side, let me take a look at constraints from this side. Again, these statements derive from the same survey to which I have already referred.

1. **Ignorance of U.S. Executives About Africa**
   Many U.S. corporate CEO's and their staff know very little about Africa. This might also be put in comparison to their European competitors. Because of historical and colonial linkages, there is much more information to some extent that the French are likely to have about francophone Africa or that the English would have about anglophone Africa, or even the Portuguese would have with respect to Angola, Mozambique, and Guinea-Bissau.

2. **U.S. Perceptions of Africa as Politically Unstable**
   U.S. investors continue to see Africa as a politically unstable area. Even though Latin America in the 1960's and 1970's, eastern Europe in the latter 1970's, were unstable, Africa continues to top the list as a perceived area of political instability. Africa is not an area where U.S. business sees itself as being competitive. This stands in strong contrast to U.S. business perceptions of their competitive position in other areas such as Latin America, for example.

3. **U.S. Firms See Pacific Rim Countries As More Competitive in Africa in Comparison to U.S. Firms**
   The growing challenge from Asia, notably Japan, Taiwan, and South Korea, is seen by many U.S. firms as exceeding that of the U.S. in Africa. Some, though not all of this, derives from the success of Asian firms in the domestic U.S. market.

4. **U.S. Government Business Services for Africa are Inadequately Supported**
   Finally, U.S. government agencies that are designed to assist U.S. investors are often underfunded, and inadequately staffed. For various reasons, they are often closed off to many African states. If we look at the U.S. Export-Import Bank, for example, out of 40 countries in Sub-Saharan Africa, they might be closed to the public or to the private sectors in easily half or more of those states. So potential American investors may be interested in X, Y, or Z, but may not be able to obtain the support that they might need.

The business community, like government, is not imbued with unlimited resources. Even where you may have the corporate executive suite acknowledging that there has been a shift in the investment climate in Africa, because of the dramatic changes occurring in other regions of the world, their attention is being competed for by opportunities in the Pacific Rim, eastern Europe, South America, and even from the proposed North American Free Trade Agreement.

The repositioning of African economies from the recent colonial past and from the policy mistakes of the post-colonial era must continue. African countries will need to strive to find what are their special niches and what are the best ways to communicate them to potential partners. I would note, as has Paul Ballard, that competition is increasingly global, and with continuing social and political difficulties in such areas as eastern Europe, Africa might again become an area of interest for accelerated investment prospects.

The Significance of Eastern Europe to Africa's Economic Prospects

Let me say a few words about eastern Europe in this context. Our firm is very active in eastern Europe. While our predominant thrust is in Africa, we do have an interest in eastern Europe and this work provides for some interesting comparisons. There are, as you all know, rapidly moving events in eastern Europe. You have certain ethnic and national tensions in such areas as Yugoslavia. Africa also has these tensions. There is an evolving distribution of power in Europe, just as you have in Africa. There are questions of governance in eastern Europe which also arise in Africa. The legacies of centrally planned economies in eastern Europe pose the same kinds of issues for Africa. One might thus ask why eastern Europe is perhaps a more focused area for U.S. business investment than Africa.

I would suggest that one of the reason is the level of cooperation from governments. As an example, let us look at Hungary, where we are working with a particular corporate client. Hungary has enjoyed some of the largest flows of direct foreign investment in the area. One of the reasons is that investors have found that the managers of enterprises and government officials have been seen to be extremely flexible and extremely cooperative.

Let me cite an example. When a major U.S. firm considered investing in a local firm as part of its global strategic expansion, it had to consider how technological transfer would unfold and what the implications for labor force skills and training needs would be. One finding was that the work force would have to be reduced. The Hungarian government, faced with a politically sensitive issue such as rising unemployment, looked to a partnership arrangement which could secure a broad level of support for a gradual means of reducing the work force.

Basically, the government consented to the establishment of a committee consisting of representatives from the ministries of labor, industry, commerce, social welfare, education, the office of the prime minister, as well as from the Hungarian labor unions, as well as the private sector employer. The mechanism selected was based on a spin-off of services, training and support, toward the creation of micro-enterprises such as food, shipping, transportation, maintenance, mechanical services, cleaning and maintenance, which would hire employees of the parent firm and set up performance contracts for designated services and time periods.

For the corporate entity, this solution to the question of redundancy worked well for them. For the government it was a contribution in that it lessened the impact of unemployment. For the employees it was also a success. Thus, placing the process of privatization within an overall context that can satisfy both the private sector participant as well as the government or the needs of the state, can sometimes accomplish more than going after only one or the another participant’s interest.

Lessons for Africa

Returning to the African context, let me cite an example from Senegal. There, a government and private sector initiative was undertaken where the interests of both were identified clearly at the outset. A working relationship was formed so that both parties could address mutual issues. Often, feedback is quite necessary to encourage the privatization and liberalization process. It is easier for a government, as in the Hungarian and Senegalese examples, to take the steps necessary to liberalize policy if they can see some kind of return to the state.

What we attempted to do in Senegal was to provide some clear set of incentives for the Senegalese government, as was provided for the Hungarian government. Our experience is that there must be a concerted dialogue between the public and private sectors if privatization and liberalization are to succeed. The positive reinforcement coming back to the state can encourage it to take steps which might have otherwise not been politically possible.

In conclusion, I would say that opportunities are present for privatization throughout Africa. For it to succeed, one must look carefully at the intrinsic interests of all of the parties and devise collaborative solutions in the process. Thank you.

Belhaj Merghoub, African Development Bank

Thank you. Allow me to express my appreciation to you for arranging this opportunity for us to meet today to talk about a very important subject for Africa. I think it is very difficult to come in at a point after three very capable colleagues have covered so well in discussing the issues involving privatization in Africa. I will take a somewhat different perspective, which is, first of all, to describe the African context today. Here I will emphasize what do we see in Africa, first of all, and why should one give emphasis to the private sector.

Secondly, I will talk about the world context, because we live in a context which is interlinked, and there is no economy today that is beyond such interdependence. Thirdly, I will try to see why the privatization is an active component, or ingredient of economic development strategies in Africa for the 1990’s. Finally, I will try to share with you what the African Development Bank is trying to do with regard to privatization. In all of this, I will emphasize much of the positive change which has been taking place in Africa and which augurs well for the future.

The African Context

I think my colleague my colleague Mr. Grant has just given you a clear idea of some of the images of Africa. Africa is a continent in shambles. The Afro-pessimism syndrome, the lost decade, these are the words that we hear from time to time about African performance during the 1980’s. Why?

First of all, the continent has been under a very important crisis, civil wars, in all corners of the continent. Corrupt dictators governing important countries, famine and drought reported all over are typical images that come to mind.

Second, a lot of this has been fueled by intervention from outside in the context in the cold war. This was true for Angola. You may remember there were Cuban troops stationed there, and there were two factions, one (UNITA) supported by the U.S., and the other (MPLA) by the Soviet Union. In Mozambique, South Africa was intervening. In

Ethiopia, we also saw a conflict between two major blocs. Somalia, western Sahara, Namibia, and so on, all come to mind in this great power context.

Third, Africa has experienced an explosion in population growth, at three or more percent per year, while the economic growth in the 1980's was about one percent. This translates into negative growth in per capita income by approximately two percent per year during the past decade.

Fourth, much attention has been given to the explosion of AID in Africa. In several countries, it has taken on crisis proportions, and which has caused great alarm about the level of health security for large segments of populations.

Fifth, Africa has experienced an enormous expansion in its external debt position, with disastrous consequences on its debt service ratios, with debt payments accounting typically for more than thirty percent of export earnings in most cases.

Sixth, in some cases, when the effects of inflation are taken into account, real levels of GDP per capita now stand at levels lower than they were during the 1960's. This has taken place in conjunction with rising debt levels, decreasing exports, and comparable shifts so that for some countries per capita GDP is little more than a third of what it was two and a half decades ago.

Finally, all of this has taken place with the continued marginalization of the continent in the global economy. As noted by Paul Ballard, this is measured by Africa's declining share in global export trade.

The African Perspective: The 1980's Was Not a Lost Decade

Looking at the African perspective from inside, the 1980's was not a lost decade. It was, in fact, a decade of gestation and restructuring. Consider, for example, the following trends which African countries needed to address, and did address during the 1980's:

1. Of the more than 55 countries in the continent, that is, inclusive of Sub-Saharan and other regions of Africa, are members of the African Development Bank, 35 countries began programs of structural adjustment during the 1980's. They did so for reasons already mentioned, and also for imbalances in their economies.

2. Second, if you look at the balance of payments in those countries, on the average, the deficit was between 10 and 15 percent of GDP. Such a ratio can not be sustained.

3. Thirdly, if you look at the fiscal deficits, they were in the neighborhood of 10 percent of GDP. Such rates were unprecedented in Africa's independence experience.

4. Fourth, if you look at unemployment, especially in the urban areas, you find rates of between 40 and 50 percent. In Abidjan, Côte d'Ivoire, for example, rising unemployment has also posed problems for personal security.

5. Fifth, overall, African governments were simply unable to service the urban populations. This resulted in the deterioration of urban infrastructure, bad health, basic services, and also, more importantly, problems of personal security.

6. Sixth, inflation. Inflation ran at rates of over 50 percent in most cases. If I take Zaïre, today it is more than 1,000 percent. Basically, you need a wheelbarrow to pay for your packet of cigarettes.

7. Seven, overvalued currencies. Sometimes currencies were overvalued by eight times. This was the case of Zaïre and Angola.

The Scope of Structural Adjustment Programs in Africa

What has structural adjustment tried to accomplish? Structural adjustment started in Africa in 1982-1983, as begun initially by the IMF and the World Bank. Today, as I indicated, more than 35 countries have been forced into adjustment. The technical packages, or scenarios, have been based on stabilization with hope of growth. Stabilization means retrenchment on the fiscal side, retrenchment of government expenditures. This has a cost. It means decreasing wages, decreasing subsidies, lower investment rates. Of course, this also has an effect on the overall economy. It means total retrenchment of the economy.

On the monetary side, structural adjustment meant less monetary growth. Monetary growth was in the neighborhood of 25 to 35 percent per year for many countries. It was brought down to an average of 5 percent in most cases under structural adjustment.

Structural adjustment also meant opening up the economy. This embodied trade reforms, and through review of monetary valuation, it led to subsequent devaluations. It also meant putting into place the right incentive systems, by deregulating the economy. Deregulating the economy meant deregulating prices. All of this had a measured effect on the day to day life of Africans. This is in fact preparation for the revolution in Africa which we are living today.

The Gains from Structural Adjustment

In the last three years, and thanks to these changes, we have seen stabilization set in, and the start of economic growth. Recently, a study by a commission of the IMF on its program, has revealed that on the average, those countries that have participated in structural adjustment have moved to rates of growth in per capita GDP in the neighborhood of 4 percent per annum. To be sure, not all countries have enjoyed this turnaround - Morocco and Zambia come to mind as examples - but the average stands in measured contrast to the previous experience for African countries as a whole. Moreover, according to the same IMF study, countries that have not participated in structural adjustment, have on the average experienced rates of growth in per capita GDP of no more than 2 percent per annum.

The Costs of Structural Adjustment

Structural adjustment has not come without cost. It has increased unemployment. People have seen their revenues altered significantly, in some cases by more than two-thirds. Such change has created enormous social pressures, often potentially explosive. African countries, like Asian countries, immediately after independence, invested large sums in education and training. Now, with a young population, we are seeing coming into the market well-trained and educated people with few or no job prospects. This has also created a push toward finding alternatives to government employment. This is why the private sector is being emphasized as a major source of employment.

On this particular topic, I think it is fair to say that governments are bound to be smaller in the future. They will be smaller because they have smaller budgets. They have lost a lot of power, or at least redirected much of their energy from the productive side to the regulatory side, and this is going to be the pattern for the future.

There is a need, because of very limited resources, to prioritize expenditures in both areas, on the investment side as well as on the side of general expenditures in Africa's public sector. On the investment side, governments are "under the gun" of international organizations and the international community to make sure that the investment that they undertake will pay for itself. This has become a priority because there is no other money to spare. There is simply no other choice because, given the levels of international public debt, governments can not go out and borrow in the commercial market, even though external commercial debt represents a relatively small share of their external debt obligations. Mr. Grant has told you that there are very few banks who would be willing to lend commercially to African countries.

There is also a greater recognition of the role of the private sector. In the past, a private businessman was considered as a crook. Today, it is the government that is considered as a crook. So there is a total change in perspective. Indeed, the whole culture has undergone a fundamental transformation in Africa.

Political Reform as a Byproduct of Structural Adjustment

In parallel to this, there is a political restructuring that is taking place. As I said, because of economic and social pressures, political reform has become imperative. In the last two or three years, the number of countries engaged in political reform has approximated the number of countries engaged in structural adjustment, i.e., about 30 countries. Democratization has become the byword of political reform. In fact, in 1991 alone, 18 governments underwent change in Africa.

Political reforms have been brought up with the objective of democratization, pluralism, and accountability. Those are really the three objectives. Political restructuring means greater participation of the people, more accountability, and hopefully, greater transparency in the determination of a political and social consensus. This, of course, is making the economic process much slower than under a dictatorship. You have to consult. You have to discuss. You have to agree. You have to have greater participation.

In terms of political restructuring, one can say that the expected impact on the economy is greater competition, pluralism, and greater participation of the people, reducing monopolies, and promoting a competitive political management. This is truly a radical departure for many countries, with some governments having had heads of state in power for life, or for others, being in power for 25 years or so. This is clearly changing today throughout the whole of the continent.

The World Context from an African Perspective

First of all, the whole world is in a recession today. This is especially so for the northern industrialized countries. Even Japan is entering a recessionary cycle. It is apparent to African leaders that there is no more "free lunch" by way of concessionary assistance on which they can depend. They have to compete as any other set of countries in trying to attract to capital from surplus regions to the continent. This has to be done in a context that leads to competition.

To give you an example, during the meetings in Washington of the Interim Committee of the IMF, it was decided that Russia would get U.S. $24 billion in financial credits to help them over the next two years, to revive their economy and to foster privatization measures. All of these measures represent efforts to shift the Russian economy toward a market system.

In comparison, the African Development Bank has been operating since 1964. Its capital is U.S. $24 billion. It covers a population of 600 million in 51 countries. It should be obvious from this where global priorities lie for the rest of the world. I think that there is an acute perception among Africans that they have to count on themselves and this is why I said that the decade of the 1980's was not a lost decade, namely, because Africans have been aware of these global changes, and have made adjustments accordingly. It has really been a decade of reflection and pausing for an aggressive opening to sit at the table with other members of the world community. Today, Africa's trade is only 2 percent of the world total, probably smaller than that of Belgium's trade with the rest of the world. This has to change.

The end of the Cold War has brought tremendous challenges to Africa, but also opportunities. While global security has been enhanced, this change has radically modified the flow of capital from the north to the south. Not only has there been a slowdown in capital flows from the north to the south, but also there has been a replacement of political considerations by economic performance criteria. More and more, you find that economics has taken over the framework of capital flow decisions. If

Africa wants to attract capital, it must demonstrate that there must be genuine economic returns.

Secondly, there is also a reduction of ODA. There is now a realization that in this context of global economic decline, Africa can not hope to get more money than it used to get from the bilateral and multilateral development institutions. The most that countries can hope for is zero real rates of growth in international capital flows. Additionality must come from somewhere else. The bottom line is unquestionably profit, the return on investment. This reality is sinking in more and more in the African policy community.

Implications of the New Economic Realities for Africa in the 1990's

What should be the development strategies for Africa during the 1990's. Obviously, the development strategy for the 1990's is to rely on the private sector. It becomes crystal clear that production should be the responsibility of the private sector, and that government should provide what my colleagues have called the enabling environment.

This enabling environment encompasses two areas. One is the policy side, making sure that the right legal framework is in place to allow for competition, and to enhance economic efficiency in a stable and convincing way. Secondly, investment by government should be in those sectors where the private sector is unlikely to go. Examples include communications, by which I mean roads, railways, transport in general. It also means education, health, and other social areas where investments provide returns only over the very long run.

Africa has a huge backlog of rehabilitation investment in all of these areas. During the 1980's they were not able even to maintain their existing infrastructure that had been developed in the 1960's and 1970's. In this sense, as African countries pursue restructuring of their economies, they are concentrating public sector intervention on those areas which are complementary to private sector expansion.

Policy Initiatives of the African Development Bank

The African Business Roundtable

In the African Development Bank, we have long realized the kinds of changes which I have described, and have since 1985-1986, been implementing new policy initiatives. It was at that time that President Babacar N'diaye created the African Business Roundtable.

The purpose of this Roundtable is to bring together African business leaders who have been active and successful to develop suitable partnership relationships. My use of the term "African" does not mean that only individuals of African origin are involved, but rather it involves any individual who has been active in African economic affairs. In fact, there is an American member of the Roundtable.

In our view, the Roundtable serves two important objectives. One is to provide an important feedback mechanism to the African Development Bank in which we can gain insight and perspective from private sector leaders as to the kinds of steps and initiatives which the African Development Bank should undertake to strengthen the role of the private sector.

A second objective of the African Business Roundtable is to provide a network among African entrepreneurs so that cross-border investment, despite all that has been said, can develop. The Roundtable has been extremely active in linking up business leaders not only on a regional basis, but also in developing partnerships between African businesses and business leaders in the northern industrial countries, i.e., Europe, Japan, the U.S., and Canada. What is expected is that the Roundtable can serve as a catalyst to create a class of entrepreneurs who will count as an economic force and will help create a consensus on the policy reforms which have been taking place in the context of structural adjustment.

The ADB Private Sector Investment Finance Unit

A second initiative of the African Development Bank has been the creation of a private sector investment finance. This unit was just established in October of 1991, but has become quite active since December. The objective is to provide seed money and facilitate new capital ventures which might otherwise be cast into doubt. The ground rules of the Private Sector Investment Finance Unit are the same as those of the World Bank's affiliate, the International Finance Corporation, or IFC.

The ADB African Project Development Facility

We are also active in the APDF, or African Project Development Facility. We are funding this facility in cooperation with the IFC, the UNDP, and other development agencies. The purpose of this facility is to help small and medium-size entrepreneurs in Africa to prepare viable projects and to assist them in obtaining suitable financing, either through the African Development Bank, the IFC, or other institutions.

AMSCO, the African Management Services Corporation

The African Development Bank, again working with the same partners just noted, is also funding the African Management Services Corporation. In collaboration with some private sector companies in the north, the objective is to help weak industries in Africa to be brought up to a higher and competitive management standard.

The African Export-Import Bank

I add to this list the African Export-Import Bank, an initiative which the African Development Bank is now in the process of launching. The objective is, with the help of central and commercial banks in and outside of Africa, this institution will help to finance African trade in the region and with the outside world.

Revitalization of the Financial Sector

We are also working to revitalize African financial intermediary institutions. As noted by my colleagues today, without banks, without stock exchanges, development is impossible. We will thus be supporting the restructuring and revitalization of these institutions as part of Africa's overall adjustment process.

Regional Economic Integration

The African Development Bank is also placing emphasis on regional economic integration. Again, the ADB has been commissioned by the Organization of African Unity, following the signing of the African Economic Community Treaty last May, to work with African policy leaders to devise suitable policy steps to be undertaken to facilitate this process. In this context, we are undertaking a number of studies, in northern Africa, and in the Southern Africa Development Coordination Countries, or SADCC. We view the latter as of particular significance once South Africa joins the rest of the continent in a post-apartheid environment. In this context, we are also sponsoring workshops with the EEC and the World Bank to see what are the policy steps that need to be taken in order to accelerate regional economic integration.

On the investment side, for the next five years, we plan to spend some U.S. $3.5 to $4 billion a year in lending in Africa. Twenty percent of this amount will go to measures to support policy changes. Thirty-five percent will go to the private sector, and the rest will go to help create the kind of physical enabling environment which I have described.

Conclusion

In conclusion, let me note that there is much to be done. The techniques of privatization are very complex. Creation of markets, particularly capital and labor markets, is a complicated process. Yet I think that there is awareness of this complexity, and we should note that there are a number of institutions prepared to assist in this process. We are confident that this process will enable Africa to compete with the rest of the world.

Let me add a personal note to these remarks. As a young professional with the World Bank, in 1971, my first loan to Korea was through the International Development Association, or IDA. Before I went to Korea, I read all of the books written by the World Bank and the IMF. The prognosis was very negative for Korea. Well, you see where we stand today.

In the case of India, where I also worked, in the 1970's there were droughts, famine, and a continuing succession of crises. India was one of the countries which supplied Russia with grain last year. Finally, just to finish up, because of the magnitude of investment undertaken in Africa in the 1970's, I view the continent as going through the same process of transformation as took place in Korea and in India. Since it takes some 30 years since independence to start seeing the fruits of these efforts, I think that the process has begun for Africa, and I am confident that the region will be strong and stronger toward the end of the 1990's. Thank you.

Phillip LeBel, CERAF.

It is good to have a perspective that moves beyond the "Afro-pessimism" so often evoked about the continent these days. In terms of our procedure, we will now allow each of our panelists to make a brief comment on the presentations made thus far, after which we will turn over the discussion to members of the audience.

Ebenezer Akuete, AMEX International

I was also pleased to note the positive tone of Mr. Merghoub's remarks. I would like to address some of the litany of woes presented us to my friend Anthony Grant. I recognize that these views reflected the perspectives of the corporate clients interviewed by his firm rather than his own, but think that some comment is in order.

First of all, if you talk about the poor quality of education in Africa, I beg to differ. We may not have the educational facilities to the extent that you see around here, but the quality is extremely high. I am a product of both types of education. I was trained at home and I was trained here at Johns Hopkins University. I can tell you that there are people I have seen in colleges here who would never have seen the inside of upper secondary school in Africa. Let us have this clearly in our minds - it is not the quality of education at issue here. We may not have the physical facilities, but we have tried to expand the base of education without lowering the quality.

The second item is that there are a number of industries in Africa such as textiles, radio manufacturing, television assembly plants, dry cell manufacturing, soap and detergents and so on which produce a broad array of products not always known to the outside world. To say that we do not have the technical ability I think stretches the imagination a bit too far.

The British were in Ghana for one hundred and thirty years. They were in other places in Africa for over one hundred years. The French and Germans have also been there. When you travel to Africa, you find an enormous array of structures, buildings and dams, and all kinds of businesses. All of these were created by Africans, even if the technical know-how was provided by Europeans. The point is that Africans understood what was involved and they were able to create these structures and institutions. For an American business executive to say that Africa does not have the trained personnel is also most misleading and incorrect.

In effect, what you see in Africa today is there is a retrenchment of civil servants and numerous other groups of skilled people. There are many well-trained and well-educated people who now comprise an attractive labor force. I am sure that if the American business executive leaves the corporate boardroom and travels to Africa, he will find more than an ample number of Africans to substantiate the realities which I am referring to. Thank you very much.

Paul Ballard, the World Bank

I would also like to follow-up on the optimistic note of Mr. Belhaj Merghoub. I think that very clearly the thing that has struck me personally about Africa in the past decade is the enormity of change taking place. I first went to Africa on a mission to Senegal in 1976. I had the chance to go back in 1986, and I was struck by a number of differences. As one who has worked mainly in the industrial and banking sector, one thing that struck me was the much greater presence of young African entrepreneurs, of people who had been through local and foreign education systems, and who are playing a much more active role in the private sector, despite all of the constraints which we have been talking about.

I would like to make the point that while you can make an elaborate list of constraints, if you went to a country such as the Philippines today, you would also find a number of these constraints. Their infrastructure is overstretched. Thailand is a similar case in point. The essential thing to remember is that you can achieve a lot even with significant constraints. You should not wait to have all of the constraints resolved before you proceed with privatization.

The other thing which has impressed me about Africa is, as a micro economist looking at things at the grass-roots level, I have been very impressed by the response we have seen from adjustment programs so far in Africa. The impressive thing is that, despite the constraints, the speed of adjustment of firms is astonishing. I can remember the case of a tire company which, having railed at the fact that its level of protection was being reduced in terms of tariffs, once the exchange rate adjustment was also in place, three months later, they were exporting tire products abroad. In Ghana, I met two local entrepreneurs who had actually bought out ailing government enterprises, and were in the process of finding ways of turning them around. The point here is that there is a growing modern private entrepreneurial base in Africa, reflecting the large investments made in education already noted, and which indeed is likely to produce impressive fruit in the years ahead.

The final point I would make is that the way which the Bank is approaching these issues is to support the process of policy change. We emphasize, however, that this process is really the product of participating African countries. They are not the programs of the Bank.

I would also like to say that the techniques I talked about in terms of broader privatization are things which offer prospects for the future. I think they do need to be more widely considered as part of the process of development. Thank you.

Anthony Grant, IMD&G

The remarks which I made were simply findings from a very detailed and elaborate survey made by my company. We think it will be of value because it serves to indicate what are existing perceptions of the business climate in Africa, even if these perceptions may not reflect current realities.

In many respects, it is much easier to do business in Africa than it is in eastern Europe, particularly as it applies to management attitudes. I had the opportunity in the mid-1980's to travel extensively in Africa, to participate in a number of institutional initiatives with my employer at the time, including automation of operations. I was struck by the enthusiasm and capacity of individuals. I wish I could transport this to certain countries in central Europe. Many countries in eastern Europe could learn much from Africans in this context.

I agree that there is a lot of positive things taking place in Africa. What is key is that one be able to highlight the successes and to be able to utilize these successes as illustrations. One technique we have found useful is to get in touch with successful companies operating in Africa and to use their experiences to penetrate other boardrooms where these perceptions are not so widely shared.

The African Business Roundtable is very much in line with this kind of new initiative which can be very useful in assisting African countries to garner their fair share of business investment. Finally, I would say that the corporate environment is one of the ways in which technology moves around the world today. If Africa is participate in technological transfer, it must do so ways in which the corporate sector is involved. Africa's competitive future is critically dependent on this linkage and we should focus on ways in assisting improved communications between the corporate world and African business and policy leaders if it is to succeed. Thank you.

Phillip LeBel, CERAF

Before I turn to Mr. Merghoub, I note that Montclair State University President Reid has just joined our audience. I understand that he will not be able to join us as originally scheduled for our luncheon today, and I would thus like to give him this opportunity to say a few words at this time.

Irvin D. Reid, President, Montclair State

Thank you for allowing me to interrupt your proceedings. I must say that I am quite attracted by all of this discussion and I wish that I could have gotten here earlier, and I regret that I will not be able to join you for lunch. I want to express to our panelists my gratitude for what you are bringing to this campus. We have not seen before such an extraordinary turnout of students in addition to the visiting members of our audience.

I think that what you are contributing is a broadening of perceptions about the importance as well as the potential of Africa, and I am very much encouraged by the level of student participation in the conference. I hope that they will be able to receive some of the papers from the conference later on so that they may reflect on these opportunities as they do evolve.

I know that one of the speakers commented on the significance of changes now taking place in the world as reflected by the events in eastern Europe and in the former Soviet bloc, and that Africa still has enormous potential to gain from this process, as well as much to contribute to economic development.

Again, on behalf of the Board of Trustees as well as the administration and faculty of Montclair State, I thank you for participating in our conference. Thank you again.

Belhaj Merghoub, African Development Bank

I would like to comment only on two concepts. First of all, on privatization. I think I agree with some of the observations of my colleagues here that privatization does not necessarily mean transfer of ownership. Rather it means how firms are to be managed. Two examples have been noted, in Guinea and in Côte d'Ivoire. Rather than talk about failures, we try to focus on successes, to see how we can replicate on them, as Mr. Grant has just said. I think that the cases of the power and water companies are very illustrative of this perspective.

It was made very clear this morning that the process of privatization is very complex. Indeed, I do not think that all of the techniques which we have discussed here today are always going to be applicable. If governments think that they are losing by privatization, then we need to emphasize the positive benefits, as well as the importance of good management to the process.

The second comment is to note that Africa is really no different from other continents. Sometimes, corruption is cited as a reason for staying out of Africa. Japan, one of the most developed countries in the world, has had a string of prime ministers in recent years because of scandals arising from corruption. It is thus too easy to say that Africa is in shambles and that all is not worth the effort.

I was just saying in our recess that there is a fine cadre of professionals in such institutions as the African Development Bank whose technical performance, in comparison to other international organizations, is indeed impressive. With the right set of incentives, you will get comparable results anywhere.

Phillip LeBel, CERAF

We have had a highly informative set of presentations this morning. Many of you have waited patiently throughout these discussions to pose questions to our panelists, and to which we now turn.

Discussion

Charles Ake, School of Business, Montclair State

We have heard relatively little this morning about another aspect of privatization, namely, joint ventures. Since, as Mr. Grant has emphasized, technological transfer depends critically on international private sector capital flows, I am wondering if joint ventures do not represent a way in which African countries can avoid the risk of losing the accumulated assets of existing public enterprises through privatization while at the same time obtaining the kind of needed technological expertise for these enterprises to function more efficiently in the future. Perhaps Mr. Akuete could comment on this issue in terms of Ghana's experience.

Ebenezer Akuete, AMEX International

You can have a joint venture between a private foreign company and the government of any of the countries, e.g., Ghana. At the same time, you can have a joint venture between a foreign company and a private Ghanaian or African company. We encourage this type of collaboration. Whether we agree or not, we think that in most cases, there is a certain amount of technological advancement and know-how which can be transferred to African companies in the process. Therefore, any joint venture proposition between a foreign and an African company is most welcome.

Some people would like to say that there is a need for government guarantees. If you look at Africa today, many of the countries are signatories to existing international investment protocols such as MIGA, and therefore, basic safeguards exist for one's investment. I do not think any of the African countries today will venture to expropriate investment. I repeat that joint venture projects are always very welcome.

Paul Ballard, the World Bank

Just a point of information. My colleague mentioned MIGA, which is the Multilateral Investment Guarantee Agency, as you may know. This allows private companies on request to get assurance against certain types of political risk, including expropriation. We hope this instrument will be much more widely used in the future. This agency is sponsored by the World Bank, and together with the IFC, with IDA and the World Bank itself, comprise the family of entities of the World Bank group.

Yvette Hall, Office of Academic Advisement, Montclair State

I am very interested in being able to identify how could someone here who interested in getting in touch with African business counterparts to identify suitable business opportunities. I have been to a number of workshops but rarely have the opportunity to establish direct contacts for purposes of pursuing international business investment in Africa.

Belhaj Merghoub, African Development Bank

Any entrepreneur usually has some entrepreneurial drive. One way of finding African business leaders is to have an objective of what and where to invest in a particular country. To do so one would first find basic information from the embassy of the country in question, at least, short of traveling directly to the country. I think that understanding who is in charge in the local context is necessary.

Sitting in New York or trying to find out who is in charge in Kenya or Burundi would be very difficult. In addition to the African Business Roundtable, what we hope to do is to create an African Business Roundtable in the U.S., to create a positive institutional linkage between African business leaders and U.S. business leaders. I was struck by the number of African-American organizations and African organizations in the U.S. of business leaders who exist and who are ready to discuss with promoters suitable opportunities. Finally, practically in each African country you can find chambers of commerce to whom you could write to obtain some information.

Anthony Grant, IMD&G

The question is a very good one. I think that the last comment about chambers of commerce is excellent. We have found that most African chambers of commerce maintain lists and registries which can be made available quite readily.

I would just cite a couple of other opportunities. USIA, the United States Information Agency, has published a weekly or bi-weekly listing of visitors to the United States from all over the world, but certainly including visitors from Africa. It is categorized by particular interests such as aid or journalism. They are also open to speak beyond their immediate itinerary. I would encourage you to get this listing from USIA and to take the initiative to call some of the visitors coming into the country.

Another opportunity might be through OPIC, the Overseas Private Investment Corporation, which is based in Washington. By calling information, they organize missions of individuals interested in a particular industrial sector, to travel in Africa to meet counterparts in designated countries. They also maintain an ongoing registry list of opportunities available.

The U.S. Department of Commerce also publishes a listing of individuals and industries in different regions of the world. This is also an excellent organization through which to make contacts.

Outside this official realm, there are other organizations such as Sister Cities. There is Sister Cities International, which has linkages in New York, as well as Newark, and Washington. Washington, for example, has a sister city relationship with Dakar, Senegal. I am suggesting simply that the individuals involved with these programs are in constant contact with counterparts which could provide additional information that could facilitate direct contacts. Last but not least, one should include embassies, in particular the commercial attaché office, for obtaining updated information.

Paul Ballard, the World Bank

To the already impressive list which Mr. Grant has given you, I would add that there is in Washington an African-American Chamber of Commerce which regularly organizes interactions between African entrepreneurs and American counterparts. I would also mention institutions such as Equator Bank, the institution of our keynote speaker today, which are very extensively involved in Africa. The African Project Development Facility, which has been mentioned here today, has offices in Abidjan and in Nairobi and Harare, would also be interested in broader contacts with American counterpart individuals and institutions.

William Vickrey, Columbia University

I am interested in the notion of privatizing management in comparison to privatizing ownership. One problem occurs in the rush to privatization is the question of natural monopolies, where there are substantial economies of scale. This is particularly so in the case of electricity, railroads, and in urban transportation and telecommunications. The efficient exploitation of these services requires that using short-run marginal social costs, which in turn requires that they have to be subsidized.

In the case of urban services, there is a source for this subsidy which is both natural and equitable is the use of a tax on the land values created by the presence of these services. This goes back to Quesnay and the physiocrats, and recalls Henry George in this country. The practice of taxing land values, with the possible exception of some places such as Kenya and South Africa, is not generally used as an instrument of economic policy.

If one can increase the efficiency of the urban environment by lowering the prices due to the marginal social costs, preferably the short-run marginal social costs, by taxes on land values, one can find that in the not too long run, land values are increased by more than the required subsidy. Wages are regionally determined as are returns to capital. Some of the increase in efficiency in the economy will in turn redound to a non-mobile factor, namely, land. The question is can you pursue privatization of management through use of such a tax policy, and if so, to what extent is it being pursued.

Belhaj Merghoub, African Development Bank

I made the point about privatization of management in terms of specific examples, e.g., CDC and EEIC in Côte d'Ivoire, where there is no subsidy at present for water or electricity. My bill for electricity in Abidjan was U.S. $800 per month. I would agree with you that a land tax, when the proceeds are used to subsidize a certain level of service to the community, is desirable. The problem is that in Africa, land is owned for a relatively few individuals, and usually they are the ones who are ruling. They simply may not perceive that these external benefits are likely to generate returns to them, and thus would be reluctant to adopt such a policy. I agree, however, with your point, and this is a process which must come at one point.

Paul Ballard, the World Bank

There are some other practical problems. One is in reference to the under valuation of land for tax purposes. If one wanted to apply such a tax, one would first have to overhaul the system of land valuation. This is particularly true in a number of African economies, notably Kenya.

The other question is that while, in principle, the notion seems attractive, one needs first to determine whether there are rents on land in urban areas. This clearly would need some review both from a practical and on the policy side.

Abiyu Berlie, Triborough Bridge and Tunnel Authority

I have two questions. Both of them concern structural adjustment. Most of the speakers have spoken of structural adjustment programs taking place in Africa. At the same time, I wonder if you could tell us something more about the integration of African economies into the world market, particularly with regard to the role of such institutions as the African Development Bank. For example, what about the role of credit markets, imports and exports? After structural adjustment, we find that some countries can not afford essential inputs for products which they are trying to export, particularly after currency devaluations. In turn, these countries also often find high interest rates when they turn to credit markets. What has the World Bank done to help in this area, especially in terms of north-south trade?

The second question is in reference to the performance of countries under structural adjustment, particularly the side effects of structural adjustment. Given your concerns on general unrest in Africa, if a country finds itself facing high unemployment after structural adjustment, this may wind up creating a vicious circle of unrest. What options are there under such circumstances?

Paul Ballard, the World Bank

I think you have raised an often asked and interesting question. If I understand the question correctly, what is the role of the Bank in the adjustment process, and how do this contribute to integration of African economies in the global market. I think that this happens in a number of ways.

Obviously, all countries are increasingly interdependent, but to the extent that countries engaged in trade are different, the gains from trade are greater. This would depend, obviously, on the extent to which all countries engage in trade liberalization, and if they can do this simultaneously, the benefits are more apparent and immediate. This, of course, applies no less to African countries.

In the *World Development Report* of a few years ago, the World Bank focused attention on the importance of production subsidies in developed countries, particularly in agriculture, and to an assessment of the negative effects such developed country protection has on developing country exports. Since many African developing countries are price takers, and this situation is going to last for some time, it is very important that they liberalize their trade regimes.

The Bank has been doing several things to address the issue of the international trade regime. First of all, in addition to working with individual countries toward trade liberalization, we have also been trying to sponsor regional and sub-regional approaches within the African context. We have been discussing, for example, a number of cases in our presentations this morning.

In the case of SADCC, the idea is to promote regional efforts towards trade and investment integration. For this to succeed, there is a need to coordinate price liberalization with reform of tariff and trade policy with the result that you have a common framework not only within each country, but that this framework becomes common among regional trading partners. This is true not only for SADCC, but also for UDEAC (the Union Douanière des Etats de l'Afrique Centrale) in Central Africa.

The other issue is to focus on export policies. This is an area in which we have been working with African countries to see what steps can be undertaken to devise faster and more flexible export responses that put exporters on a more equal footing with importers.

We have also been focusing on the transport side. I have mentioned the whole question about timeliness of delivery and turnaround. Increasingly, there is an emphasis on infrastructure as it relates to trade facilitation, of speeding up turnaround time in ports and in customs. This are very critical parts of export development and trade development in Africa. The Bank has been working, for example, very closely with Côte d'Ivoire, in this respect.

On your point with the high cost of capital goods due to high interest rates and devaluation, I would just make the point that one needs to take into account the total cost of capital and to consider the opportunity cost of capital as the most relevant yardstick for policy purposes.

One example where relative pricing of capital provides some clear lessons is in Nigeria. What struck me in Nigeria, for example, is that many people said that this had created what has been called the "maintenance culture." Prior to Nigeria's structural adjustment initiatives, there had been massive spending on trucks and buses and cars and equipment because they had been so cheap because of pricing distortions introduced by overvalued exchange rates, under the new exchange rates, people realize the scarcity and value in economic terms of maintenance. The change in the exchange rate created a booming business in reconditioning trucks and buses which had lain around for years and had not been repaired or maintained.

The point in the Nigerian case is that one ought not look at this purely in terms of the high cost of capital. One should look at this in terms of opportunity costs. In those terms, what is happening through the adjustment process is a shift toward a more realistic pricing of resources, particularly capital goods. One reason why this is crucial is, as Mr. Merghoub mentioned, employment creation is critical for African economies. Subsidizing capital is not the way to create employment. You therefore want to correctly price capital goods, and therefore, interest rates should reflect the opportunity cost of capital. And it should be likewise with the pricing of capital in terms of exchange rates for international trade.

Finally, in reference to your question about what are we doing about credit markets, I think that most of what we have been doing has been focusing on helping to restructure banking systems and to create more viable ones in the process. This reform of existing institutions is, in my view, likely to be followed by measures intended to support capital market deepening in African economies. To deepen capital markets means to look at instruments such as capital market leasing, venture capital, and other forms of investment financing. Here, the IFC and the African Development Bank are playing an important role.

Belhaj Merghoub, African Development Bank

I would like to comment on the first point. Your concern is addressed to the question of whether structural adjustment is really extended to northern as well as southern countries. I think that my personal answer is that as long as subsidies in agricultural products are at the level that they are, especially in Europe, I think African countries that are engaged in price and trade liberalization will not get a significant reward from the investment in this effort. I think that here is where the GATT (General Agreement on Tariffs and Trade) negotiations, particularly the current Uruguay Round, are important. In this context, it is within GATT and not within the World Bank, the African Development Bank, or the IMF, that real progress on this issue is to be made.

Regarding the social dimensions of adjustment, in particular, the costs, I think you are right to point out this issue. In 1989, the World Bank, the UNDP, and the African Development Bank, with the support of other bilateral funding agencies, developed what is called the social dimensions of adjustment initiative. This is an assessment of looking at what sectors will bear the brunt of structural adjustment before a program is undertaken, and to try to find ways of making this easier to support.

For instance, if you take Zambia, with its structural adjustment that involved the complete elimination of maize subsidies, this has caused enormous social pressure and has been linked to political changes in the government which have taken place in the past several months. And yet, the new government has proceeded with this policy and no political repercussions took place, although the price of maize increased by as much as 200 to 300 percent as a result of this policy. Since maize is one of the principal food staples in Zambia, this is remarkable. Since this change represents a punch rather than a pinch, the government has worked with international organizations to try to lessen the burden by providing alternative jobs and training and similar adjustment packages for individuals affected by such policies.

There is also hope that when you streamline the budget of a government, you find some savings in the process. Such savings can be used sometimes to help alleviate the social costs of adjustment. What is expected is that if you start with a program of privatization, you create jobs in the process just as some other jobs may be lost. This has been the case in Morocco. I also should note that after a 10 year absence, I just went on a mission to Morocco and I could not believe the changes in the landscape. It has totally changed in agriculture, in industry, in banking. I am sure that structural adjustment does produce results.

Phillip LeBel, CERAF

Just as a point of information, mid-way through his administration, Ronald Reagan went to the mat on the Uruguay Round and proposed that between 1985 and 2000, that the U.S. and Europe should abolish all subsidies to agriculture. Yet here we are in 1992 at loggerheads on this same issue, and as many of you are aware, the GATT Uruguay Round may simply come to a halt because of a failure to agree on this particular point. Ironically, in many countries in Europe, one hears arguments similar to the ones we are now discussing about the social dimensions of adjustment, and that in several instances, this has led to virtually no movement on agriculture.

Emmanuel Ajuzie, University of Connecticut

Before we address an issue, I find at times it is better to look in terms of the historical experience as to what is being done. Russia, as the principal residual state from the former Soviet Union, now owes about U.S. $54 billion. If you go back to Africa, you find that the Soviet Union's presence in such places as Angola. The question is how much money have the Russians earmarked for development in Angola.

Secondly, there have been studies that have demonstrated that when multinational corporations go into developing countries, poverty has increased instead of decreasing. The reason for this is that funds have been siphoned away from these countries to the various homes of the multinational corporations. There should be some rules on this. In reference to Mr. Akuete's observations, are there measures which would make a more deliberate effort to develop local industries, to help them finance the acquisition of international technological know-how and in the process, help them to alleviate poverty.

Mr. Grant has told us about multinational corporate attitudes toward the business climate in Africa. If one goes back and studies how many educated and young people in Africa are without jobs, you will find that there is a lot of technical know-how. What have you done to find out the feasibility of employing these individuals and to change existing impressions about the business climate in Africa?

Belhaj Merghoub, African Development Bank

I gave a figure which I was familiar with. As you know, the capital of the African Development Bank is U.S. $24 billion, covering 51 member countries. This is the amount which has been accumulated over 30 years and which constitutes the basis for the

ADB to borrow in global capital markets. I think you should be realistic in making comparisons.

What I was trying to say, in fact, is that priorities have changed, and we accept those changes in priorities, as well as understand them. You have a country called Russia, which has huge military power which could explode at any time, and would be a threat to any part of the world. It is absolutely normal that it will get attention by the world financial community as it contemplates radical change in its economic system. This is simply a reality of life that Africans have to accept, and adjust to, as well as function in. It is this context that compels Africans to adjust once and for all rather than engage in a continuing round of a game that is no longer being played, namely, the cold war.

Emmanuel Ajuzie, University of Connecticut

My point is that because Africa does not possess a strategic position in the world, it simply does not command the same kind of attention that we see in reference to Russia.

Ebenezer Akuete, AMEX International

In reference to technological transfer, indeed, a number of countries today are demanding that foreign businesses should always have in their investment proposals a training component. International aid donors are also placing major emphasis on this issue, and recent aid assistance has tended to mandate inclusion of a training component as a condition for authorization.

To link up this issue with retrenchment in the context of structural adjustment, let me share an example. About 2 years ago, I did some work for the UNDP. The Ghanaian government, having dismissed about 12,000 civil servants, turned to the UNDP for technical assistance. The UNDP turned around and said that given that there were so many talented Ghanaian nationals working outside of the country, what was the Ghanaian government doing to attract these people back to the country. Having dismissed them, the government was now trying to look for them. My job was to do a study on constraints and possibilities in mobilizing expatriate nationals to work for the Ghanaian government.

The UNDP was able to support the Ghanaian government in getting some of its own nationals to go back to work for the government rather than to seek experts from other countries. The lesson from this experience is clear, and that is that there are valuable human resources which through the use of efficient economic incentives, would be willing to assist in the process of economic development as long as the enabling environment is there.

From a normative standpoint, I would say that there should be efforts to transfer knowledge and skills in all new investment initiatives. Given that this is being done increasingly, I would hope that this would facilitate the process of technology transfer.

Anthony Grant, IMD&G

The finding in our study that the African labor market is unskilled, however erroneous, is a perception that must shape all efforts to attract international capital to the region. Within our firm, we have worked with the government of Senegal in helping them to put together a youth employment program. This has been extremely successful in terms of working with youth to find suitable jobs. It is so successful that it is being adopted in Tanzania.

Let me also address the skilled African labor issue from the perspective of my own firm. In the past, many foreign consultants in Washington and New York went to Africa to work. Much of our own work is done through local African firms in which they are actually doing the on the ground work for us. My point is that it is important to understand what are the concerns that corporations have with regard to the investment climate in Africa, and that a failure to address these concerns will not do much to advance the level of communication.

Phillip LeBel, CERAF

At this point, we are going to have to pause for our luncheon session. For those of you who have not have an opportunity to present questions, we hope that you will join us for lunch, at which time following our keynote address, we will provide additional time for you to do so.

Luncheon Session

Phillip LeBel, CERAF

At this point, I have to pleasure of introducing our keynote speaker. Today we are very fortunate to have such a distinguished speaker for our luncheon address, Ms. Ellen Johnson-Sirleaf, whom I introduced to you very briefly in our morning session. Let me share with you a brief profile of her career.

Ms. Johnson-Sirleaf is a senior executive with over 25 years of experience in public sector financial management, international development, banking and public speaking. She has been Vice-President and Washington Representative of Equator Advisory Services, a division of Equator Bank, Ltd. in Washington, D.C., since 1987. She currently holds many positions, including corporate board membership in Equator Holdings, since 1989. She is chair of the Board of Directors of *Africa News*, a position she has held since 1990.

Her previous experience includes Vice-President of the Regional Office of Citibank in Nairobi, Kenya, where she was responsible for bank lending in east and central Africa during the 1983-1985 period. She was Citibank's regional economist responsible for country risk in Sub-Saharan Africa from 1981-1983. She has also been President of the Liberian Bank for Development and Investment in Monrovia, has been Minister of Finance, and Deputy Minister of Finance for the Liberian Government during the 1977-1980 period. She was senior loan officer in 1981, and was a loan officer during 1973-1977 for the World Bank in Washington, D.C. From 1964 to 1969, she served as Assistant Minister of Finance for the Liberian Government in Monrovia.

Ms. Johnson-Sirleaf was educated in the United States. She did graduate work at Harvard University, at the University of Colorado's Economics Institute, and was graduated in 1964 with a Bachelor's Degree in Business from Madison College. She has received a number of special awards and decorations. Her recent publications include: *The Outlook for Commercial Bank Lending in Sub-Saharan Africa*, a World Bank working paper with Francis Nyirjesi in 1991, and "The Liberian Economy in the 1980's: Some Reflections", in the *Liberian Studies Journal*, volume 14, 1989. We are thus pleased to present Ms. Ellen Johnson-Sirleaf.

Ellen Johnson-Sirleaf, Equator Advisory Services

Let me thank you, Dr. LeBel, for the introduction, and you and your associates for the opportunity to share a few thoughts with you. My task is made easy on two counts. First is that I know from personal experience and personal guilt that being a speaker after lunch, which follows a long session in the morning, brings diminishing returns to attentiveness. Secondly, you have already benefited from a panel of very experienced, very able individuals, this morning, in which all of the issues relating to private enterprise development have been so well discussed.

The Challenge of Economic Reform in Africa

The failure of statism and central planning, and the economic decline which resulted from this in the 1970's and 1980's, is probably one of the major reasons why African countries now seek shifting of economic activity from the public to the private sector. At the minimum, two general approaches, most times complementary, are being applied by African governments to effect this re-orientation. Some 33 Sub-Saharan African countries, and most of the countries in northern Africa as well, are undergoing structural adjustment programs which imply wide-ranging policy reform measures aimed specifically at liberalizing the controls which have constrained growth in private enterprises. All of this has been well discussed this morning.

Other countries have gone one step further and moved to put a large number of state-owned enterprises on the selling block, thereby hoping that privatization through the transfer assets will serve to quicken the response. These enterprises that have been put on the block cover a wide range of activities, from consumer manufacturing to utilities, to airlines, even mining operations, and financial institutions as well.

Why Has Privatization in Africa Been So Difficult to Achieve?

1. The Difficulty in Creating a Sustainable Enabling Environment:

The results of African privatization initiatives have been slow in coming. We believe that there are several reasons for this. First, it takes time to create the enabling environment in which private enterprise can operate with confidence. The measures that come from adjustment programs that create the enabling environment impose hardship on segments of the population that in turn can sometimes lead to major reversals in policy reforms.

a. Price Liberalization

I think it would be useful to review some of the measures that courageous African governments are now undertaking to create a major re-orientation in economic policy. In terms of price liberalization, which has extended to producer and consumer prices, as well as the lifting of subsidies which previous controls implied, or with consequential effects on both the people as well as the enterprises which are involved.

b. Exchange Rate Adjustment

As is well known, re-aligning African exchange rates is an important step to improving economic efficiency. While fixed rate adjustments, almost universally in the form of devaluations, have been typical, some adjustments have taken place with foreign exchange auctions as a means of determining a more accurate measure of market values. Of course, when devaluations occur, whether by auction or by fixed rate changes, there may be huge losses for certain public sector enterprises whose privatization potential may have been undermined.

c. Interest Rate Liberalization

The enabling environment to which we have referred also includes an adjustment of interest rates to reflect the true scarcity of financial resources. Interest rate liberalizations have taken place on both the lending and deposit side, again, with substantial implications on personal fortunes.

d. Civil Service Reforms

In many of our countries, because government is the major source of formal sector employment, and because economic reforms to enhance efficiency has meant downsizing of public employment, civil service reforms have more often than not created substantial social pressures. Formal sector unemployment has indeed risen, as has been noted, with attendant political unrest in some instances.

e. Financial Sector Restructuring

Financial sector restructuring has become necessary as economic failures have caused mounting losses by financial institutions. This has entailed mergers, refinancing, and in some cases, complete liquidation, with all of the attendant losses that changes have wrought. Beyond such changes, financial sector restructuring has also entailed the creation of new financial institutions such as stock exchanges, as was mentioned this morning, as one example.

f. Capacity Building Initiatives

For African economic and financial institutions to succeed in the new economic climate, management capability of existing and new institutions has had to be restructured. This has involved the deepening of skills, new training programs both formal and informal, institutional development and reform, to cite but a few. All of these steps are being undertaken in most of these countries in varying degrees, with serious implications for the future.

2. Africa's Inadequate Infrastructure for Global Competition

The second reason why privatization has been slow in producing results in Africa is that we still find in many of our countries a relatively low level of development of infrastructure. This was a point made by Anthony Grant this morning. Whether we are talking about communication and transport systems, utility services, and whatever it takes to ease the flow of goods and services, and the flow of information upon which sound businesses thrive. Developing such infrastructure takes time and, as post-independent Africa’s experience has shown, only sustainable with regular and adequate fiscal allocations for maintenance.

3. Africa Faces Increasing Global Competition for Investment Capital

A third reason for the relative slowness of privatization is that African countries face growing regional competition for investment capital. Most of you know what is happening with eastern Europe, and their own programs of liberalization and reform as they turn from communism to market systems. The same thing is happening in happening in the Confederation of Independent States. All of these take into account where each region stands in terms of its comparative advantage, its local capacities, including skills, management, small market size, purchasing power, and the level of real or perceived bureaucratic red tape. Africa has yet to identify and maximize its competitive advantage in seeking to compete with these other regions.

4. Africa Faces Pressures for Simultaneous Political Reform

Finally, while all of these measures of economic reform are being undertaken, many African countries are now faced with both domestic and external economic pressures to introduce simultaneously political reforms. It comes in all sizes and shapes, and in all different names. People, both within and without, demand democracy or pluralism. While necessary to ensure wider participation in economic decision-making, the introduction of political reforms can represent a source of instability for potential private enterprise.

Dimensions of Privatization in Africa

When it comes to privatization through the transfer of assets, I was pleased to learn from Paul Ballard this morning, and from Ebenezer Akuete about African successes in this regard. It was also heartening to note that playing to these successes was a subject of the discussion. The fact that 375 enterprises were privatized in 22 countries, as was cited by Paul Ballard, and the fact that this did not include opportunities that would exist in a more diversified economy such as in Kenya and Zimbabwe, is, in my opinion, quite impressive. Certainly, this suggests to me that there is potential out there to be tapped. This is a potential which counters the view that the viability of state enterprises and the fiscal policies which have been used to make these enterprises into public cash cows, make the privatization of state enterprises doomed to failure.

New Initiatives for Privatization in Africa

What strategies, then, what new initiatives can African countries take to broaden the scope and the pace of privatization? I will list a few. They are not new. I will re-iterate them and add a few comments in the process.

1. Stay the Course

If I may borrow a phrase from Mr. Reagan, Africa should "stay the course." In this case, stay the course of economic reform and all that it implies. This includes macro-policy reform, financial sector reform. We should not forget that this is working. For those that have stayed the course of reform, whether through structural adjustment programs or some other measures, we are seeing results.

We know that Ghana, where perhaps the longest record of adjustment exists, has experienced substantial and sustained growth for seven years. This has happened despite the claim that such reforms have yet to achieve positive impact on the poor. Yet, to distribute, one must first have growth, and this suggests staying the course. Despite this, it is recognized that if countries must also adopt measures that will bring a better and more equitable distribution.

2. Improve Africa's Competitiveness and Regain Market Share

It is important to emphasize measures which will enable Africa to increase its competitiveness and to regain lost market shares. Many of you know that for many years in the post-independence era, African countries have lost share of some of the primary commodity markets in which they once held important positions. These shares have been lost to Asia, to Latin America, and more may be yet lost to some of the emerging economies in eastern Europe.

The measures that will restore and sharpen this competitiveness include policies dealing with land reform, labor productivity and the like. Some of these measures will need to be country-specific, as in the case of Mauritius, which developed a comparative advantage based upon certain specific national conditions. As African countries proceed, they need to fashion such suitable national policies, whether when dealing with land reform, with improving the productivity of labor, or similar measures.

3. Capacity-Building Measures Must be Strengthened

As has been noted this morning, it is important that African countries make sustained commitments to capacity-building measures. These measures take the form of education, training, development of information systems, overall management skills.

The African Capacity-Building Initiative mentioned this morning is an institution based in Harare. The World Bank and other donors are providing support for this initiative, and emphasis is being given to the transfer of management skills to enable Africa to be able to respond to a changing world economic environment. I think that the slowness in our ability to adapt to changing times has been a major reason why African economies have lost their competitiveness over time.

4. Promote, Broaden, and Deepen the Enabling Environment

Encompassing all of these initiatives is the need to sustain all efforts to promote, broaden, and deepen the enabling environment. This goes beyond the conventional. It touches upon the political reform that is now being demanded increasingly, not only by the average African on the street, whose simple view is "I want to be able to change my government", but by all Africans who want to be able to participate in fundamental decisions that affect their everyday lives.

Political reform goes beyond these basic notions to steps designed to create the political systems and the institutionalized systems of accountability and transparency are there. Reforms of judicial systems, which enable investors to know that their investments and property will be protected, and in which predictability is firm, is essential. This means that the rules of the playing field must be clearly stated so that when business people know they are playing on that field, they will know exactly what to expect.

These are the fundamental reforms for creating and maintaining the enabling environment. It takes a lot of work. It involves a lot of institutions. It involves introducing a lot of new measures to ensures that this all comes together with the economic reform measures. One without the other just does not bring the best results.

5. Promotion of African Entrepreneurship

Measures need to be undertaken to integrate and upgrade the informal sector in Africa into the national and international economy. In this respect, let me note that although we have had a lot of statism in the post-independence era, private enterprise is not new to Africa. In fact, the informal sector, composed of small farmers, artisans, and petty traders, particularly women, has been doing business as usual despite the failures of African economies. Indeed, during the long years of economic adversity that sector has presented the only vibrant one of the economy able to withstand the levels and types of economic uncertainty with which so many African economies have had to contend.

In this respect, women, who form a large component of the informal sector, also represent an element which governments must support. African governments have to formulate direct strategies to be able to ensure that as modernity takes place, and as the economy becomes more formalized, that women are not left behind to petty production or sales, but rather are brought into the mainstream of economic life.

The promotion of African enterprises has been given an additional boost through the initiative of the African Development Bank, and its establishment of the African Business Roundtable. This Roundtable, as described by Mr. Merghoub this morning, comprises women and men who are operating successful businesses in Africa. They stand out as a model for what can be done, and they represent an institutional pool from which joint ventures can be established with external business firms.

6. Promotion of Regional Economic Integration

A sixth important strategy is to promote regional economic integration as a strategy for expanding market size in Africa. In this regard, a conscious effort will need to be made to develop regional growth poles and growth clusters. South Africa is a potential one in the south, Zaire in the center, assuming political reform, Nigeria in the west, and Algeria in the north. All of these countries represent, in my opinion, potential growth poles around which sustainable business and economic activity can be developed.

In addition, the integration of fiscal and monetary policies which are now being promoted through regional economic groupings, will also lead to better movement of goods and services, and people across borders. In this regard, let me just touch upon what I believe Mr. Merghoub called the need for structural adjustment in the north. I believe what was being said was that no matter what we do in Africa to reform our economic systems, to be able to expand exports will require a conducive international environment.

I think that Mr. Merghoub is correct that we are not going to see UNCTAD turn around, we are not going to see the subsidies in the U.S. and in Europe to enable our production to be able to compete in those markets take place in any short period of time. But I think that there is room for maneuver within the context of regional economic integration to be able to lessen the effect of the failure to achieve structural adjustment in the northern industrial countries. This means being able, first of all, in our own economies and countries, to reduce the level of consumption, thereby freeing savings for investment. This means perhaps industrializing across borders to be able to benefit from our own comparative advantage as we more toward an interdependent world.

Finally, through improved systems of communication, education, information, governments will need to create the awareness and the consciousness to address lingering pockets of resistance to foreign investment. Many people know that as privatization measures are undertaken, there are growing concerns that this could lead to a re-colonization of the continent. I think that in this respect one needs policies that will prevent this from happening, but also an awareness that the way to avoid this is to ensure that African entrepreneurs take measures themselves to be able to take control of their economies.

One factor that has not been discussed in this regard is the role of flight capital in Africa's recovery. With the right measures in place, it is not inconceivable that a small percentage of the U.S. $51 billion in Africa's capital resources represented in the form of capital that has fled the continent to havens abroad, might be attracted back for domestic investment.

All of these measures can be reduced, I think, to one word: confidence. Private enterprise, and private investment will increase in Africa when there is confidence in the safety and the security and the profitability of such investment. Such confidence comes not only from economic performance, but from all of the measures which we have been discussing in these last few hours.

In closing, I want to throw out some suggestions that came to me from the local head of an international accounting firm, Coopers and Lybrand, when I was in Phoenix, Arizona, speaking to the local Chamber of Commerce about the potential for investment in Africa. They extend some of the discussion which we have undertaken here today, and in this sense, may contribute to accelerating Africa's economic recovery.

These three suggestions were called critical pre-requisites for attracting additional U.S. involvement in Africa, and as a means of creating investor confidence. First is the recruitment of African management trainees who work in the United States for a number of years and then would return home to manage local enterprises. Second, American management should be charged with the task of establishing African operations for a number of years and then hand them over to local mangers once they have been trained. Third, the Coopers and Lybrand executive suggested that there be an institutionalized system of management training, drawing on the services of internationally aware consultants to act as liaisons between the U.S. investor and African investors.

All of these measures increase the flow of information and enhance the transfer of managerial skills. This point was addressed today in the context of much of the activities of the U.S.-Africa Chamber of Commerce, the ADB Busines Roundtable, and other similar types of institutions which facilitate the flow of information between potential or existing businesses in Africa, on the one hand, and those in the U.S. on the other.

Finally, we should not underestimate the need to address the problem of image, formulated from news stories in major dailies such as the *New York Times* and the *Wall Street Journal.* It is from such sources that Boards of Directors, managers, and potential investors formulate their views and make their decisions on investment in Africa. Africa has made major economic reforms and the positive changes and gains which have been achieved must not be lost in the process. Thank you for the opportunity to talk with you.

Discussion

Phillip LeBel, CERAF.

Thank you for a very concise address. One personal note I wanted to add to reflect her commitment to African issues, she has agreed to serve as advisor to the Journal of African Finance and Economic Development, which was mentioned this morning. I cite this to emphasize her dedication as well as her experience on a number of these issues. Before I turn over our discussion to members of our audience, I would like to introduce a number of distinguished guests. First, in addition to Dean Albert Rossetti of the School of Business, we also have Dean Philip S. Cohen of the School of Humanities and Social

Sciences. Dean Cohen has provided strong support for CERAF and, along with Dean Rossetti, is a member of our advisory board.

I am also pleased to introduce Robert Allison, director of research management at the National Bureau of Economic Research, and who is also a member of the CERAF advisory board. In addition, let me introduce Ms. Susan Nanney, director of research and sponsored programs at Montclair State, and through her role as a member of the Global Education Center, she has been instrumental in helping us to sponsor our annual conference series as well as the research monograph series.

Finally, let me introduce Mr. Paul Mifsud, General Counsel of KLM Airways and a member of the CERAF advisory board. Paul has been instrumental in helping me to shape our conference agenda and in numerous other ways. And, with these introductions, let me now turn to our audience for additional questions, whether in reference to Ms. Johnson-Sirleaf's address or in reference to presentations made earlier today.

Paul Kadjo, International Economic Consultant

My first point is to request that in order to really discuss African issues, one has to take the voice of the majority in Africa. As an African, I think the voice of the majority comes from rural Africa, from the villages where most of the population confront these issues on a day to day basis. At most, cities in Africa comprise one-third of the continent's population. I would thus suggest that you try to incorporate a majoritarian perspective in your deliberations, such as an African chief, to share in these deliberations.

The second point is that in order to discuss the development of Africa, one has to take a long-term historical perspective. One has to look at history, before the period of European penetration of Africa, to gain insight into some of the issues which we are discussing.

Pre-colonial Africa had a number of vibrant social institutions, a well-developed system of government, and geographically vast systems of regional and international trade. One line extended from Nouakchott, Mauritania to Mogadishu, Somalia. Another went from Cairo to Brazzaville, to cite but two examples. With the arrival of European colonialism, these systems were destroyed. Because of this disruption, a psychological environment emerged in which Africans have come to be perceived as unaccomplished and incapable of sustaining themselves in the global economic environment in which we live. Until this psychological environment is changed, we will make little progress toward the kinds of positive institutions and goals of which we have been speaking.

In order to propose a program of African development, one can not simply do so solely on the basis of structural adjustment as outlined by the World Bank, the IMF, and other international financial institutions. One has to address the issue from a macro-perspective, which when considered in light of what I have just said, might be thought of as macro-societal adjustment, but it should be an entire grouping of all of the mechanisms that comprise the institutional fabric of African society. I would thus like to know if the African Development Bank program provides a focus for managers to incorporate the perspectives of those living in a representative context of the adjustment policies which are being implemented. Does the Bank have a clear idea of their perceptions of what their needs are, and whether soft or hard programming of these choices is appropriate?

Belhaj Merghoub, African Development Bank

I think you are asking a difficult question. Let me try to answer it in the following manner. First of all, while it is true that you have to look at history, I think we should not forget the future. Economics is a universal science, and, as in physics, it has some laws which govern its predictions. In the beginning of this century, we saw the influence of Marx as an alternative to the market. After 70 years, it has been demonstrated that you can not ignore the market.

What I am saying is that while tradition and history are important, I think if you want to raise living standards for the twenty-first century, you have to adopt new technologies, you have to communicate not by tam tam but by satellite, and so on. Therefore, where the African Development Bank stands in this issue is that we realize that broad-based participation is important. This is why, following the study made by the World Bank in 1989 on Long-Term Perspectives for Africa, we have developed with other partners such as the UNDP a set of national long-term perspective studies. This is even before the democratization push started in the continent.

The idea behind our long-term perspective studies is really to sit down with different leadership forces in a country, incorporating the concerns and ideas of women, of alternative political parties, and others, including traditional chiefs, to devise a suitable developmental vision for that particular country concerning its future course of action over a ten-year period. In so doing, we then seek to identify what are the appropriate steps to be undertaken to assist the country in the realization of this vision, and as this relates to the economic dimensions of structural adjustment on which the future living standards of a country depend so critically.

As has been pointed out today by Mr. Paul Ballard, the World Bank and other international financial institutions do not seek to fashion economic policies ex situ, but rather in collaboration with local policy leaders, and the essence of these policies is based on the perspectives put forth by leaders of those countries rather than by any set of external institutions. In short, we seek to devise policies based on as well developed a national consensus as possible, despite what you and some may see as a too narrowly focused agenda.

Phillip LeBel, CERAF

Let me share an insight that was made by Jennifer Seymour Whitaker, an African affairs specialist at the Council on Foreign Relations and keynote speaker at our first international conference in 1987. Speaking of the pressures on Africa today, she said that Africa is operating in a goldfish bowl. It is being subjected to the scrutiny of the outside world as it seeks to find ways to make adjustments to the external economic environment. She noted that, unlike the gradual gestation which accompanied European industrialization, African countries have had no such luxury of time, and that the absence of such time to gain perspective is often very disruptive to the local economic and social fabric. Such rapid adjustment does pose a threat to local customs.

I thus think that Paul Kadjo's point about the importance of local traditions is well taken. At the same time, it would seem appropriate to weigh this perspective in the context of the observation made by Mr. Merghoub, namely, that one can not devise policies for the future based largely on the past. The key is to find policies that are both forward looking and at the same time respectful of Africa's past traditions.

Kofi Boateng, President, Rising Sun Financial Services, Inc.

As an entrepreneur in the U.S., I have a comment to offer. In this era of political correctness, where we are all supposed to be members of a polite society, and therefore no use of words like neocolonialism and imperialism, I would like to ask a question of Mr. Merghoub and Mr. Ballard. To what extent is indigenization considered in the overall context of privatization?

What seems to be happening is that, despite the stated commitments by international development organizations to local considerations of equity, there are real risks of outside domination arising from the current thrust of privatization. Local populations become no longer empowered and this poses the potential for enormous social explosions, not unlike what we have just seen in the case of the Los Angeles riots arising from the verdict in the Rodney King decision.

Right now you have a restless group of people with few positive role models. They see much of this privatization as another invasion and plunder of their economy, following a sometimes desperate struggle in the immediate post-colonial period to restore national sovereignty to a more central place in society. In short, is indigenization given any priority at all in the current process of privatization?

Paul Ballard, the World Bank

I think that the question turns largely on what you mean by indigenization. The short answer is "yes". This is why, in my remarks this morning, we should look at privatization in the narrow sense of transfers of assets. Rather it should be thought of in its broad sense, which means that we have got to involve an integral process of policy reforms that allows for new African and foreign enterprises to help develop the economies of the continent.

I think that what you are seeing is that there is an enormous reservoir of indigenous capacity in Africa. We are not in 1960 in Africa - we are in 1990. We have a new generation of African entrepreneurs. I have been very impressed by this development, and have made reference to this change in my remarks today. This is why I think that this issue of opening up to the private sector is so important. Yes, clearly, there are going to be some difficulties regarding strategic choices governments are going to have to make.

I would just say that I do not think that African governments are in any way alone in this regard. Being British, and seeing what happened to the Western Helicopter affair, I think I can have some sympathy with what you are saying. I think we have to be very careful, though, not to let ourselves get caught up in indecision.

There is a tradeoff here as to what is in the best long-term interest of the country. It may well be that my working for a Japanese auto company in Tennessee provides me with important new skills which were not previously available. At the same time, we do think it is important to foster local innovation, which is why we are supporting the Africa Capacity-Building Initiative.

Structural adjustment is not simply a process of privatization. It is a broader process of reform which is designed to help create the resources to provide for the future development of such vital resources as Africa's human capital, which is crucial if Africa is going to participate in world markets.

Belhaj Merghoub, African Development Bank

I would agree one hundred percent with what Paul Ballard has just said. I think usually the fear of neo-colonialism is really the fear of the weak. People with such fears usually can not fight back. I think what is important in what we are doing in Africa is not only if you have the right capacity-building, but whether you have the right macro-policy in place, then in such circumstances, you should not be fearful of some neo-colonial specter.

If you have the right incentives, then the issue simply does not arise. By the way, we need to look at this process from a regional perspective. This means that it is not sufficient just to look at single countries such as Algeria, Liberia, or Senegal. We have to look at this in the context of a large ensemble of countries in a region. If you move to have the right kind of capacity, and if you have the right macro and micro-incentives, what you are able to achieve is probably the reverse. This means that there will be a flow of capital and labor towards those areas where capacity has been established.

Why, we should keep in mind, has money fled to financial havens in Europe or elsewhere? It is because there was not an enabling economic environment in Africa. Investments were subjected to excessive risk and thus anyone, as an individual, simply chose to maximize the return on investment for the least amount of risk, and the sad truth is that Africa was simply not a place that provided for such returns. Once you have devised a suitable economic environment in which there are some investment guarantees, in which the exchange rate is economically priced at something approximating the opportunity cost of resources, and in which inputs and outputs reflect these values, and in which there is exchange rate flexibility and convertibility, then this environment will simply not evolve.

If you take Botswana, for instance, this country is now attracting external capital flows from abroad. I remember being in Botswana on a mission for the trans-Kalahari road for the ADB. When we met to identify funding sources we found that the project was oversubscribed, and we had to turn back potential lenders. The government was in a position to choose the best financing, the best terms for the contracting, because everyone wants a piece of this investment. If in Africa, we succeed in turning around the policy environment, and provide for a strengthening of local capacity, we will not have to be worried about any such threats of neo-colonialism.

Ebenezer Akuete, AMEX International

I would like to add a voice to what has been said. One of the things that we should do as Ghanaians, as Nigerians, or as Sierra Leonians, is to stop looking beyond our own borders. To do so, we need to band together. I gave you the example of SOFIG, of two Guinean nationals raising almost U.S. $5 million to invest in economic revitalization in their own country. There are so many of us outside our national borders. We can do the same thing. To do so, we must get involved in our own development so that before foreigners come in and say their "hail Mary", we might have established ourselves, economically, said the “benediction”, and gone home.

Yohannes Abebe, Parsons Brinckerhoff, New York

My question refers to measures to reverse capital flows. One issue which has been given relatively little attention is the extent of debt overhang now faced by African countries. Already, African countries have been devoting a substantial share of export earnings simply to service their debt. Unless some way is found to address the burden of Africa's debt, either by debt rescheduling or by outright debt forgiveness, it will be very difficult for African countries to position themselves to deal fully with the context in which both structural adjustment and privatization are proceeding. What kinds of measures are being taken by the World Bank, for example, to deal with this issue?

Paul Ballard, the World Bank

I think you are raising a very important issue. I would add one rider to your question. Other than for countries like Nigeria, which has some short-term commercial debt, Africa's external debt to such organizations as the Paris and London clubs is largely sovereign public debt which has arisen from the over-extended intervention of the public sector into many areas of the economy which are simply unsustainable.

What we have been trying to do, and I think I can speak for both the World Bank and the African Development Bank as two institutions in this process, is to work with the countries involved to put together macro-economic reform packages and also to work with creditors in the Paris and London clubs to try to reach some kind of understanding about how the debt can actually be restructured. On a rolling basis, debt is, as you may well know, being periodically restructured. There are various mechanisms by which this has been happening. One is through meetings of the Paris and London clubs, in which there is either additional financing or some relief provided.

As you may know, the World Bank has put together a Special Program for Africa, which basically provides for this kind of arrangement. It consists of two things. Part of it is devoted to the flow of fresh external capital for African countries, and part of it is devoted to assist in debt relief.

Another way in which we are looking at this issue is to see how we can convert hard debt into soft debt. In some cases, we try to find ways to take commercial debt and convert it through a refinancing package into softer money. We have also been, in some cases, involved in working on the possibility of promoting debt to equity swaps.

The critical thing to bear in mind is the international environment in which these decisions are being made. Obviously, all players are interested in seeing to it that the macro-economic policies are fashioned in such a way that economic growth can be fostered in order to facilitate the debt burden. This harks back to what Mr. Belhaj Merghoub has just said, namely, the importance of getting the macro-policy framework clearly in place as part of the overall process.

Good macro-policies are the best guarantee that growth can come about, that debt servicing burdens can be reduced, and that governments can, when they need to do so, turn to capital markets without excessive risk premia, to finance the development of such critical sectors as education, health, and infrastructure on which so much of the country's economic future depends.

Belhaj Merghoub, African Development Bank

I think Mr. Boateng has raised a very important issue which has not been resolved. In the case of Algeria, where commercial debt is significant, rescheduling does play a major role in addressing the short-term dimensions of the problem. As with other countries, we are now trying to move beyond the Toronto initiative on debt, and we are seeing instances where there are direct write-offs of debt in the sense of the debt forgiveness of which you spoke.

Much public debt, however, has arisen from investments in the kinds of parastatal operations which we have been discussing today. Governments, as has been noted, in many instances wound up subsidizing and maintaining what were really unproductive investments in these enterprises, and thus adding to the level of national external debt. There are also debt buy-back arrangements that the World Bank has been involved with. The recently arranged for U.S. $100 million in debt buy-back arrangements, but I think that after 5 years, this will cease to operate because of the technical difficulties in getting this scheme to move along.

There are also medium-income countries such as Côte d'Ivoire and Cameroon who are finding their national product falling to a fraction of what it used to be because of the external shocks. Cocoa prices in Côte d'Ivoire have gone down by more than 50 percent. While interest rates and debt schedules have remained relatively fixed, when export earnings fall due to a drop in export prices, the debt service burden rises accordingly, thus leading to pressures for debt rescheduling or debt forgiveness. In such cases, the weakness in economic conditions of such countries reflects to no small extent such changes in the external economic environment, and thus compounds the difficulty in trying to implement internal economic reforms along the lines which we have been discussing.

The World Bank and the ADB are trying to put debt management in the agenda of creditor countries. It is a long process. As to our own debt, we can not reschedule it because we are banks that must obtain our capital from global financial markets at commercial rates of interest. Were our repayment schedules to fall into arrears, this would simply cause our interest rates to rise for both creditors and debtors, and thus dampen the flow of productive capital which we all seek to sustain and expand. As an example, Zaire owes the ADB over U.S. $100 million. This is going to reflect immediately on our balance sheets, and there is no other institution that is going to assist us in overcoming this debt. What I am saying is that there is a lot of work, and unfortunately, little political will to change existing patterns of debt management in the continent, and this is something which we would like to improve upon for the future.

Alfred Din, Economics and Finance Department, Montclair State University

Because Mr. Merghoub has mentioned the amount of work to be done, as well as the need to be optimistic, I am reminded of something that took place in Cameroon in 1985. At that time, I noticed a great burst of entrepreneurship in the economy. The only problem we saw was a lack of access by these entrepreneurs to sufficient capital to launch new business ventures.

While we are trying to get foreigners to invest in Africa, there is indeed a perception of differential risk of the kinds which we have described in some detail today. What is so striking is to note that so many local nationals with any financial means have for so long sought to invest their money abroad rather than in the local economy. This is, in short, a vote of no confidence which is most distressing.

When you look at the leadership in many of the developing countries, if these same leaders are taking their money outside of the country, it is really a discouragement for potential investors. What kind of pressure, or conditions, that some of our international development institutions can place on the leaders of some of these developing countries to require that locals show confidence in their own economy in order to attract capital from abroad.

Paul Ballard, the World Bank

Your point is well taken. The only thing I would add is the essential role that African entrepreneurs play. If you look at the record elsewhere such as in Latin America, when you overcome the major macro-economic policy distortions, there has been a reverse flow of funds.

In the case of Nigeria, I know that when the second-tier foreign exchange market was introduced in 1986, there was also put along side it what was called the Own Funds Market, which is what you could call a legal and formal market. That market provided a very interesting bellweather to what was happening to capital flows. Was capital going out, was it coming in, and where was it going.

From the Nigerian experience, the interesting thing is that as long as the foreign exchange rate was realistic and there were realistic expectations that the government was prepared to pursue moderate fiscal policies, there was a tendency for foreign capital to come into the country, the only exceptions being where the depository rate of return, on an inflation-adjusted basis, in institutions abroad, tended to exceed the equivalent rate at home. The important thing is that macro-economic policy stability is crucial. At the same time, unless you can create suitable incentives for broader involvement for the local population, all of the dynamism which we are describing can not be expected to emerge.

Ellen Johnson-Sirleaf, Equator Advisory Services

Let me be a bit provocative for a moment. The burden of reform has to come from within. When you talk about indigenization or internalization of reform, let us not expect that it is going to come from Professor LeBel bringing a local chief to speak about it. You have to tell your president, or your minister of planning, to bring that chief to discuss it at home. They have got to involve them in that process. I think that this process of economic reform, discussed in the *Long-Term Perspective Study* of the World Bank now being supported by the international community, must bring into the process local economic agents such as marketeers, business people, and local leaders. This initiative must be taken by our own governments. It cannot be externally imposed.

Structural adjustment programs can not be World Bank programs. They have got to be our own programs. If the World Bank comes with a program which is a carbon copy of another program elsewhere and which does not meet local conditions, we have got to say to them "no, we do not want it". Let us sit down and prepare our own program and seek their support and assistance. Thus the message you raise is one you must send home and not here.

On the debt issues, the international institutions find themselves in a very difficult situation. The World Bank, to protect its own credit rating, can not have its own debt rescheduled. The same goes for the IMF and the African Development Bank. They have to sell their bonds in international capital markets. Hence, when you talk debt to them, this simply raises the cost of capital all around. When you look at the reasons for this debt, you should keep in mind that much of it came out of the failures of our own governments to establish proper priorities. Today, institutions like my own are private companies which lend money to an African country to service a loan from a multilateral institution for a cotton sector project that is non-performing. Again, it is a very difficult situation which we have got to deal with.

If we create a situation in which we get debt reduction, but in which we have not undertaken the necessary measures to restructure our economies to improve our efficiency, we will simply find ourselves in the same situation ten years later, with new debt that will come as a result of the poor measures which we will have failed to address. While it is true that some debt is being written off, by the U.S., by Canada, by France, and by other countries, debt relief has been minimal. The reason why this is so is that the major creditors, i.e., the multilateral institutions such as the IMF and the World Bank, do not embrace a formal policy of rescheduling. When arrears arise and adjustments have to be made, these institutions wind up, in effect, refinancing their credit. What this means is that if structural adjustment measures financed by these new credits do not work, the country will be worse off at the end of the reform period.

We have to make sure that while debt relief measures may be good and appreciated, we have got to make sure that we get incremental capital flows to support these reform measures and make sure that there is real growth taking place. Otherwise, ten years from now, we will be right back in debt with no capacity to rebuild. Reforms, in essence, must come from within.

The same can be said with regard to capital. Capital flows will result not only from conducive macro-measures on exchange and interest rates, but also from the confidence which each and every one of you will have in your own government. No matter what macro-measures are taken, if there is a lack of confidence that you can invest in your own country, and be assured that years later there will not be a coup d'état, or the destruction of your property or business, you simply will not invest there. Rather, you will invest in some other country which is perceived to be more investment friendly.

Admittedly, the destruction of property can occur in developed countries as well. It happened in Los Angeles and it has happened elsewhere. The difference is, what is an aberration in those countries, as exemplified by Los Angeles, is normal for us in Africa. Until we can reverse this situation we shall not move forward. If people are to commit investment resources, they must feel secure. To do so, we have got to take reasonable economic risks for our own countries, whether personal or capital risk, and to create the favorable conditions for it to occur.

The international community can do something to help in this regard. For example, a system of international reporting on capital flight could be devised and made readily available. By such transparency, people all over the world would have a better understanding of the flows of capital, legal and illegal. This exposition, properly discussed and reported on in the local press, would serve as additional pressure on governments to adopt suitable rights measures and maintain the right conditions to keep local capital at home.

Phillip LeBel, CERAF.

While it would be desirable to take additional questions, our time is growing short. I do not think we have done sufficient justice to our subject in so short a time, and I apologize to those of you who still have questions to ask. At this point, I think we will use the very spirited response by our keynote speaker to bring this conference to a close. I hope that you have learned and profited from this occasion. I am delighted that you have been able to be with us. I thank our panelists and our keynote speaker once again. We look forward to seeing many of you next year.

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Appendix A

Table 1

Basic Economic Development Indicators

	Population 1990, millions	Population 2000, millions	Growth Rate, 1990-2000	GNP per capita $U.S.1989	GDP per capita $U.S. 1990
All Africa	**627.0**	**866.0**	**3.28**	**$1,158**	**$633**
Sub-Saharan Africa	**480.0**	**677.2**	**3.50**	**$339**	**$373**
Angola	9.7	13.3	3.21	$624	$888
Benin	4.6	6.4	3.36	$394	$439
Botswana	1.2	1.8	4.14	$1,655	$2,593
Burkina Faso	8.8	12.1	3.24	$329	$360
Burundi	5.3	7.4	3.39	$223	$206
Cameroun	11.6	16.7	3.71	$1,028	$1,068
Cape Verde	0.4	0.5	2.26	$801	$898
CAR	3.0	4.1	3.17	$398	$459
Chad	5.5	7.3	2.87	$192	$231
Comoros	0.5	0.8	4.81	$473	$492
Congo	2.2	3.2	3.82	$974	$1,204
Côte d'Ivoire	11.7	17.6	4.17	$827	$855
Djibouti	0.4	0.6	4.14	$1,000	$1,133
Equatorial Guinea	0.4	0.5	2.26	$341	$393
Ethiopia	49.5	66.4	2.98	$126	$122
Gabon	1.1	1.6	3.82	$3,040	$3,978
Gambia	0.8	1.1	3.24	$245	$316
Ghana	14.4	20.6	3.65	$398	$392
Guinea	5.6	7.8	3.37	$439	$535
Guinea-Bissau	1.0	1.2	1.84	$184	$195
Kenya	23.5	35.1	4.09	$378	$390
Lesotho	1.7	2.4	3.51	$486	$303
Liberia	2.5	3.6	3.71	$520	$560
Madagascar	11.3	16.6	3.92	$233	$280
Malawi	8.2	12.5	4.31	$182	$213
Mali	8.2	12.7	4.47	$275	$300
Mauritania	1.9	2.7	3.58	$519	$557
Mauritius	1.1	1.2	0.87	$2,010	$2,290
Mozambique	15.3	20.5	2.97	$83	$86
Namibia	1.7	2.4	3.51	$1,060	$1,176
Niger	7.4	10.8	3.85	$301	$316
Nigeria	113.8	149.6	2.77	$257	$295
Rwanda	6.9	10.2	3.99	$327	$316
Sao Tomé & Principe	0.1	0.2	4.14	$353	$420
Senegal	7.2	9.7	3.03	$675	$794
Seychelles	0.1	0.2	4.14	$4,254	$3,200
Sierra Leone	4.0	5.4	3.05	$225	$239
Somalia	6.1	9.7	4.75	$140	$156
Sudan	24.5	33.6	3.21	$483	$505
Swaziland	0.8	1.1	3.24	$929	$829
Tanzania	23.8	39.6	5.22	$133	$110
Togo	3.5	4.9	3.42	$408	$463
Uganda	16.8	27.0	4.86	$220	$245
Zaire	34.5	49.2	3.61	$265	$277
Zambia	7.8	12.3	4.66	$407	$544
Zimbabwe	9.6	13.1	3.16	$670	$626
North Africa	**112.0**	**145.1**	**2.62**	**$1,161**	**$1,121**
Algeria	25.0	32.9	2.78	$2,382	$2,114
Egypt	51.0	64.2	2.33	$1,001	$654
Libya	4.2	6.5	4.46	$1,760	$540
Morocco	24.0	31.6	2.79	$447	$1,040
Tunisia	7.8	9.9	2.41	$164	$1,551
South Africa					
South Africa	35.0	43.7	2.24	$2,200	$2,645

Source: UNDP, *Human Development Report 1990;* World Bank, *World Development Report 1990* ; UNDP and World Bank, *African Development Indicators 1992* .

Table 2

Africa Basic Health Indicators

	GDP per capita $U.S. 1990	Life Expectancy at Birth, years	Under 5 Year Mortality Rate '1000, 1990	Average Daily Caloric Intake Kcal. per capita 1988	Safe Water Accessibility Rate 1988	Health Services Accessibility Rate 1988
All Africa	**633**	**54**	**144**	**2200**	**44**	**59**
Sub-Saharan Africa	**373**	**51**	**159**	**2007**	**36**	**54**
Angola	888	46	209	1725	30	18
Benin	439	51	155	2145	52	49
Botswana	2593	68	43	2269	54	61
Burkina Faso	360	48	193	2061	67	51
Burundi	206	50	98	2253	26	45
Cameroun	1068	57	118	2161	33	30
Cape Verde	898	67	47	2436	69	82
CAR	459	51	152	1980	30	65
Chad	231	47	201	1852	28	37
Comoros	492	55	124	2046	38	46
Congo	1204	54	165	2512	21	29
Côte d'Ivoire	855	53	140	2365	19	60
Djibouti	1133	49	183	2000	44	47
Equatorial Guinea	393	47	193	1922	21	26
Ethiopia	122	48	186	1658	16	21
Gabon	3978	54	149	2396	92	80
Gambia	316	44	221	2360	60	30
Ghana	392	55	129	2209	56	56
Guinea	535	43	219	2042	19	80
Guinea-Bissau	195	40	227	2690	21	15
Kenya	390	60	96	1973	30	30
Lesotho	303	57	127	2307	36	39
Liberia	560	54	174	2270	55	47
Madagascar	280	51	164	2101	32	41
Malawi	213	48	235	2009	56	27
Mali	300	48	220	2181	17	80
Mauritania	557	47	196	2528	18	40
Mauritius	2290	70	23	2679	100	94
Mozambique	86	49	194	1632	16	27
Namibia	1176	58	121	1889	50	51
Niger	316	46	207	2340	47	40
Nigeria	295	52	152	2039	46	61
Rwanda	316	49	188	1786	50	61
Sao Tomé & Principe	420	66	47	2657	29	26
Senegal	794	49	110	1989	53	75
Seychelles	3200	71	21	2146	83	89
Sierra Leone	239	42	239	1806	25	30
Somalia	156	48	204	1736	34	100
Sudan	505	51	160	1996	21	100
Swaziland	829	57	140	2548	34	37
Tanzania	110	50	138	2151	56	71
Togo	463	54	134	2133	55	30
Uganda	245	49	149	2013	20	41
Zaire	277	53	140	2034	33	83
Zambia	544	54	109	2026	59	90
Zimbabwe	626	64	50	2232	29	40
North Africa	**1121**	**62**	**86**	**3011**	**70**	**79**
Algeria	2114	65	80	2726	68	88
Egypt	654	60	94	3213	73	77
Libya	540	62	84	3384	97	90
Morocco	1040	62	86	2820	60	70
Tunisia	1551	67	51	2964	68	90
South Africa						
South Africa	2645	62	82	3035	65	58

Source: UNDP and the World Bank, *African Development Indicators 1992*

Table 3

Africa Basic Education Indicators

	GDP per capita $U.S. 1990	Adult Literacy Rate, 1989	Primary School Enrollment Ratio 1988	Secondary School Enrollment Ratio 1988	Public Education Expenditure to GNP Ratio 1986
All Africa	**633**	**51**	**71**	**26**	**3.5**
Sub-Saharan Africa	**373**	**50**	**66**	**17**	**2.9**
Angola	888	42	90	27	3.4
Benin	439	23	63	25	3.5
Botswana	2593	74	116	33	9.2
Burkina Faso	360	18	31	6	2.4
Burundi	206	50	70	8	2.8
Cameroun	1068	54	111	27	3.0
Cape Verde	898	66	109	16	2.9
CAR	459	38	67	11	5.3
Chad	231	30	51	6	2.0
Comoros	492	34	80	37	6.5
Congo	1204	57	75	39	5.0
Côte d'Ivoire	855	54	85	19	5.0
Djibouti	1133	27	46	15	2.7
Equatorial Guinea	393	50	41	10	2.1
Ethiopia	122	45	36	15	3.7
Gabon	3978	61	55	30	4.8
Gambia	316	27	61	16	4.6
Ghana	392	60	73	39	3.6
Guinea	535	24	30	9	3.0
Guinea-Bissau	195	36	53	6	2.8
Kenya	390	69	93	23	6.1
Lesotho	303	73	112	25	3.8
Liberia	560	39	70	33	4.4
Madagascar	280	80	97	19	3.5
Malawi	213	39	72	4	3.2
Mali	300	32	23	6	2.8
Mauritania	557	34	52	16	6.0
Mauritius	2290	75	105	53	3.1
Mozambique	86	33	68	5	3.4
Namibia	1176	55	60	36	1.9
Niger	316	28	30	7	4.0
Nigeria	295	51	62	16	1.4
Rwanda	316	50	64	6	3.2
Sao Tomé & Principe	420	28	138	24	8.0
Senegal	794	38	59	16	4.6
Seychelles	3200	61	72	38	8.5
Sierra Leone	239	21	53	18	3.0
Somalia	156	24	29	8	6.0
Sudan	505	27	59	17	4.0
Swaziland	829	70	105	44	6.2
Tanzania	110	60	66	4	1.7
Togo	463	43	101	24	6.5
Uganda	245	48	77	8	1.5
Zaire	277	72	76	22	0.4
Zambia	544	73	100	19	2.2
Zimbabwe	626	67	128	51	8.5
North Africa	**1121**	**52**	**88**	**59**	**5.7**
Algeria	2114	57	96	62	6.1
Egypt	654	48	90	69	5.5
Libya	540	64	91	83	10.1
Morocco	1040	49	67	36	5.0
Tunisia	1551	65	116	44	5.4
South Africa					
South Africa	2645	65	86	52	4.6

Source: UNDP, *Human Development Report 1991*.

Table 4

Africa Fiscal Indicators

	GDP per capita $U.S. 1990	Govt.Expenditure to GDP Ratio 1990	Public Share of External Debt 1989	Subsidy-Transfer Share of Govt.Exp 1987	Net ODA to Recipient GDP 1989
All Africa	**633**	**14.4**	**64.1**	**11.2**	**6.5**
Sub-Saharan Africa	**373**	**14.1**	**68.6**	**7.2**	**7.5**
Angola	888	27.9	n/a	n/a	1.1
Benin	439	10.7	65.5	n/a	9.0
Botswana	2593	20.0	91.4	21.4	4.8
Burkina Faso	360	12.9	85.9	15.8	8.0
Burundi	206	15.0	96.3	5.4	8.1
Cameroun	1068	11.7	65.0	5.0	2.7
Cape Verde	898	20.2	95.4	n/a	17.2
CAR	459	13.6	91.6	n/a	9.2
Chad	231	22.9	90.2	1.6	12.6
Comoros	492	30.0	92.6	7.4	15.9
Congo	1204	18.6	48.1	11.2	3.3
Côte d'Ivoire	855	18.0	35.0	n/a	2.8
Djibouti	1133	32.4	73.3	n/a	15.8
Equatorial Guinea	393	34.2	91.3	n/a	15.7
Ethiopia	122	26.4	84.5	6.6	6.3
Gabon	3978	19.0	58.9	5.8	3.4
Gambia	316	16.4	89.1	3.0	25.4
Ghana	392	7.5	92.9	9.0	6.7
Guinea	535	11.2	88.9	n/a	7.0
Guinea-Bissau	195	12.6	88.9	2.1	31.6
Kenya	390	18.4	66.4	13.0	7.4
Lesotho	303	26.0	89.5	5.5	14.5
Liberia	560	16.8	68.2	8.0	n/a
Madagascar	280	8.6	88.9	7.3	7.1
Malawi	213	15.5	92.1	6.4	11.4
Mali	300	11.0	96.9	3.9	15.0
Mauritania	557	9.7	89.8	n/a	15.9
Mauritius	2290	12.1	70.6	20.9	2.4
Mozambique	86	20.3	68.9	n/a	42.1
Namibia	1176	26.3	n/a	28.1	1.9
Niger	316	11.6	70.3	6.9	9.8
Nigeria	295	8.2	46.4	6.9	1.0
Rwanda	316	18.4	92.3	13.5	6.0
Sao Tomé & Principe	420	30.4	84.6	n/a	24.1
Senegal	794	14.3	87.9	n/a	11.6
Seychelles	3200	25.5	61.3	12.1	5.1
Sierra Leone	239	9.9	49.9	11.2	7.5
Somalia	156	26.4	90.3	23.8	24.4
Sudan	505	14.2	59.8	n/a	3.7
Swaziland	829	20.7	89.6	12.3	1.9
Tanzania	110	10.0	89.5	9.8	24.3
Togo	463	18.6	81.8	14.1	8.1
Uganda	245	6.8	87.6	n/a	5.0
Zaire	277	8.3	83.5	1.2	4.9
Zambia	544	15.5	64.4	23.2	7.2
Zimbabwe	626	24.3	46.1	31.0	3.9
North Africa	**1121**	**14.4**	**61.6**	**20.3**	**3.1**
Algeria	2114	18.2	29.3	n/a	0.2
Egypt	654	10.0	69.2	23.1	4.2
Libya	540	32.1	n/a	n/a	0.0
Morocco	1040	15.9	76.4	11.6	1.7
Tunisia	1551	16.2	69.9	29.2	1.7
South Africa					
South Africa	2645	18.6	17.3	25.2	...

Source: UNDP and World Bank, *African Development Indicators 1992* .

Table 5

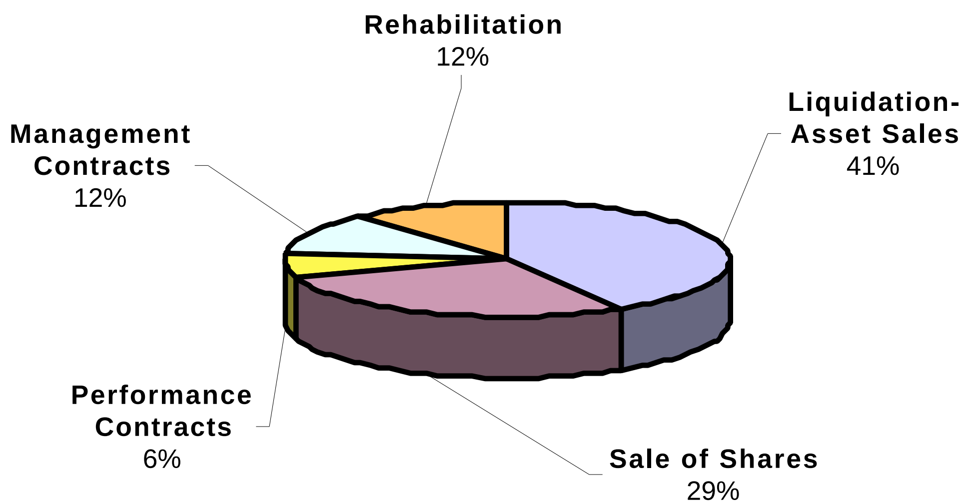
Public Enterprise in Africa

	GDP per capita $U.S. 1990	Number of Public Enterprises 1989	Public Enterprise Share of External Debt, 1989
All Africa	**633**	**2782**	**11.23**
Sub-Saharan Africa	**373**	**2135**	**8.16**
Angola	888	...	n/a
Benin	439	36	26.06
Botswana	2593	48	21.91
Burkina Faso	360	49	4.85
Burundi	206	42	0.52
Cameroun	1068	55	10.96
Cape Verde	898	...	20.60
CAR	459	35	11.60
Chad	231	13	7.36
Comoros	492	12	2.28
Congo	1204	82	15.09
Côte d'Ivoire	855	62	4.97
Djibouti	1133	19	...
Equatorial Guinea	393	...	0.79
Ethiopia	122	57	13.63
Gabon	3978	32	4.77
Gambia	316	16	1.40
Ghana	392	208	7.15
Guinea	535	27	...
Guinea-Bissau	195	22	0.09
Kenya	390	108	15.38
Lesotho	303	32	2.50
Liberia	560	16	8.16
Madagascar	280	104	13.41
Malawi	213	25	4.48
Mali	300	57	0.51
Mauritania	557	32	17.11
Mauritius	2290	31	18.61
Mozambique	86	...	9.48
Namibia	1176	...	...
Niger	316	23	2.97
Nigeria	295	94	6.69
Rwanda	316	29	...
Sao Tomé & Principe	420	...	...
Senegal	794	87	4.24
Seychelles	3200	35	8.08
Sierra Leone	239	25	3.47
Somalia	156	52	0.78
Sudan	505	38	0.80
Swaziland	829	14	11.56
Tanzania	110	197	4.72
Togo	463	42	3.96
Uganda	245	69	4.17
Zaire	277	40	13.97
Zambia	544	146	12.91
Zimbabwe	626	24	10.23
North Africa	**1121**	**621**	**20.07**
Algeria	2114	441	27.55
Egypt	654	...	21.21
Libya	540	73	...
Morocco	1040	107	8.76
Tunisia	1551	...	18.66
South Africa			
South Africa	2645	26	...

Source: UNDP and World Bank, *African Development Indicators 1992* .

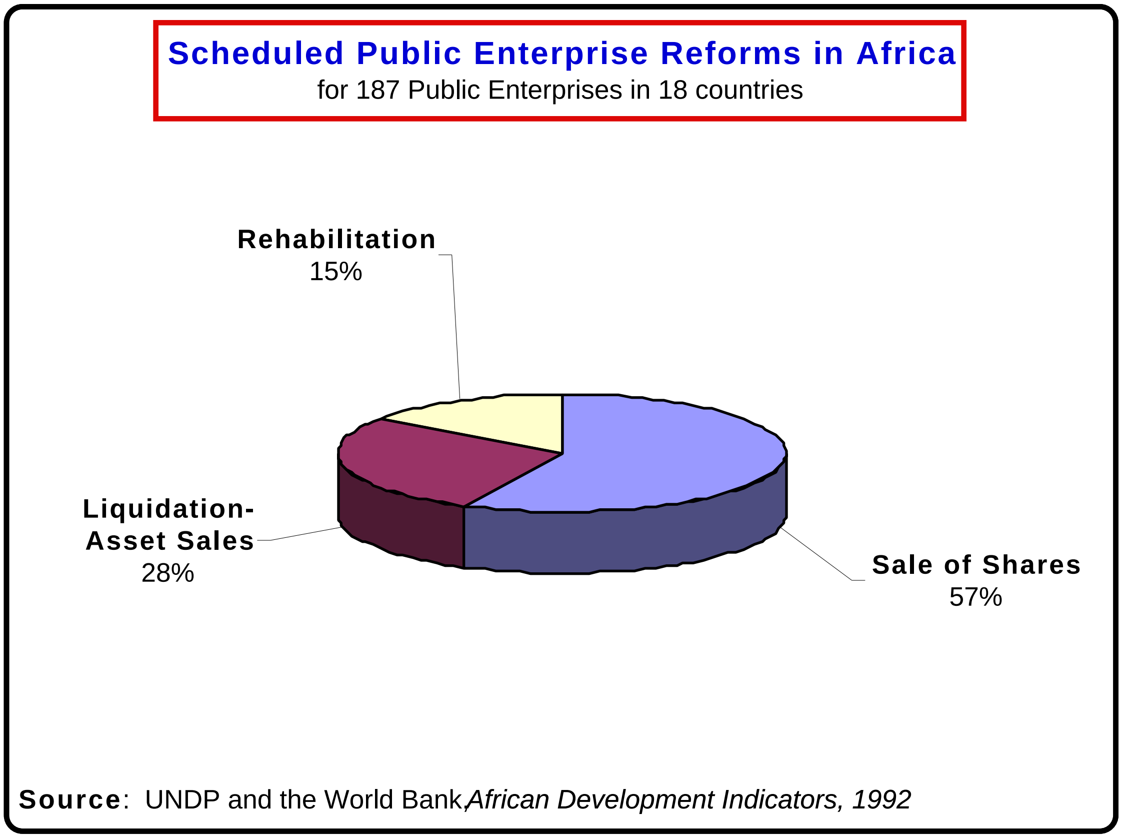
Figure 1

Public Enterprise Reforms in Africa
Key Reforms in 477 Enterprises, 1983-1990



Source: UNDP and the World Bank, *African Development Indicators, 1992*

Figure 2


Scheduled Public Enterprise Reforms in Africa
for 187 Public Enterprises in 18 countries
Rehabilitation
15%
Liquidation-
Asset Sales
28%
Sale of Shares
57%
Source: UNDP and the World Bank, African Development Indicators, 1992