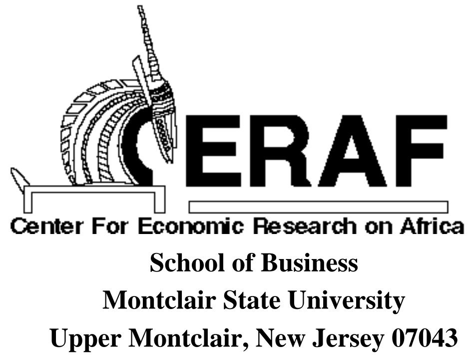

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Promoting Equity Markets in Africa

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Promoting Equity Markets in Africa
Proceedings of the Ninth International Conference
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Conference Program

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Longy O. Anyanwu, Ed.D., Acting Director, Center for Economic Research on Africa

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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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In Memory of:

Dr. Frank Kokuma
(1933-1996)
Department of Philosphy and Religion
Montclair State University

Welcome Address
Ninth CERAF International Conference, 1996

Longy 0. Anyanwu, Ph.D.
Acting Director, Center for Economic Research on Africa

Good morning, ladies and gentlemen. It is with great pleasure and honor that I welcome you all to the ninth annual conference organized by the Center for Economic Research on Africa at Montclair State University. We at the Center for Economic Research on Africa deem this conference on Promoting Equity Markets in Africa of major importance. We are therefore very gratified to see so many of you here today for today's presentations and discussion.

During the 1980's, the world community witnessed a number of major economic shocks. Chief among them was the sharp economic recession of the early 1980's, which spread quickly throughout the globe, and carried significant consequences for Africa. Not the least of these consequences was the end of the cold war, followed by the fall and disintegration of the Soviet Union, as well as the deterioration of already fragile economies of the third world, particularly for so many in Africa.

Economic advancement and growth have now become the world's most priceless pearl. It has become more so for developing countries whose prospects for growth and development have been further complicated by the lack of necessary economic stimulus and infrastructure, and by the fact that they face the same stiff international competition in business markets with the more advanced countries. The challenge for African countries is thus greater than at any time during the last thirty years.

In a summit of the African Heads of State last year in Addis Ababa, Ethiopia, leaders spoke of their concerns for the economically troubled continent. African countries have identified external debt, which is over $350 billion, an equivalent of nearly 85 percent of GDP, as the primary constraint to sustainable growth and development. Inherently, the debt overhang has been a disincentive, if not a deterrent, to domestic and foreign investments, and thus a constraint to development.

More than ever before, African countries are now poised for economic development and sustained growth. At the third African-American Summit held in Dakar, Senegal, attendees emphasized their commitment to see that increased trade and investment, education, and health projects are set up in African countries. In that conference, the U.S.

Secretary of Commerce, the late Ron Brown, said: "Trade, not aid, and power of Africans and African-owned enterprises in the international marketplace, will bring hope and progress to the continent".

In the United States, businesses have boosted capital spending for the fifth consecutive time in 1996, thus lending further stimulus to the continuing pace of economic expansion. At the same time, U.S. firms have also continued to provide a significant flow of investment to overseas markets, with direct foreign investment valued in excess of $U.S. 500 billion. However, little more than one percent of U.S. direct foreign investment has been placed in African markets, with the bulk going to North American, European, and Asian countries.

Britain alone accounted for sixteen percent of U.S. direct private foreign investment, even though Africa's GDP of $558 billion accounted for almost sixty percent of that of Britain's. While some of this disparity can be attributed to historical patterns of trade and investment, much of it can be tied to how well economic conditions are understood and followed by the international community, and it is in this area that Africa's economic potential is far greater than may first appear to be the case.

In launching the UN System-wide Special Initiative on Africa last month, the UN Secretary-General, Boutros Boutros-Ghali, underscored a global effort as a *sine qua non* ingredient for a successful economic transition in Africa. The internationalization of the economy and lowering of barriers to trade and investment are both inevitable and essential in this global village of ours.

Numerous trade and investment opportunities do exist in Africa. Over seventy-five percent of the active population in Africa is involved in the production and trade of commodities. Many industries have yet to emerge as economic restructuring continues. While some potential investors may wonder about the risks that Africa's transition presents, others are eager to take advantage of the increasing opportunities for trade and investment.

We are pleased to have a distinguished panel of experts discuss the topic of equity markets in Africa today. We strongly hope that this discourse will stimulate further thought and conversation on the topic, facilitate business and economic investments in Africa, and enrich scholarship. On behalf of the Center for Economic Research on Africa, I welcome all of you.

It is a pleasure for to me to introduce someone who has been responsible for the creation and operation of the Center for Economic Research on Africa for the past several years, the Dean of the School of Business, Dr. Philip LeBel. Due to a scheduling conflict, he could not be with us today, but has prepared a brief set of remarks that Dr. Glen Rawlins, Deputy Director of CERAF, has agreed to read.

CERAF 1996 Conference Greetings (I)

Phillip LeBel, Ph.D.
Founder, CERAF, and
Dean, School of Business

On behalf of Montclair State University and the School of Business, welcome to today's conference. This is the ninth in a series of conferences organized by the Center for Economic Research on Africa, and which today is being presented under the able leadership of Dr. Longy Anyanwu. Dr. Anyanwu is a new member of the faculty in the School of Business, and who accepted my offer this year to assume the directorship of CERAF while I continue with my responsibilities as Dean of the School of Business. While I have had to miss today's conference because of my participation in a School of Business accreditation meeting in Los Angeles, I want everyone here to know that Dr. Anyanwu is providing outstanding leadership for CERAF and for our School of Business, as I think you can see from the quality of today's event.

For those of you who are new to the Center for Economic Research on Africa, it was established in 1987 as a non-profit research institute housed at Montclair State. The primary goal continues to be to provide a forum for the production and exchange of information related to economic conditions and policies in Africa, how policies in Africa affect prospects for economic growth in the region, how U.S. international economic policies affect conditions in Africa, and how policies in the two regions affect the prospects for stronger mutual economic ties.

Not long ago we heard about famine in Somalia and Ethiopia, followed by brutal massacres in Rwanda, and now about a continuing civil conflict in Liberia. As many of you know, such news about Africa can be discouraging not just to Africans but to the world community at large. However, as painful and tragic as these events may be, they do not represent all of what is taking place in Africa, and which is why CERAF continues to provide a window of communications for other important changes which are now taking place.

For more than ten years, African countries have been engaged in a difficult process of economic reform. This reform has been driven by poor rates of economic growth in the region, combined with a powerful set of economic and political change taking place outside the continent. One of the most striking changes has been the collapse of the Soviet Union and its shift from a central command economy to a market economy along

western institutional lines. Another has been the continuing dramatic changes in the Pacific Rim, notably the relatively rapid rates of economic growth of the Pacific Tiger countries of Hong Kong, Taiwan, South Korea, Malaysia, and Thailand, and by the process of economic reform within the People's Republic of China. Thirdly, Latin American countries have also been undergoing a rapid economic transformation, with Argentina, Brazil, and Chile leading the way towards sustainable growth. Finally, there is the major impact of NAFTA, which has produced substantial change in economic growth for Mexico, Canada, and the United States.

In all of these regions, economic dislocation has been very much a part of the institutional landscape. At the same time, economic reform has produced a wave of economic growth and price stability not seen in a long time in the world economy. As these changes occur, it means that economic reform will be determined increasingly by global economic interdependence. For Africa, the process of economic reform will continue to transform its countries in ways far different from those at the outset of political independence in the early 1960's.

Economic reform in Africa has been characterized by a shift from protectionist policies to a more open and price-deregulated environment. As new industries arise and as existing ones are transformed by emerging market forces, the need for investment capital is expanding. Since governments are playing a smaller role in financing new investment in these economies, it is essential that new institutions be developed to encourage financial mediation in support of domestic industries. Equity markets in Africa represent a logical step for this process to take place. In many countries, new equity markets are being established at rates unheard of just a few years ago, while for others, existing equity markets are embracing new information technologies to assist in strengthening their economic efficiency and institutional integrity.

For today's conference, Dr. Anyanwu has assembled a distinguished list of experts to address the topic of equity markets in Africa. These individuals have first-hand familiarity with capital markets in Africa, how they are evolving, what differences they are making in promoting domestic capital formation, and how these changes are having an impact on economic growth throughout the continent. As many of you will see, new partnerships characterize many of these innovations, and what they promise is a far brighter economic horizon in Africa than has been the case for many years.

I know that today's conference will provide valuable information on equity markets in Africa. I wish you all the very best success at today's event and to your participation in future conferences of the Center for Economic Research on Africa.

Let me now take this opportunity to introduce a friend and supporter of Montclair State University, Mayor Cardell Cooper, of East Orange. As some of you may know, Mayor Cooper is a graduate of Montclair State University and has demonstrated an abiding interest in events in Africa. We are thus pleased to have him extend greetings to you at this event.

CERAF 1996 Conference Greetings (II)

Honorable Cardell Cooper
Mayor, City of East Orange, NJ

Good morning. We are here to talk about dollars and cents and transforming the world, looking at what has been viewed as third world countries and recognizing their importance to the world economy. And your hosts have the nerve to invite me, a former student of Montclair State Universtiy, to talk to you today.

When Dr. Anyanwu called and said that it is important for me, as a former student, to speak briefly to you today, I recalled much of my student days and where I have since gone. When I was a student here at Montclair State University, I was much like many of you. I would come as often as we could to events such as these. I grew up in Newark, New Jersey, and arrived on the campus of this University just after the riots of 1967. My mother raised eleven hard-headed boys in the City of Newark. But for the Educational Opportunity Fund, or EOF, I would not have been on this campus or any other campus because we simply could not afford it.

A lot came out of my experience of being here and understanding the importance of education. By broadening our horizons beyond this campus, and outside of this state and outside of this nation, I found it very difficult to believe some twenty years ago that I would have the opportunity to not only travel around the world, not only to be part of the dynamics that are shaping the global market, but also to represent a city which is considered small in the scheme of things.

That was twenty-four years ago. The things that I learned at this institution, and the opportunity some twenty-four years later to put into practice, is really a great honor for

me to acknowledge at an event such as this. I am thus very pleased to be a graduate of this institution, which has come a long way since its days as Montclair State College to the Montclair State University that it is today.

When I was asked to speak this morning, I thought I would share some of our efforts to cultivate ties with Africa. Just a few years ago, we led a trade delegation to Ghana on behalf of the State of New Jersey, under the leadership of then former Governor, Jim Florio. We took forty-four business leaders and a group of educators to Ghana. What we found on our trip was quite interesting. While there is the abstract level of economics, what made this so moving to us was the opportunity to meet people face to face to establish an ongoing relationship. This relationship, which began just two years ago, is something that continues to grow even today.

As I speak this morning, my Director of Department of Economic Development is on a plane back from Ghana now, having been there for three weeks, again working with the various businesses and relationships which were established during our initial visit. I think it is important for us to understand that Africa is indeed important in terms of the overall global economy. I had the opportunity to travel to South Africa last August, and I will tell you that the most important thing I have seen so far is this notion of partnering up.

Through the Sister Cities International Program and USAID, we were able to put together a delegation of mayors, from across this country, both mid-sized cities and large cities, who traveled to South Africa to represent the United States Conference of Mayors and Sister Cities International. And what we discovered there once again was the ability to communicate and partner up with people. It is a risky business right now.

People say investment in Africa is a very difficult proposition based not only on the instability in the government in certain quarters, but the will to truly invest. Well, let me say to you that my dear friend, the late Secretary of Commerce Ron Brown, understood what the global economy is all about. And one of the things that I believe the Commerce Department, and other agencies within the United States Government, have done is to make sure that we do not simply view Africa as a third world country, but look upon Africa as a player in the global economy and to assist in the development of the nations there because it is important to our own economic survival.

In the city that I represent, we have a large African population, from Nigeria, from Ghana, and from other parts of Africa. I will tell you that the business and the things that

they're involved in have made a major impact, even though many of those in business in our community operate small scale enterprises.

Small businesses or small entrepreneurs, our African partners are doing a job, employing people, creating products, exchanging information, and in general contributing to the growth of our community. I think it is absolutely essential that we understand the dynamics of what that means from my perspective. I know that you have some great speakers this morning who will be able to cite the facts and numbers which provide us with an important global perspective, but I also want to emphasize that it is this human dimension that was so central to our mission to Africa that has made such a difference in how we have been able to build on the economy of our community.

Not long ago, the IMF described Ghana recently as the darling country for African economic reform. Part of that description came because there was an absence of civil discord and unrest in Ghana, and because Ghanaians were make enormous efforts to privatize what had hitherto been largely a government enterprise economy. As Ghana embraced economic reform, they re-valued their currency. They also took steps to move in a new direction and as a result of that they were able to play out on a larger scale.

Ghana itself is not the answer, or panacea, for the problems on the continent. Yet it is a beacon of light that says that if we work collectively together, improvements that we can make can be phenomenal. Having been to Ghana, I have not only lived that experience, but also most recently have had the opportunity to strengthen this role as the process of reform unfolds.

Recently, we were able to meet with Lieutenant Jerry Rawlings, the President of Ghana, in New York. A host delegation gave a wonderful reception for him on the U.S.S Intrepid. I never realized that you could get that many people in an aircraft carrier and have such a good time. The people who heard President Rawlings talk about the future of Ghana were impressed with his command of knowledge in terms of the economy and his willingness to work the problems through.

Finally, I think that is important to us to recognize that when we talk about promoting markets in Africa, we must recognize that there are limited opportunities at times to gain the kind of knowledge that is so essential to building long-lasting partnerships. All too often our perceptions are shaped by what happens on CNN news, for thirty seconds, and this can take the form of dramatic headlines that do not tell the whole story. And so, when you think of a picture of Africa, what may come to mind is a civil war in Liberia or

in Uganda, or in Somalia, and these images do not tell about some of the positive things that are taking place in a country such as Ghana.

As long as we allow our perceptions to be shaped by thirty second sound bites, we are bound to walk away with a very distorted picture of what is taking place in Africa, and as a result we will forsake the opportunity for important economic, social, and cultural partnerships in which both regions can benefit. We thus need to look at our role in this country, to look to partnership opportunities with African countries, and to note that we have a positive role to help stabilize economies tomove to a truly global market in which there is a benefit to all concerned.

Due to my schedule, I regret that I can not be with you for the remainder of this conference. Let me simply say that it is an honor and privilege for me to be welcomed back to Montclair State University and at the same time, welcome all of you to what I would hope to be a dynamic conference this morning and to all the participants, I certainly wish you well and am sure that everyone will enjoy your presentations.

Longy Anyanwu, CERAF

Before we begin the second session of today's program, I would like to make a few announcements. If there are people who are interested in staying for the luncheon, would they please register with Ms. Kim Harrison at the conference room entrance.

Let me now introduce our first principal speaker. In so doing, let me note that all of our speakers, have not only studied economics but have devoted the greater part of their lives in issues of economic policy. They have also had not just the opportunity to vist Africa, but also to learn first hand about the kinds of alternatives that are the keys to success for African economic reform.

Our first speaker is Mr. Kevin Murphy. He received his Bachelor's degree in Economics from the School of Foreign Serivce of Georgetown University, and then went on to earn an MBA from the Harvard Business School. He has provided leadership to a number of policy-based institutions and is currently President of Austin Associates, an organization that has been instrumental in the development of some models which we will hear about in a little while. Mr. Murphy also has written extensively on economic issues including a USAID Manual for Action in the Private Sector. Please welcome, ladies and gentlemen, Mr. Kevin Murphy.

Worldwide Experience In Alternative Privatization Financing Methods: Lessons Learned Relevant To Africa

Kevin Murphy
Offices of AFRISD and GIEGIEIR
U.S. Agency for International Development

Good morning ladies and gentlemen. It is really an honor and a pleasure to be with you today. Originally, Mr. Michael Unger, of the United States Agency for International Development, was to have been here. He was unexpectedly called away to Africa. I was with him on Saturday when he left me to join a mission for the Agency for International Development in South Africa, where he will be through this week. Michael and I have worked closely together over the years. Indeed, I also worked with Michael's predecessor at the Bureau for Africa of USAID. We have worked with the AID Bureau of Africa for about 10 years, and, as was mentioned, we prepared the Manual for Action in the Private Sector.

The approach to private sector development put forth in our book has been implemented in over fifteen countries in Africa alone. Last year, I worked with the UN development Programme, of which we have a representative today, developing the private sector guide which they put into the hands of their some fifty resident representatives at last year's conference in Ouagadougou, of all of the heads of the UNDP country offices in Africa.

Michael and I worked together on issues of privatization in capital markets in Africa. Since we have almost learned how to think alike, Michael felt confident in sending me up here to speak in his stead. I will try to do justice to his confidence.

How Does an Investor View Opportunities in Africa Today?

Let me begin my presentation today in reference to Jimmy Rogers, one of the most successful investors in the world who became a multi-millionaire with George Soros, and then decided to retire. When Jimmy Rogers retired at age forty-something, he decided to go around the world on a motorcycle with his girlfriend. When he got back many months later after many adventures, he noted two things that caught my attention.

One is that that on the CNBC financial news program he often referred to one of the best investments currently in the world, which stunned everyone, because he said it was farmland in Africa. Now for this to have come from a financial guru, who is usually

talking about sophisticated derivatives and other kinds of things, really caught the attention of a lot of people.

I read Jimmy Rogers' book, *The Investment Biker*, and also noted that one of the countries he visited and concluded had some of the greatest investment opportunities, was an African country, Botswana. Indeed, a few years ago we looked around the world for the highest growing countries over a long period of time, a generation, and interestingly enough, at that particular time, it was not one of the Asian Dragons. Rather, the number one growth country in the world was Botswana.

Botswana is a relatively small country and much of its growth and wealth has been generated by its production and export of diamonds. Nonetheless, Botswana's use of its export trade to promote investment in human resources and economic growth provides one of the most excellent examples of good stewardship of resources that we can look to in today's global economy.

How one manages the difficult question of privatization and nurturing the growth of financial markets is not an easy task. It certainly is not a topic that lends itself readily to a conference lecture such as our meeting today. I was trained in the case study method where everybody participates and the wealth of information analysis and experiences of everyone is brought to bear. Although I will provide you with a somewhat structured presentation, I think that one of the more productive parts of our time will be when we are able to discuss the underlying questions.

Privatization With Empowerment and Indigenization

The first question I raise is how will African countries make the trade-off between the objectives of economic efficiency in privatization, that is putting inefficient enterprises in the hands of those who can manage them well, and the social objectives of economic empowerment and indigenization? How are we going manage that trade off? It is a very important issue right now faced by most countries.

The private sector in many African countries is synonymous with foreigners, economic élites, or privileged families. We do not have economic empowerment, we do not have indigenization of the economy. So if you are going to put policies that promote the private sector immediately, people say well that's not us, that's those guys, we've got a problem there. What needs to be done is to open the gates, to lower the barriers to entry, and to really achieve true economic empowerment where everyone participates and have indigenization of the economy.

We know that in West Africa, the Lebanese are very active; in East Africa it is the Asians; in South Africa the private sector is in white, or foreign, hands. This pattern is similar to what you might find in other parts of the global economy. Sometimes you find the private sector in the hands of ex-criminals, or dominated by certain privileged families.

Now if you talk about private sector development, the majority of people in many countries do not feel that this is something that is going to benefit them. If you talk about economic growth, if you talk about privatization, if you talk about all the things that you are focusing on now, for sustained development, most people do not feel a part of the team. So question number one is how will we make the trade-off between the objectives of economic efficiency and the social objectives of empowerment and indigenization?

Here is my second question: We see that state-owned enterprises are being privatized in many countires with a social objective in mind. Indigenization is not just having the economy in the hands of the state, but in the hands of the people. Well, if most of these enterprises need an infusion of capital to modernize, then how will the masses of people, who could become share owners, or the managers and employees who would like to be economic stake- holders, how are they going to participate if they do not have the capital that is required to inject into these enterprises to bring them up to modern competitive standards? How will we deal with the need for infusion of capital and the simultaneous desire for massive participation?

My third question is whether there is political will? State-owned enterprises are often used for political patronage or for financing the incumbent government. Let me cite, for example, an example from the Caribbean, namely, the Dominican Republic. In the Dominican Republic, the electric company is in the hands of the government. Electric power service is available for between three and five hours a day. The system is terribly inefficient, but it has been maintained that way for many years because everyone else that would bid contracts for generators, big capital contracts, are indeed the companies that will make pay-offs to the government and that is the way they fund their political parties and staying in power.

This kind of paralysis is not a secret, not an allegation, but rather simply something that everybody knows and takes as a given. Now, if you are going to transfer power or control over a state resource to the private sector, the government will lose control and many times lose sources of revenue that exist, whether over the table or under the table.

But when things reach a point of a near total collapse of a firm because it has failed to modernize, and when the most efficient way to modernize is through privatization, the question is whether there is sufficient political will to do what is necessary to improve the operation of the firm.

The reluctance to privatize electric companies and telecoms and other companies is not just the hemorrhaging of political capital for governments long used to monopoly contracts. It also serves as a drag to all of the companies and all of the private sector that depend on these resources for their ability to do business. Worse yet, it has a disproportionate effect on the poorest and the smallest of enterprises. For example, if you can't get electric power and you're a big company, you buy and install a generator. If you are a small enterprise, what can you do? You have to wait until the power comes back on. So, it has a terrible effect on small enterprises, but is there really political will to make a fundamental change in policy when so much political capital may be at stake?

Promoting User-Friendly Investment Codes

Let me give you another example. On a visit to Africa, I was scheduled to meet with deputy ministers to work with them on new policies to promote the private sector. The first thing I did was to read from their investment code, chapter and verse. I said this is the first thing that a foreign investor, for example, might read as he gets off the plane. This particular code says that if you can not provide XYZ reporting on a timely basis you could be subject to a fine of such and such and jail for up to 90 days. Now if you were reading this after having just arrived in the country and you realize that you forgot, or did not realize, that you were supposed to file certain reports by a certain deadline, and that the consequences for this might that you could be thrown in jail, you come to some investment decisions fairly quickly. One is that you may well simply decide to walk back up the ramp to the plane and leave for a country that has a somewhat friendlier investment code.

When I recounted this story to my African counterparts, it stimulated a lively debate for about an hour at the end of which one of the deputy ministers said okay, well I think we've got the solution to this one. We'll keep the law the same, but we'll give something different to the investors when they walk off the plane and come to visit our countries. So, the message really didn't get across, because there really wasn't the political will to make a change. In short, local officials may find it difficult, if not impossible to change the rules to attract more foreign investment.

My fourth question is how can privatization not only help financial markets, but how can financial markets help privatization? There is kind of a virtual circle here, since we are not talking about a one-way street. We need financial markets to do privatization, but also privatization to contribute to the development of financial markets. Let me give you another example to illustrate this point.

Strengthening Established Equity Markets in Africa

Last year I was in the southern end of Africa, where discussion were taking place on the creation of a regional stock exchange, that is, a stock market on which a number of countries could list themselves. Now, they weren't looking particularly to Johannesburg because they were concerned about financial domination from Japan in that market. So a number of the other states were looking for another place to have the regional stock exchange.

Mauritius and Botswana were two countries that were cited. What we found was that even more important than creating another institution, is that if you can simply harmonize the standards, the listings, the accounting, if you just harmonize the rules, regulations, procedures, reporting, etc., then you will automatically get a cross listing on different exchanges. And all we have to look at really for an example is the Jamaica stock exchange which serves as an outlet for many Caribbean countries. So, that is just one thing that we found with regard to financial markets.

Developing Market Niches for African Products

Let me say a few things about financial market development and privatization. In so doing, I want to address the different kinds of financial instruments for privatization transactions and some of the conclusions and implications for the financing and privatization in Africa. First of all, I think I would like to mention as well that in the countries that I have worked in, Kenya, Ghana, Ivory Coast, South Africa, Botswana, Zimbabwe, Zaire, and Cameron, I find that many of the problems are similar. While you do have differences between West Africa, East Africa and South Africa, I find that across different regions, many of the problems are very similar. And again, the opportunities that we are seeing now I think are attracting more and more international attention.

Again, an example can illustrate this point. A team that I once headed also was working in Rwanda, at a time before the most recent problems that we are now reading about. Rwanda is a land-locked country and depends on other countries to conduct its international trade, which is largely agricultural. Our study of Rwanda came up with some interesting observations about private market opportunities. For example, Rwandan

producers grow special strains of coffee that are naturally low in caffeine, and which are also ecologically beneficial. Rwandan coffee is generally produced without the use of pesticides such as is done in the case of coffee from Columbia, Brazil, and a number of Latin American countries. The significance of all of this is that Rwanda could get a premium price for their product, but this was not yet something on which Rwandan producers had been able to capitalize because of a lack of proper marketing initiatives.

The point of the Rwandan coffee example is that it shows that even in some of the presumably more stressed countries in Africa, there are some astonishing market opportunities. In Mozambique, for example, the shellfish and shrimp are incredible. Namibia has some of the best fishing areas in the world. To this we add the story of Ethiopian coffee. We know that it is not only the origin of all the worlds' coffee, but even during the worst years of the difficulties of the past decade, they continued to export very high quality coffee to Europe.

A few other examples are also worth noting. We also see an explosion now in some of the textile manufacturing areas. For example, in Mauritius, we see a country that first was really a fairly modest country producing primarily sugar.Then they decided to try something different. They set up free trade zones and became one of the manufacturing powerhouses in the textile industry. But they didn't settle there and rest on their laurels. They then began actively promoting tourism. And once they did, they began thinking about the next step to become a regional financial center. What Mauritius did was to develop an overlapping set of strategies to take advantage of evolving opportunities rather than relying on one product or commodityu, and they succeeded enormously.

Let us contrast this with a few less encouraging examples. Countries which have the benefit of a large wealth of a particular mineral or petroleum oftentime tend to neglect development of other sectors. Nigeria, with its heavy dependence on petroleum exports, Gabon with its forestry and oil production, and Venezuela with its oil provide good examples. In all three cases, so much emphasis was given to a limited number of sectors that the overall economy became vulnerable to global downturns in the export markets on which they depended for much of their earnings.

Constraints on Privatization Opportunities

Now to some of the constraining factors to financial market development which also impinge on the privatization efforts. First are low levels of per capita income, the result being as a low level of savings. There is also in many developing countries in Africa a skewed income distribution, which means that there is a concentration of capital

resources. The economic concentration is in but a few sectors. So that means there are limited investment opportunities.

Inflation has also diminished the ability of people to save and invest. High debts have meant limited capital availability as the governments oftentimes are using up a lot of the capital that might be available. Management inexperience in financial and other sectors has also inhibited performance of banks. And the lack of real assets has decreased the supply of funds.

In case this list seems incomplete, let me add a few other considerations. In many countries one of the things that reduces the growth of financial markets is that many companies are in family hands, and because of the intrusive government policies, these companies can be somewhat secretive because they do not want to be taxed away. As a result, there is a fear of losing control, and they are not going to publicly disclose and list on an exchange, even if they need some capital.

Let us look at the impact of government ownership on the performance of firms. The short answer is that government ownership has reduced overall economic efficiency. To give you an example, I was asked to do a private sector assessment in Kenya back in the late 80s, and everyone I talked to told me the problem is insufficient investment. That seemed logical to me since, if you want to get economic growth, you've got to have investment. Indeed, usually it takes about three units of investment to get one unit of growth.

We began our study and we found something very interesting. Kenya had a relatively acceptable level of investment, 15 to 18 percent of GDP was going to investment every year. Now, this should be creating economic growth between 5 and 6%. So, we're there scratching our heads. Everybody is saying we need more investment, but somehow we've got an acceptable level of investment. What is the problem?

The problem was not the quantity of investment, the problem was the quality of investment. What do we mean by that? We mean that people may have resources to invest, investment may be taking place, but it may be the government is investing in state-owned enterprises, or it may also be a very highly protected private sector in which the tariff goals are very high. Many of these companies that we saw outside of Monrovia and other places were operating at maybe 40 or 50 percent of capacity and they were actually able to break even or return profit even at that very inefficient level of capacity

utilization. So one of the problems was the quality of investment and not so much the quantity of the investment.

Interest rate ceilings in many African countries also lower the ability of banks to attract funds. Excessive regulation has prevented some companies from investing in other areas. This has taken place as regulations have been targeted toward reciprocation, excessive taxation, budget deficits, and also barriers to entry.

Barriers to entry is a very important issue for African countries and is often not well understood. I'll give you an example from South Africa. Earlier this year we did a major study in South Africa on black economic empowerment. First, we did a bench mark study at the time of the transition of the former government to Nelson Mandella. This was the state of black economic empowerment in terms of income, asset ownership, business ownership, participation in the economy, as employees of different levels from the lowest to the highest level of the economy. With such a benchmark, we thought we could provide a measure of change as the Mandela government assumed power. We could see how progress happens and how quickly it happens.

Although we were able to develop some benchmark indicators, we then needed to find out how could stimulate black economic empowerment. What are the policies, and what industries, what sectors, where is this going to come about and how can we see that process?

What we found from this study was that, despite the best intentions of the government, things were being done to limit economic empowerment from taking place, and for very understandable reasons. As an example, in the textile industry, government officials thought it necessary to have both big business and big labor at the negotiations table, as a way of protecting its own political interest in continuity.

Big labor does represent a major constituency in the South African textile industry. To understand what roles are being played, you have to keep track of a few fundamentals of the industry. People grow cotton. It is turned into thread or yarn. It is then turned into fabric, and then the cut and sew operations turn that into clothes. At the fabric level, this third stage, production is more capital-intensive, whereas at the fourth stage it is not so capital-intensive. Indeed, it can provide a massive number of jobs, decent jobs, at lower wage levels, but a lot of jobs. In contrast, in the manufacturing stage, you can have a few jobs and they are more highly paid.

Lessons from South Africa

Against this backdrop, what is happening in South Africa today is that big labor and big business have convinced government to give them the maximum amount of protection, the maximum number of years and the maximum protection, so that the jobs of big labor will not be lost. This will protect perhaps 40,000 jobs. However, studies have shown that South Africa could be very competitive on textiles, not on the fabric. It would need to import some of the fabric and stimulate other kinds of investment in fabric in South Africa. But, as a result, you would probably deny over 200,000 poor South Africans who do not have jobs today, and you would deny them jobs over the next several years that could have had. Nobody stands up for the untaken jobs, because they're not here. People will protect the existing entrenched jobs. And who are those jobs with, the entrenched existing ones?

Let us look at another example, in this case, the taxi industry. You probably know the story of the taxi industry in South Africa, but it is worth discussing because of the lessons it provides. This was not a case of the government offering an entry point to people, "Oh yes, it is time for economic empowerment." This was a case of people banging down the doors of the economic table. People went out and got whatever transport they could find, a van, truck - they call "backies" over there. They would make the run from Johannesburg to Lesotho border, they would make the run from here to there. Since they were unlicensed, they would be thrown in jail, have their cars and trucks confiscated, and then made subject to all the rules and onerous laws of apartheid at the time. Nonetheless, they did it because it was their only way of surviving.

Today you have 70,000 people running black taxis in South Africa, and this number is relatively high because local drivers basically forced their way into the industry. However, a law was proposed recently that would require every truck to have an onboard computer and that would keep you safe on the highways. This means that it would register when you took your breaks, when the truck was running, and then supposedly every eight hours, you're supposed to sleep or take a rest for so many hours, and then continue, and if you don't take these you're in violation of the law. So a law was put in, much like the law that exists in Great Britain that would require these computers to be on board.

How should one view the impact of the on-board computer regulation? If you are worried about safety on the highways, this might seem like a sensible and decent law. However, if you are someone who can barely afford a truck, and all of a sudden you need to buy a computer to go on board and meet certain specifications, what is that? It's a

barrier to entry. It is nothing more than an attempt to limit the competition from those people who are just trying to get by.

Another example of the impact of regulation comes from the construction industry. In the construction industry, there is a law that has been proposed that would say that anybody that wanted to do contracting would have to place a deposit equal to two months of laborers' salaries. At first blush, this sounds like a very good law because it would help to prevent fly-by-night operators who will abuse the workers and perhaps leave town and not pay them. A law that is designed to protect the workers sounds great, but let us look at the result.

If you are in Soweto and you are trying to get a contract or start work on some construction, like a new hotel going up or another urban development project, and all of a sudden you have to have two months of working capital, where are you going to get it? Are you going to walk into the bank and say well here is my two months of working capital to put on deposit. I doubt it. This is nothing more than a barrier to entry, a restraint of trade, keeping the new guys outside while the guys who are already inside enjoy the privilege. And in sector after sector after sector, this is taking place. So this is just to say that this whole issue of barriers to entry has reduced competition and efficiency.

If we want South Africa to grow, we have to reduce these barriers to entry. If we want indigenization of the economy, we have to reduce those barriers. And I think that not enough attention is given to reducing these barriers, either in the government or in the private sector, or among the donors. If privatization is to provide the engine of job and income growth, it will be able to succeed only to the extent that these barriers to entry are reduced, and this is especially important for small-scale entrepreneurs who have the talent but lack the resources to generate growth.

Economic Growth Depends on Free Trading Conditions

If barriers to entry still exist, what is the likely outcome? First, what often happens under privatization is that government will wind up looking to foreign companies to come buy out a local company. When this happens, it causes some political problems since it creates an image of privatization as equivalent to a new form of control, a control that, I might add, looks uncomfortably like a neo-colonial solution to many local nationals.

Who are the foreign companies who buy out the local ones? In Zambia, for example, privatization means selling formerly state-owned mining companies, and the most likely

candidates happen to be from South African mining companies. This can be both confusing and frustrating since just a few years ago, Zambia was thought of as a front-line state in the struggle against South African apartheid, and here these same companies now are offering to buy out out local companies. This scenario is far from hypothetical. For eample, South African firms recently bought one of the large conference hotels and facilities in Angola, and now they are making acquisitions in Mozambique. In short, business and government officials in these countries are asking whether privatization is simply resulting in the kind of external domination that they once thought they were opposing while South Africa was under apartheid.

Privatization does not have to result in a complete take-over by outside interests.The presence of even a small or rudimentary capital market can help nurture the privatization process by providing a means to broaden the share ownership among citizens as well as to mobilize resources to finance business creation and expansion. Now if countries do not establish and nurture an effective local capital market, governments may be forced to sell state-owned enterprises to groups such as wealthy family conglomerates, or to foreign investors, and this may run counter to the goals of privatization as well as to social goals.

On the other hand, I would like to try to respond to my last question about how privatization affects financial markets and vice versa. We see that most of the conventional and unconventional financing methods contribute to the development of capital markets by offering investors additional long and short term instruments which provide different returns. They also help to complete privatization transactions and they offer individuals and institutions the opportunity to make reasonable judgments about the risks and worth of their investments. When you privatize and you have a local capital market, all of a sudden a large number of people can become involved and start to be interested in the whole idea of owning shares and other kinds of financial instruments.

Financial Instruments for Industry Privatization

Because of ljmited time, let me turn now to some of the different kinds of financial instruments for privatization and its actions. Let us start with initial public offerings, or IPO's. Public quotations are appropriate for larger, usually more profitable, and well managed companies that can attract large numbers of investors from the general population. They also encourage broad share-holding and facilitate the distribution of wealth. IPOs are generally characterized by openness and transparency in accessibility to small investors. But public share offerings have the disadvantage of being technically complex. They are time-consuming and they require significant technical input from lawyers, investment banks, and accounting firms.

Initial Public Offerings (IPOs)

Public offerings help develop the securities market, which in turn provides private companies access to the capital resources of the broad market. IPOs also help meet the investment working capital requirements of the company before, and also after, privatization. Now the typical tasks required for an IPO include: conducting an audit of the financial position of the enterprise, assessing its commercial prospects, restructuring its balance sheets and transferring liabilities, designing protection for the minority shareholders, preparing a prospectus, setting the par value, issuing the stock, promoting and marketing the share sale, transferring the stock to an executing agencies, and then implementing the stock sale.

Initial public offerings also provide a focus to the degree of underlying efficiency of firms about to undergo privatization. Governments often discover that the state-owned enterprises that they are about to sell just don't look that healthy, and therefore, they are not likely to command a good price under the IPO sale. When this happens, governments are often tempted to stall the sale while a restructuring plan is put into place.

The problem with this argument is that as long as the existing managers are the ones charged with improving the firm's balance sheet, not much is likely to happen unless there is either an infusion of new capital or some other change such as deregulation that would make access to capital investment better than before. The flip side of this proposition is that if the firm is sold immediately even with a relatively poor balance sheet, there is no guarantee that new owners know enough about the operation of the enterprise to make sufficiently wise decisions on a restructuring plan for a privatized firm. In either case, restructuring is likely to be a painful process, no matter who undertakes the process.

It is logical that one wants to obtain a competitive price for the sale of an enterprise, and government, no less than private owners, have such an incentive. How much are you going to get for this enterprise? We have done seminars on tender offers and how to value the companies that tender for the particular enterprises. Much more important is, is this company at its bidding, is it credible, will it actually inject money into the enterprise, what's it going to do with employment, will it bring new technologies, will it preserve markets, etc. In any case, that will come up later on. The whole issue of when to restructure however, is a big one. So, if you can't do the IPO, we come back to the whole area of the private sector.

When you need significant management or technical expertise, private share sales through competitive bidding or direct negotiations might be the most appropriate privatization method. These types of sales are usually financed by existing equity capital or access to debt finance by the purchaser. However, in the case of a private placement, specific investors, usually institutional investors, are offered shares in the company, often for a minority ownership position, after the strategic investor has already been identified. If an enterprise is to be sold to a local firm, in many African countries it is often a local brewery or tobacco company that has the capacity to undertake the acquisition, even though the acquisition may be in a totally dissimilar line of operations.

For some time, the Phillip Morris company has been going around the world buying up local tobacco companies, and, by extension, a number of unrelated enterprises as well. When these acquisitions occur, a block of shares is usally reserved for local ownership in order to promote a measure of indigenization. But this is not everywhere the case, as the experience of East Europe and the former Soviet Union have shown.

Mass Privatization

Mass privatization is a technique that has been used very often in countries in Eastern Europe since the collapse of communism in the late 1980's. Mass privatization is more common there but it has not been utilized as much today among the African continent. The main appeals of mass privatization are speed, the encouragement of widespread ownership, and the volume of companies that can be transferred to the private sector under this big bang approach. The main drawbacks of this approach in the African context are the limited amount of revenue to the government from the sale of the companies and the inability of the system to target strategic investors who may be best qualified technically to financially to run to company.

There is a pattern to the choice of selected versus mass privatizations. All of the smaller companies are being mass privatized, whatever you want, restaurants, hotels, smaller companies. But for large companies, they are actually looking for particular investors through an approach that uses tenders or a bidding system.This problem may be circumvented in Africa by combining mass privatization with IPOs, strategic sales, or other more conventional forms of privatization to raise revenue.

Mass privatization encourages the development of capital markets in many countries by offering a medium of exchange for the sale of state owned property to the private sector. Voucher coupons under mass privatization allow privatization transactions to take place quickly and efficiently and permit widespread participation. No you also have your

employee management buyouts as a technique. They are useful as a means of transferring ownership from SOE management to employees. At least you have somebody with a vested interest as opposed to simply a public official who may be in a revolving door.

Management Buyouts

Management buyouts or employee buyouts are often undertaken for small companies that would otherwise have trouble attracting buyers and financing. Many existing SOE managers, however, lack the savings and capital necessary to purchase shares with cash. However, we do have some examples of this such as in Côte d'Ivoire, the water exploration and drilling company, Orexi was privatized through NPO. In Benin, the privatization of Uguri involves spinning off a distribution branch of the company and giving entrenched workers priority in stock acquisition. Now, you don't find a lot of banks in Africa willing to finance these NPOs and EPOs, that's another problem. Many countries like Ghana, Zambia, Tanzania and Kenya, NPOs and EPOs often emerge with highly leveraged transactions that must be financed with some sort of government conceptual assistance, such as grants, concession loans, or deferred payment schemes.

Investor Portfolio Funds

Investment funds, pension funds, and other institutional investors are an excellent source of portfolio capital that can be tapped for privatization investment. And there, I think what I might say - I know that you're going to have someone from the World Bank talking later on - but I would just like to throw out one observation. The International Finance Corporation of the World Bank, which is the arm of the World Bank group that finances private sector activity, used to make direct equity investments in loans as the major part of what it did. But, starting some years ago, and accelerating over the years, it decided to change its strategy somewhat and began financing the development of capital markets and stimulating the development of capital markets in different countries. The result has been this explosion of portfolio investment over the whole emerging markets trend.

Now you can call up your broker at Fidelity, or any of the other groups, and you can invest in any of the Third World countries because they now have capital markets. I'll give you another example. I went to Bangladesh about a year ago and found in this country, which Henry Kissinger once called the basket case country, I found a company that was doing $300 million a year, growing at 30 percent a year, on their way to $1 billion, and was throwing up factories just about every other day, was making pharmaceuticals and even exporting them to Vietnam, had a great textile operation, a

great agribusiness operation, a great construction business, and I'm saying, gee, you don't have any problem financing? No problem.

Every couple of months is somebody who arrives at the airport from a foreign country, like Wall Street, and goes down with a suitcase full of cash, and says sir, would you like to have this cash? Well, sure, what would you like in exchange? Well just give me a piece of paper that says that you owe me some percentage of the stock in your company and I'll let you have this suitcase of cash. Now, it doesn't happen exactly like that, but in effect that is what is taking place. The result is this infusion of capital that is taking place through market mechanisms. Well, for me, I think that's a great way.

If I have a business and I need to finance a business in one of these countries, I set up a stock exchange, I go by it's certain rules, I have certain transparency, and people will bring me suitcases full of cash, and I'll just right them out papers of promises. I don't know, it sounds like a good deal to me. This is what the IFC has done. For me, that is the major contribution of the World Banks' International Finance Corporation over the years. It is this use trend of emerging markets which they have helped create with some other partners.

Nowadays there are some very sophisticated methodisms developing to provide this capital and cash that is needed to modernize these companies. We even mention here overseas mutual funds are interested because they seek growth prospects. This is where the population growth is, eventually economic growth is going to catch up. There are also some unconventional forms of financing these sales, such as debt swaps, other things - I'm not going to go into much detail because I want to save time for my colleagues - but there are bonds, there are a lot of different kinds of mechanisms that we use. Again, I'm not going to go into too much right now because we get into some technical matters that are not as internist.

Overcoming Capital Constraints to Development

I would like to go right now to the third section of the presentation which is recommendations for overcoming capital constraints in Africa. Here I would like to say that most successful privatization programs in Africa use a variety of privatization methods and a range of financing instruments, thereby maintaining a diversified privatization portfolio.

The financing of privatization transactions is constrained in many African countries because capital markets are generally narrow and underdeveloped. Relatively few local

companies and individuals have accumulated enough capital to provide sufficient equity in privatization bids. In addition, in many countries, conventional long term debt financing is not available from the commercial banks. When long term capital is available throughout the African bank systems, it is usually offered at very high nominal interest rates. There is a thing called risk that is involved there, and recent experience with inflation, etc., which keeps the interest rates higher.

In many African countries, financing constraints stem from weak financial systems, including banking systems without sufficient capital and liquidity to finance the privatization acquisitions. For example, in 1990-91 the five major commercial banks in Ghana had a total of $2.1 million for acquisition financing, while the estimated value of the SOEs for sale exceeded $25 million, more that the total net worth of the banking system according to a report by SRI. In other cases such as Zambia and Nigeria, the government bought SOEs on the market through public offerings while simultaneously offering high yield low risk government bonds. In these cases the poor timing of the sales dampened the market for some of the SOE share sales.

Sensitivity about foreign ownership exists in all countries. Strong restrictions on foreign investment can narrow the range of financial options and can exclude countries from important sources of new capital, markets and technology. Political objections to foreign investment can be reduced to a manner consistent with social and political objectives by reserving a golden share or warehousing a certain percentage of shares until later when these share can be gradually floated to small local investors through the stock market. If local investment is to be tapped, creative use of new financial instruments may be required. The shortage of capital and liquidity in many African countries will make the privatization process more difficult but solutions can be found to facilitate buying.

Varieties of Financial Placement Mechanisms

There is no one method of sale or financial instrument that is appropriate for all situations. African privatization agencies should be created to find the most appropriate methods of sales and financing instruments to fit the circumstances. Now, a strategy that has been recommended and that is currently being looked at by Mike Unger in terms of new approach is the following: to encourage buyers with limited capital to find financial partners either national or foreign to utilize public offers to encourage broad share holding and facilitate distribution of wealth. IPOs are accessible to small investors and help tap wider capital resources than most other financing instruments and to pursue measures to widen share ownership, discounting and set asides on shares, the establishment of mutual funds and new stocks.

History has shown that we need to be very cautious about deferred payment schemes and seriously consider action when being in arrears and default. If few qualified buyers emerge at the valuation price level, reduce the price or clean up the balance sheet to encourage buyers, utilize unconventional financing techniques such as bond issues, debt equity swaps and venture capital funds to fit the right circumstances and to provide additional untapped capital to fund privatization transactions, and to try to establish venture capital funds through such sources as donors, private financial institutions or from the proceeds of privatization sales. Now, to conclude, I would like to just share a few little vignettes. One is that venture capital funds are springing up in a number countries.

As a matter of fact the CDC which is the British Commonwealth assistance agency for the private sector has now set up five or six of these in different countries and so we're seeing venture capital funds also emerge that have money to risk financing smaller ventures. This kind of capital was unavailable before, so I think that is a very positive sign.

The second thing is that if this privatization doesn't take place by some controlled and logical means proactively by the government, eventually it will take place by consensus. I am thinking of one company that the only thing the government did was it allowed a competitor to spring up. It said there would be no more monopoly, you can continue to be a state owned enterprise. That year the annual report of this company was in color, very glossy and very nice. The next year it said, well we've got a few problems and it was still a nice annual report but it wasn't in color. The following year it was even much smaller and you could see the trend.

Reforming State-Owned Enterprises (SOEs)

State owned enterprises, if you just allow competition, will either reform themselves or they'll go out of business, and meanwhile you'll allow things to spring up from the grass roots. I'll give you an example.There is a very good man named Strive Masaewan in Zimbabwe. He is very aptly named in his first name, Strive, but in his language his last name means standing alone. He was able to attract capital and partners to develop a cellular telephone business in Zimbabwe. However, the government which owns the major telecom. systems decided that they would take him to court and not allow him to introduce cellular telephones global communications in Zimbabwe.

Strive took the government all the way to the supreme court and despite the political situation in Zimbabwe which is relatively controlled, the supreme court still has some modicum of independence, and they decided for Strive, that indeed it was an infringement of the right to free speech and communication to deprive him of being able to offer his communication technology to the market.

Now, the government then came in and told his international partner that was supplying the technology that if they would do business in Zimbabwe the government would see to it that they would fail and go bankrupt and they were not going to be allowed to come in the country. So you still have this fight going on between African entrepreneurs who want a piece of the action and who are ready to put their intelligence, their creativity, and efforts behind develop of businesses. And yet, they are still being stifled by government policy makers for one reason or another.

The View from Cameroun

I'll just end with one small personal experience that for me is a bit of a symbol for what is going on. My good friend, Roget Rogantio, one of the first people I worked with in this business is a Camerounian, Bamulkay, graduate of the Sciences Politiques in Paris and later, of Harvard Business School. He and I were asked to go to Cameroun and work with government policy makers and with USAID.

Now, the capital of Cameroun is inland, in a city called Yaoundé, but you can only get there internationally, into Douala. It is sort of like New York and Washington, you fly into a gateway. Roget and I flew into Douala and it was late at night and we had to be in Yaoundé early the next morning. We went to the airplane ticket counter for Camerounian National Airline, which is a state owned enterprise, and we presented our tickets and they gave us some boarding passes and we were going to put our luggage in but we said well, is three a seat assignment? And by the way, this place is full, full of a lot of people who look a little bit anxious. And they said, well there is no seat assignment, you just get first come first served, and go to whatever seat you get to.

It then became apparent to us as we were saying that that there were more people in the terminal than there were seats on the airplane. So, if we put our baggage in and we didn't get on the plane, we weren't sure we would see our baggage again, and on the other hand, we were really anxious because we had to be at that meeting the next morning. Indeed, we had a reservation, we were programmed to go on through, but we realized that we just might not get to Yaoundé. So, this particular state owned enterprise has its method of assigning seats. You were waiting at the terminal and across the tarmac,

about one football field down the tarmac was the airplane. And whoever could run the fastest from the airport terminal to the airplane, run up the stairs, and sit in a seat would get the seat and get to go to Yaoundé. If you could not run as fast, you would have to wait until the next day and see if you might make tomorrow's plane.

Roger and I looked at each other somewhat nervously, and we decided there was no way we were going to miss this plane. So imagine these two guys, this Baméléké and this Californian next to each other each with their one luggage here and another big briefcase here. As soon as they opened the door, we're out there running across the tarmac with our luggage to get on that plane and to make sure we got to Yaoundé. This was an example of a state owned enterprise management technique. But we did however have some bad feelings for some of the older people and women that could not get on the plane and we felt somewhat guilty.

The important point of this is that one person said this is an example of what is going on in Africa. We are all in a race and some companies and some countries are making it and are getting there faster than others, and others are being left behind. I would say to you, let's think of another interpretation of this scenario. Isn't it time we built bigger airplanes, isn't it time for some of these mechanisms that we created bigger houses to live in, isn't it time that we use some of these techniques to create larger and larger enterprises in which more of our people can find work. Thank you very much.

Longy Anwanwu, CERAF

Those questions that the speaker ended the presentation with are questions that are more or less on everyone's mind. Those are critical questions and we hope as we get into the other aspects of the program today we will at least partially get some answers somehow. We would like to use this opportunity to introduce the next speaker and after that we will break for luncheon, and then come back and continue the program. I am going to give the opportunity to Dr. Agyeman Opoku who will help us introduce the next speaker.

Opoku Agyeman, Chair, Department of Political Science, Montclair State University

I am very honored to introduce the next speaker, Dr. Hamid Temmar, who has had very substantial education in Economics, and who has served as a professor and Dean of The Economics and Law School in Algiers. In addition, he has also served in various capacities for the United Nations over many years.

Let me give some specifics here. Dr. Temmar received his doctorate (Doctorat d'état) from the University of Paris I (Panthéon), and another Ph.D. in Management Economics from the London Business School in England. As I indicated, he became professor in the Faculty of Law and Economics at the University of Algiers. Then he moved on to serve as an interregional advisor at the United Nations Department of Technical Cooperation. Later, he became a principal economist for the United Nations Development Program (UNDP). This took him by way of tour of duty to many countries, including Senegal, The Gambia, and Angola. He is now back to the United Nations based here in New York where he is responsible for the affairs of Madagascar, Djibouti, Guinea-Bissau, Central African Republic and Gabon. I am very pleased to introduce Dr. Hamid Temmar.

The Contribution Of Foreign Private Capital Flows To Economic Growth In Africa

Hamid Temmar, Ph.D.
UNDP Principal Economist
United Nations Development Program, and
Inter-regional Advisor
U.N. Department of Development Management Services, New York

Thank you very much. I will try to be as comprehensible as possible, but you should know that I am primarily a francophone speaker. I try to use English but from time to time although my English is not bad, if I can not find the English word and I spontaneously may use the French equivalent. If at any point this may seem confusing to any of you, please do not hesitate to ask questions.

The Challenge of Capital Formation in Africa

As I planned for today's conference, I viewed my role as explaining the nature of financial flows coming from abroad, and, for Africa, to characterize what kind of financial flows could work best for the continent. One way of approaching this question is to ask ourselves why it is that Asian countries consider financial flows as a necessary condition for economic success, and, indeed, managed to mobilize great amounts of direct investment, whereas for many African countries, such flows are considered as something impossible to attract.

What makes these perceptions so different is that the context of financial flows has been quite different for Africa in comparison to those for Asia. In contrast to Asia, financial flows have been public rather than private. For the past ten years, flows to Africa have been generated mainly with the implementation of strict financial stabilization and more comprehensive structural adjustment programs led by the IMF. They have been used implicitly and/or explicitly as conditional incentives to transform bureaucratic styles of economic management into a more flexible market-driven environment.

Structural adjustment along the lines defined by the World Bank and the IMF has been very difficult for many African countries to bring about. Still, as they did so, African countries often were not doing much to attract private investors to replace the public aid flows that were gradually being reduced. Worse yet, there were very few private investors willing and interested in participating in privatization programs in

Africa, partly because African countries were not doing much to attract private foreign investment, and partly because incentives to invest elsewhere were also more attractive.

Given the difficulties of implementing structural adjustment programs and given the limited flows of private financial flows to Africa, many countries found themselves trapped in concessional aid programs, and still largely coming from bilateral and mutilateral official development agencies. When we try to compute the effects of official aid flows on economic growth and development in Africa, the results have not been encouraging, especially if we use a measure such as the growth of real GDP per capita.

The Asian experience over the past several decades has been totally different. Asian countries typically opted to mobilize both domestic and foreign private investment, and they did so with a process of continuous adjustment as market conditions evolved. In contract, in Africa, things have typically been planned along top down plans developed by the World Bank and the IMF. The process has thus been slow, painful, and difficult to implement, often taking place over a period of ten years or more. Senegal is a typical case, with its structural adjustment programs having gone through several iterations, but at the end of which relatively little foreign direct investment has been forthcoming, and as with many of its neighbors, it has found itself still locked in a pattern of dependence on official aid flows.

Foreign Private Capital Flows to Africa

Let us now look at the general framework of what foreign private capital flows represent for a developing country. Without question, it is clear that international investment funds play a central role in the promotion of growth of national economies and of regions around the world. Asian countries, and more recently, many Latin-American countries, have opted for "voluntarist" strategies to attract foreign direct investment. In contrast, African countries have largely followed policies favoring concessional official development aid funds, even as they have implemented in-depth stabilization programmes[1].

Reference Arguments

In an article published in 1988[2], P.B. Rana and J.M. Dowling from the Asian Development Bank (AsDB) studied the contribution of foreign capital flows on economic

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[1] *Which in fact are supposed to create the right environment to entice foreign direct investment.*

[2] *"The Impact of Foreign Capital on Growth: Evidence from Asian Developing Economies," in The Developing Economies, March 1988.*

growth and national savings in Asia. The study looked at empirical evidence to shed light on the present debate on the nature of international aid required to ensure the start and/or acceleration of a growth process in the case of a developing economy.

The study looked at two strategic approaches that have been considered or implemented:

(i) To request more concessional financial flows from donors;

(ii) To structure the economy to create an environment that attracts foreign capital flows and increases the economic competitiveness of the economy in international markets.

Rana and Dowling found that as long as foreign capital flows do not modify the capital-output ratio and as long as every foreign dollar adds to the domestic resources available for investment (rather than consumption), foreign direct investment has a favorable effect on economic growth. They also noted that foreign direct investment could also have a negative substitution effect on domestic savings. It could also bring about technological innovations and management methods that could prove inappropriate within the human environment, thus inducing a slowdown on domestic growth and employment.

In terms of exports, the authors also looked to determine to what extent export substitution strategies were critical to success, notably competitive access to international markets, more specifically, relatively free access for exports from developing countries to industrial country markets. The approach taken by Rana and Dowling was to examine the effect of concessional foreign financial flows, or official aid, and foreign direct investment on developing country exports and economic growth. They came to the following conclusions for the Asian developing economies:

(i) Foreign direct investment linked to export promotion has a positive effect on domestic saving and economic growth;

(ii) Official aid has a smaller positive effect than foreign direct investment on economic growth, and official aid tends to have a negative effect on domestic savings mobilization;

(iii) Exports are a significant determinant of economic growth, especially for rapidly growing Asian economies.

Given these fairly strong conclusions from Asian country experience, we then looked to see to what extent Rana and Dowling's finding were also valid for African countries.

Analysis Based on the Rana and Dowling Model[3]

As a first step, we tested the Rana and Dowling model on Africa. The availability and quality of data proved to be a serious constraint, which requred that we limit our exercise to a "cross section" analysis covering a sample of 22 African countries. We also simplified the technical analysis where possible, while still retaining the level of analytical rigor.

Our application of the Rana and Dowling model proved basically consistent. We found significant relationships between the rate of economic growth, the rate of domestic savings, official aid flows, foreign direct investment, and export performance. Foreign direct investment has a positive effect on economic growth with no negative substitution effect on saving. However, we found little evidence to support a positive relationship between direct foreign investment and export levels.

We then modified the Rana and Dowling model to take into consideration some distinctive characteristics for our African country sample. One issue we examined was the role of remittances. In many countries, large segments of populations live on remittances sent by nationals living abroad. When we took into consideration these remittances, we found that the explanatory power of the Rana and Dowling model improved, and thus reinforced the importance of foreign direct investment on economic growth. With our modified model, we found that:

(i) Foreign Direct Investment has a significant positive effect on economic growth, with no negative substitution effect on domestic savings and a positive additive effect on national saving;

(ii) Official development assistance (ODA) has at best a weak positive effect on economic growth. That we were able to affirm this finding even with the poor quality of available data we found to be important;

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[3] *This section is based on an economist's presentation of the technical part of the study.*

(iii) We think that even with improved data and more sophisticated statistical analysis, official development assistance will still be shown to play at best a marginal role on increasing economic growth. We also think that a negative substitution effect of official development assistance on national savings would also be affirmed;

(iv) In contrast to the Asian model, we found little support for a positive impact of direct foreign investment on exports and in turn on economic growth. This should not be surprising, given the dependence of African countries on primary commodities, in contrast to the manufacturing exports of many Asian countries. Where the effect is positive, it is because of high value added exports, which are an exception to the pattern of traditional African exports;

(v) Private remittances have a positive and significant effect on economic growth, and are as important as foreign direct investment. However, private remittances have a negative effect on domestic savings, as might be expected.

Conclusions and Policy Implications

We recognize that our application of the Rana and Dowling model to Africa is limited to some extent by the quality of available data. However, we think that the results of our analysis do represent an approximation of the role of these variables. To the extent that this is so suggests that the present strategy for resource mobilization adopted by most African countries needs to be re-assessed.

If official development assistance does not make a major contribution to economic growth, it does not follow that it has no positive contribution on economic development. While our approach has been to examine the impact of direct foreign investment versus official development assistance on economic growth, it should be noted that official development assistance has not always been targeted to achieve economic growth alone.

Official development assistance has a more direct effect on consumption, the mix of goods and services produced, and on the distribution of income than its does on economic growth. In this sense, the contribution of aid to economic growth is more indirect. If

demand is increased sufficiently by aid, then in turn it could help to expand domestic production, but because the transmission is so indirect, the impact of aid on growth appears less significant than direct foreign investment.

We emphasize that since our findings are based on a sample of African countries, they may have only differential validity for any given country. However, even with this caveat in mind, as African countries now look beyond structural adjustment, for those that have achieved a measure of economic stabilization, we think that a new approach is needed to enhance resource mobilization for economic growth. By way of policy recommendations, we would suggest the following[4]:

(i) Promote and channel investment funds towards productive sectors of the economy, notably manufacturing industries and market agriculture;

(ii) Promote growth not only within the economy but also outside official channels. Emphasis should be given more effective outreach to business both inside and outside the country. Roundtables such as those promoted with support from the UNDP and Consultative Groups such as those organized with support from the World Bank need to be modified to go beyond discussions among official aid representatives to include business groups, private investors and banking institutions. It is abnormal not to include those most responsible for investment mobilization and allocation in such fora;

(iii) Incentives should be given to establish joint ventures for Small and Medium Enterprises (SME), built on partnerships between foreign firms and indigenous private firms. African governments need to understand that this is in their economic self-interest to pursue[5]. This is going to require a basic change in mentality among government decision-makers, for them to create and sustain rule that are not only friendly to private initiative but provide positive support for these partnerships to thrive and prosper;

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[4] *It is the case for example for Senegal, Côte d'Ivoire, Ghana.*

[5] *In all or the so-called Asian tigers and would-be tigers, the government played and still plays a key role in stimulating and promoting private interests.*

(iv) Tax, financial, and banking reforms must be directed to improved channeling of private transfers toward directly productive activities;

(v) Donors should consider measure that encourage partnerships by developed country SME's in developing countries targeted for assistance[6];

(vi) Technical Assistance Programs should include direct assistance to the private sector and notably the creation and strengthening of local Business Associations.

Conclusions

Testing economic models can sometimes prove to be unproductive. In our application of the Rana and Dowling model to Africa, we found the contrary to be true. It confirmed what many of us had thought for some time, namely, that aid by itself appears to have done relatively little to accelerate savings and growth of economies in Africa. However, it is quite another thing to say that the aid which has been provided, which represents more than a billion dollars over the past ten years, has been unproductive.

Our sense is that the impact of official aid flows has been largely on domestic consumption rather than on savings and investment. This does not mean that it has been useless, but that mostly likely it has been put in the wrong places and for very different reasons than accelerating economic growth. And, to complicate the picture, when aid flows were granted, very often the impact was transferred largely into imported goods rather than as an aid to domestic production and exports. In this sense, aid often wound up serving a narrow set of interests, and by redirecting flows back to imports, functioned in many instances as a disguised form of export promotion from developed country producers. This was just as true in the case of technical assistance as it was in the case of the production of goods and services. And therein lies the limitation of official aid programs.

Today we see African countries more clearly aware of the limitations of international aid and technical assistance programs, and the initiatives we now see in both donor and

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[6] *In all or the so-called Asian tigers and would-be tigers, the government's role continues to be a central one.*

recipient organizations and countries is to look beyond aid as a device to accelerate economic growth and development, for all of the reasons that have already been stated. We know that almost all African countries want very much to transform their economies into growing ones, and that in the last few years, when we compare what has taken place in Asia with what has taken place in Africa, it is obvious that new strategies and policies are essential if we are to succeed.

It is this new economic reality that I wanted to convey to you today. While my presentation has focused on a general profile of the intercontinental experience, it might also be useful to discuss in greater detail the experience of some individual countries. As I have worked in both North Africa, from where I come originally, as well as in West and Southern Africa, I would be pleased to share this experience with you as we move forward in our discussions today. Thank you very much.

Discussion - Part I

Question:

I want to direct my question to Kevin Murphy. Based on the limited funds of the last couple of years, I noticed that a lot of attention was being paid, or directed, to the development of either capital or financial markets. But there has been really a lack of discussion on the development of consumer markets.

In the United States, which would probably be the best case study, the consumer economy was based on the development of very advanced consumer markets and the development of financial and capital markets followed the dynamics of the consumer sector. There seems to be no discussion in Africa about developing consumer markets. There is surely a large population which could support that, which will develop incentives, which will make the decision to bring foreign investors in and create those market opportunities for capital and financial markets. But without the incentive for consumers, I see the likelihood of continuing failure.

Kevin Murphy, U.S.AID

You have touched on a point that is so important, and so often not looked at. I think my response would be that it is the flip side of the coin to the government policies that have fostered protection and stated owned enterprises and the concentration of businesses in a few hands.

The flip side of the issue is indeed the underdevelopment of consumer markets. Nationalist slogans have been used over the years to promote the identity of investors who are already in the country and are likely to be protected under any program of change. But we should indeed ask the question of who is really be hurt and who is being penalized over the last 20 or 30 years. And I am not just talking about Africa. I am talking about Latin America as another terrible example.

The people who get hurt the most by protectionism are low income consumers. These are individuals and families that have only so much in their budget to purchase food which has been artificially priced at higher levels than it would otherwise be, to buy clothing that is at much higher levels than it would otherwise be, along with a long list of other items that we would readily think of as household necessities.

And who are the beneficiaries of a protectionist economic order? Well, if we look at the state-owned enterprises that have been erected behind protectionist barriers, we find a narrow group of producers with little incentive to respond to consumer needs in the domestic market. Furthermore, these protected industries often can not compete in international markets, and thus find themselves with very small domestic markets in which they wind up selling less than competitive products at more than competitive prices.

It is clear that through the process of structural adjustment, we see a shift away from the economic protectionism of the past, and this is a good sign not just for consumers, but also for raising the prospects of economic growth. Of course, if you lower tariffs and cheaper products come flooding in from Asia or the United States, local enterprises are then going to start complaining that it is their business that is getting hurt by cheap foreign imports. But you know, we don't really listen too much to all those people who can now buy a shirt for half of what they used to pay, and those people also tend to have less political clout. So I think that is one particular reflection on your point.

The other point is that in many countries you still have sixty, seventy, and sometimes an even higher higher percentage of the population that is still in an informal rural agricultural setting, where they are not participating as much in the commercial economy, especially in for example countries like Tanzania, Tunisia, Rwanda, etc. The question here is not so much the lack of emphasis on consumer markets but the fact that these countries have still not yet had a fundamental transition to a fully participatory market economy.

Hamid Temmar, United Nations

I would like to add something to the discussion. I am very embarrassed when I get this kind of question. I was in Senegal recently when there was a vigorous debate centered on opening up local markets to greater competition while at the same time seeking both product and market differentiation. At the same time, The Gambia, which is a tiny country surrounded by Senegal, was pursuing a policy of virtually open imports, which could then be re-exported to any market that was available. Through massive imports from countries such as South Korea and China into The Gambia, parallel (non-official) imports into Senegal and neighboring Mali began to soar. The upshot of all of this is that the industrial sector of Senegal was almost brought down entirely by the wave of third-country imports coming in from The Gambia.

Transportation is a major factor in the cost of goods in Africa. Seaborne goods tend to be relatively inexpensive, and when a country such as the Gambia adopted a virtually open-port policy, as Senegal lowered its tariff barriers, the subsequent flood of goods became almost unstoppable. Now when this was taking place, it became very difficult for the Senegalese, who were trying to rationalize the structure of industries through management re-organization and privatization, to countenance both a flood of goods coming from abroad when downsizing within Senegalese industry was taking place at the same time, especially if you look at the impact of these twin events on local income and employment levels.

To my mind, there is no simple answer to the question of how do you develop consumer markets. We must examine conditions on a case by case basis. This is why we have touched today on the role of states in the process of economic reform. When enterprises, be the public or newly privatized ones, are faced with the sudden rush of purely competitive forces and can not stand on their own, governments wind up having a lot of pressure placed on them to do something to stem the prospective loss of local income and jobs.

Worse yet, when we again look at Senegal and see that this is a fairly sophisticated economy with fairly good levels of public administration and human resources, and in which local Senegalese enterprises do not seem to be able to generate sufficiently competitive exports in non-traditional goods, let alone in traditional goods, those enterprises that the government may be seeking to privatize do not exactly look enticing to prospective foreign investors. In this context, the World Bank has emphasized that the government should sell the most profitable enterprises because at least they offer the

greatest prospect of finding buyers, but so far, the Senegalese experience has not been very impressive.

Question:

From the last presentation, one issue that has not been covered very well is the distribution of income. The distribution of income in Africa is highly skewed, and we see this pattern alonside a fairly low rate of development of infrastructure and supportive market institutions. Now when we place this picture against the picture in which there is slow movement in the privatization of enterprises, it seems like a cheap shot to comment on the concentration of wealth in those countries. I say this in that even with this skewed distribution of income, there is obviously not a sufficient level of income or wealth to generate a demand for privatization in a way that one would like to see.

The second point I would like to raise isthe role of institutional investors such as those expatriate individuals and firms who may be best positioned to take advantage of a privatizing economy. If you look at what happened in the United States, you find that entrepreneurs looked first to friends and family for sources of support, and then, when a product or enterprise became successful, you could then look to external venture capital for further expansion.

At some point, venture capital might no longer be necessary, in which case an enterprise could turn to established banking sources for additional investment capital. The problem in Africa is that where family income is low to begin with, we are asking venture capital to come in to provide the development stimulus, when in fact venture capital is the most difficult to attract. In short, I would be interested in knowing how venture capital, or portfolio funds, can be expected to support privatization measures in Africa, given the absence of a traditional family-income base.

Kevin Murphy, U.S.AID

I agree with your first point. And on the second point, it’s true that in the United States venture capital emerged later and is a much more sophisticated mechanism for financing. Yet, here we see in Africa it is one of the first that is being introduced and offered as a mechanism for privatization and for starting new companies. So, how can this be and why is this going to be effective?

I think the difference is that venture capital in the United States emerged as a market-driven, market-led phenomenon, i.e., the investors you had were very wealthy, had a very high risk profile, were will to take higher risks, and realized that when you lose

completely everything on a couple of ventures, but there will be a few others that really hit the home run and deliver very high returns, and meanwhile they have part of their portfolio in other investments. So you had a venture capital industry that came about that was very important in the development of places such as Silicon Valley in the United States.

In Africa, the difference is that venture capital formation is really not a market-led or market-driven natural process emerging from the grass roots. It is a mechanism that has been led by donor funding primarily but with the idea of leveraging donor funding with other sources of resources. As a result, I think the jury is still out.

For African countries seeking to privatize their economies, it may well be that venture capital funding will assume all basic risks, even without the traditional grass roots family structure on which industries may have been established. It is also true that what we think of as venture capital in Africa has also had a fair amount of seeding from bilateral and multilateral initiatives. I am thinking in this context of the Southern African Enterprise Development Fund (SAEDF), as an example, in which the goal is to create an institutional mechanism to serve as a catalyst to further flows of venture capital and traditional sources of financial intermediation.

Because many of these initiatives are fairly new, some have yet to establish a solid track record. And while it may be unclear at this point whether these institutions will really prove to be the motor that stimulates new business formation, it does provide an answer to your first point.

If venture capital funds represent the mechanism for stimulating private enterprise development in Africa, let us also look at the kinds of time horizons that are involved. These venture capital institutions are designed to encorporate all relevant information on not just costs and expected profitability, but also to generate mechanisms for a suitable evaluation of risk. It may be that after a period of ten years or so, these venture capital funds are going to generate a mixed record of performance. For some, we will wake up in ten years to find that the money has bent spent with no return, and that the fund is no longer in operation, while for others, we will find some real success stories.

The relevant comparison to make is to look at what happened when development funds, or aid, went to ministries, and after a comparable period of ten years or so when the money was gone, the question is what did one have to show for the expense. It could be that it was justified for some of the development institutional initiatives we have been

discussing, but we also recognize that it most likely did not generate the kinds of saving and economic growth that many of its proponents had earlier thought would take place.

In short, I think we should look at venture capital initiatives in Africa as an experiment, and not have illusions that it has a long history of being market driven as has been the case of venture capital in such countries as the United States. Let us hope that these venture capital funding initiatives in Africa will provide essential life blook to many local African entrepreneurs and businesses who are ready and willing to take advantage of the new economic environment.

We have all heard of the level playing field, and how important it is to create an enabling environment for private enterprise to flourish in Africa. As powerful and influential as the IMF and the World Bank look to local officials, they did try to create a more level playing field with conditionality and structural adjustment programs that we have all heard about. Well, all of this is fine, but it does raise an important question. Once you have a level playing field, who is going to provide the equipment to your team to compete with firms who already have the equipment? And, in creating this level playing field, does everybody have access to the same rules, and with the same kinds of coaches to move the ball down to the end zone?

My sport analogy is designed to suggest the basic questions of economic strategy. Creating a level playing field is, in fact, more complicated that it first appears. What we need to keep in mind is that whle the IMF and the World Bank may play a gatekeeping role at the macroeconomic level, it is going to take such initiatives as venture capital to assemble the competitive teams that are going to be capable of succeeding, and there is no guarantee of success.

Opening up African markets is indeed a challenge when we consider that many locally protected industries have gone through the last thirty years or so with the equivalent of Gabriel Garcia Marquez' *One Hundred Years of Solitude.* After so long a period of being cut off from global market knowledge on products and technologies, there is a powerful need to empower local individuals to be able to participate in today's economy. I think that venture capital funds are one experiment to try to meet this challenge.

Question:

In follow-up to my question, do you think that there is in fact a problem of skewed income distribution in Africa?

Kevin Murphy, U.S. AID

In some countries in Latin America, income distribution is worse than in Africa. I think the lack of resources is a more important problem than that of skewed distribution. And that was the analogy about the airline. Rather than figure out who's going to get the seats on the plane, we need to think about how to build bigger planes.

I would say that the question of growth versus equity is a non-question anymore. We used to argue in the 70s about growth or equity, in which the question was whether we are gong to foster faster private sector growth or redistribute the existing level of income. The issue is no longer being argued in these terms.

In countries that placed priority emphasis on equity, there has been relatively no economic growth. However, in countries where emphasis has been given to economic growth first, such as in the rapidly growing economies of East Asia, we find that these Asian tigers have actually improved the distribution of income once economic growth was positive and significant.

The Gini coefficient in these countries is even lower than in some of the more developed countries of Europe and North America. So my sense is that we need to look to strategies that produce growth first while at the same time look to a distributive dividend as a result. And the way that this has happened in Asia is by investing first and foremost in people.

On the issue of income distribution, the World Bank has found that the imost important determinant of improving a country's income distribution is not the level of investment, which we talked about earlier, but the level of literacy of the population. The level of literacy and the age at which individuals leave school has a larger impact on growth than absolute levels of investment, or a country's investment ratio. The fastest growing economies invested in their population, invested in their infrastructure, and invested in empowering their populations to participate in the global economy. This is what needs to take place in Africa.

Question:

I am concerned about all of these comparisons between Africa and Asia. We need to take into account the fact that the commitment to growth in Japan, South Korea, and Taiwan was largely driven by political considerations. We saw what happend at the end of the Second World War. The United States provided strong military support to Japan as a counterweight to the Soviet Union. It did the same thing for South Korea, and to some extent, for Taiwan against mainland China. In each of these cases, by providing external resources for national security, these Asian countries were able to devote their attention to building up the economic competitiveness of their industries, and to emphasize export markets as the engine of growth.

In contrast to the Asian experience, African countries did not have a comparable external source of national security, and thus wound up making substantial resource commitments to national security that might otherwise have beenused to stimulate local economic development. And, to again draw on the Asian experience, when Japan's economic growth took off, Japan became a major source of investment capital to South Korea, Taiwan, and a number of other Asian countries as well.

Recently, someone wrote a book that noted the positions of Ghana and South Korea on the eve of Ghana's independence from Great Britain in 1957. At that time, Ghana had a higher level of GDP per capita than South Korea, but today the reverse is true, and by a substantial margin. To me this comparison is neither here nor there.

During the 1960's, Ghana was trying to diversity its economic base through a program of rapid industrialization, but because this was surrounded by fears that Ghana was becoming a Marxist state, there was practically no capital inflow to support this transformation. In this sense, I think that there are specific differences between the Asian and African experience that we should take into consideration, and while I do not think we should downplay the inefficiencies and problems of the poor in Africa, we do need to take them into account.

Hamid Temmar, United Nations:

In response to the last question, I am reminded that what has been said about Africa has also been true everywhere throughout the developing world. Development can't take place when debt levels have become suffocating and when the right economic incentives are not in place. And this seems to me why we have seen such success in Asia and a lack of it in Africa.

It is clear that there are two distinguishing factors between Asia and the United States. One is Japan and the security role played by the United States. Japan is now a major source of funds for economic development in Asia, and Japan has moved to implement direct private foreign investment, which have a much greater impact than portfolio investment in generating economic growth.

A second factor is the kind of ethic that is in place. Much of Asia's development success can be traced to what we might call the Chinese factor. If you look at Thailand, this is a country that enjoys rapid economic growth because Japan provides the funds, and China the entrepreneurial assets. I am not saying that other countries can not provide something better, but they need something to begin with. In Africa we have not yet had such catalysts.

I was speaking with colleagues yesterday on this issue and noted that Nigeria could have played a Japanese-style funding role, given its overall economic presence in Africa and the importance of petrodollar exports. Unfortunately, Nigeria has not been able to manage its resources as successfully as was hoped, and so, in the absence of an indigenous source of capital, African countries have continued to look to external funding as a basis for stimulating private enterprise development.

Let us not overlook some basic accomplishments. African governments have made enormous changes in the economic environment with the assistance of the World Bank and the IMF. The debt crisis of just a few years ago has been brought to much more manageable proportions. The challenge is to address Africa's most pressing need today, and that is the lack of capital investment. Now while privatization has been one part of this transformation, it has simply not been sufficient to attract sufficient levels of capital investment in Africa.

Why is it that Africa is still mired in the mentality of international aid when we know that this can not provide an answer to economic growth? We now have a continent that is ready to work, with substantial levels of investment in human resources, and the one critical missing factor is investment. Capital flight, which has been a symptom of the lack of confidence in African countries, is still a problem even with the kinds of major economic changes we have seen, especially in countries such as Zaire and Cameroun. In my view, all of this is why we should pay close attention to a region such as Southern Africa, for in the post-apartheid environment, this region may serve to provide a growth pole for the rest of the continent, especially in terms of the development of private capital flows.

Question:

I am a consultant. I don't have a specific question, but I would like to make an observation. The problem in Africa is not so much the lack of capital markets as a means to economic growth and development, nor is it the mobilization of human resources. As I see it, it is the lack of involvement of Africans in the development process itself.

Communication is an essential ingredient for economic success. In the 18th century, the English sent out merchants across the Indian sub-continent and established networks that formed the basis of economic development of the region. These networks were economic in nature and transcended the geographical and political boundaries of the day to create a system for an efficient movement of goods and services. In twentieth century North America, we see a similar pattern of development.

It is not the presence or absence of capital markets as much as the develpment of an efficient communications network that facilities that decision-making process, for production and for investment. For Africa, communications present a major economic challenge. To transform the region, a solution has to be found for the channeling of resources from one place to another, from Djibouti to Capetown, and from Dakar to Dar es Salaam, for example.

Africans need to understand that the development of the continent needs to be based on the involvement of Africans in the development of an effective communications network. If you are in Africa, or if you are an African outside of Africa, you need to realize that Africans need to think about Africa itself rather than counting on non-Africans to make the future happen.

Hamid Temmar, United Nations:

On the role of Africans versus non-Africans, I think this misses some major changes that have been taking place across the continent. Let us look at the structural adjustment programs that been taking place over the past two decades. African countries have been partners in the decision-making process of these programs, and they have not been popular or easy to implement.

Let us look at what structural adjustment has produced. We really need to stand back and congratulate the IMF and the World Bank for helping African economies bring about the fundamental change that is now before us. While ten years ago it was fashionable to attack the World Bank and the IMF for these policies, we now see that the conditions for

economic growth are in far better shape because these programs were put into place than had they not done so.

The problem is that for this framework to work we now need to attract a sufficient level of investment, and this is the most difficult thing to accomplish. It is clear that any successful endeavor must have full local participation.When we say that foreign investment is a factor, by itself this means nothing. The question is how we can draw on the world market to attract sufficient resources to Africa in order to make privatization succeed for economic growth to occur. The reason why South Africa is attractive is that they have a relatively sophisticated financial framework. To be sure, it is not sufficiently deep and not sufficiently diversified, but it does represent a positive point of departure, and lest this be lost, we are talking about an African source for development.

Kevin Murphy, U.S.AID:

Let me add an observation to the point on infrastructure. Infrastructure is very important. In Southern Africa, SADCC, the South African Development Coordination Council that was established as a network alternative to the previous apartheid regime in South Africa, has demonstrated their capacity for economic cooperation. With the Republic of South Africa now a partner in the new SAEDC grouping, we are looking at a region with substantial economic potential.

Currently, there are six major infrastructure projects planned for the Southern Africa region. One is a transport integration project designed to provide improved movement of goods between Johannesburg, South Africa, and Maputo, Mozambique. Maputo is expected to become a more important port of entry for inland goods trade, and this infrastructure project is designed to strengthen the flow of goods and services between the eastern and southern coastal regions in the process.

Another project connects the copper belt of southern Zaire to the west Atlantic coast, while another one will provide a major corridor from the same region to the Indian Ocean on the east coast. Another project will connect Walvis Bay in Namibia with Gaborone, Botswana, and from there to Pretoria and Capetown. In all of these communications infrastructure projects, attention is also being given to what kinds of supportive economic activity is likely to result.

Now these infrastructure projects are not the focus of U.S. AID's venture capital initiatives, but they do involve banks and the involvement of the private sector in Africa and abroad to create a kind of economic integration that has never before been seen in

Southern Africa. In the next ten years or so, this infrastructure is expected to generate a level of economic growth that will help to make the Southern Africa region a major engine for growth for the rest of the continent.

I would like to expand a bit on what was said in reference to the involvement of Africans in Africa's future. Ever since the 1970's, leaders in African countries have been aware that trade is a more important vehicle for economic growth than international aid. Africans have been quite aware of the limitations of international aid from the World Bank and the IMF. We also know the mechanisms through which structural adjustment programs have been brought about, and that for those countries in Africa that resisted the advice and counsel of structural adjustment, there were not a lot of alternative sources of finance.

For a while, Zambia refused to participate in the structural adjustment programs of the World Bank, and Nigeria also adopted that same stance for a while. And when no other alternatives came about, we also know that Zambia and Nigeria dropped their opposition and began to embrace the harsh measures that were being advocated by the IMF and the World Bank. We now see a somewhat more flexible approach by the IMF and the World Bank, perhaps because the costs of adjustment have become more apparent, but also because we see that structural adjustment alone is not going to provide a solution. For the future, it is important that development in Africa will now have to take advantage of the sizeable level of capital that has been built up over the years, especially the human capital that is available.

Question:

One of the policies of the IMF is to distribute the money that they provide somewhat equally throughout the countries that they assist. Here in the United States you have a lot of economic development programs here in the cities, etc., most of which fail on a regular basis. Would it be logical to redirect money to the most successful projects and concentrate say, on one win at a time versus this economic distribution where it's based on fairness, everyone wants their shot of it.

The United States government tries to distribute development money throughout the various cities, and uses formulas that rely as much on equity considerations as on economic returns. If you look closely, this approach hasn't helped to produce much change in the most depressed areas of major inner cities. They are still failing. In a larger context, would it not make more sense if the IMF were to concentrate its resources on those countries that have the best chance of succeeding first, and then to move on form

there? I know that equity has a role to play, but would it not make more sense to look at targeted programs of intervention?

Hamid Temmar, United Nations:

It probably would. Let me add that the IMF is not a promoter for international aid. The role of the IMF is to assist governments in putting into place their public sector and international financial accounts, and this is the extent of their commitment. They are not a source of funding for investment and for the development of the private sector, much as they may be an agency that would look favorably at the develpment of the private sector.

It is the World Bank that focuses on sectoral resource issues, including the emphasis of private market development. In turn, the United Nations also provides assistance for private sector development, and which represents one of the most important forms of aid because of the emphasis on technical assistance and human resource development. Now it is true that bilateral agencies often have a specific national agenda, and that this agenda may be driven as much by political considerations as economic ones.

For the World Bank, United Nations, and other development agencies, structural adjustment has made tremendous change. With some adjustment programs there is an entirely new setting in terms of the economic and policy environment. Obviously, our choice of entry point of assistance now can be discussed far more seriously than was possible in the past.

For the UN, for example, we we now are having more and more the same kinds of programs as those developed by the World Bank, and in collaboration with bilateral donors such as the French (CCCE) and the German (GTZ) initiatives. With a more common modern frame of reference in the international donor community, we are all better able to identify the common bases for economic growth in a given country. We also anticipate a smoother pattern of economic growth than has sometimes been the case in the past.

There is also another dimension that we should not lose track of and that is the path of civil and political reform. We should encourage as much as possible the development of civil society, with all of the attendant democratic institutions that are necessary for success. The relationship of this type of reform to economic change can not be underestimated, particularly if we take note of the constructive role that can be played by cooperative organizations. Of course, this process is not always a tidy one, especially when there are spontaneous linkages that are established, and not through some

government approved set of channels, but this is a risk that is a necessary ingredient for reform to succeed.

How issues such as the economic linkages between a city and a region or state or export environment will evolve is not something that can be completely determined. But we do know that these linkages are an important part of the infrastructure of which we have been speaking and it is necessary to nurture this type of development. And while all of these changes are indeed important, I must again emphasize that for Africa at least, we have not yet seen a corresponding increase in private investment flows and this must change. We need to try harder and this is our problem to resolve.

Question:

My name is Ken Taylor. I would like to ask this of both you. Before we get to the billions that venture capital is expected to bring to Africa, are there not some programs sponsored by the UN that can provide direct assistance now to promote the establishment of local enterprises, or zones, within a given country? You cited in your presentation the example of Bangladesh, and this program seems to be doing something right now in that country. Isn't it possible for this type of low technology to be transferred as a base for future corporate development? What I am talking about here is a targeted set of interventions that can be put into place now rather than hoping that venture capital is somehow going to rush in to make the difference.

Kevin Murphy, U.S. AID

Indeed, the Clinton administration in particular, has focused on the area of small and medium enterprise development, helping small firms to find an environment in which they can emerge and thrive. Let us also note that private sector development was a major thrust of U.S. AID programs in the 1980's. What we have seen in the 1990's is a shift in emphasis to smaller and medium enterprise development, to help them develop before the larger projects move forward and major private capital inflows take place. The emphasis of these programs has been in employment generation since small and medium sized enterprises generate a larger number of jobs than many large-scale investments.

This initiative responds a bit to Mr. Taylor's question of what can be done now. It is also represents a closer reading of the transfer of resources issue in that small and medium enterprise development is very much different from the typical characterization of development in which resources from poor people in rich countries is used to benefit rich people in poor countries.

The U.S. experience with small and medium size private enterprise development is perhaps richer than that of many other countries. The reason for this is that the United States pioneered the whole are of micro-enterprise, and small and medium enterprise development going back to the 1970's. Now everybody has a micro-enterprise program, a small and medium enterprise program, including the Scandinavians and the European bilateral donors. But we should not forget that the United States has a lot of experience in this area around the world, and it is the U.S. model that has provided leadership in this area.

What are some of the ways in which the U.S. has fostered small and medium-scale enterprise development? First, you may have an NGO, or non-governmental organization, that may be seeking a small grant and long-term seed capital. Funds channeled to NGO's would in turn be lent to very small enterprises, and the ways in which they do this are astonishingly effective.

It is nice to know that NGO's have gone about banking the old fashioned way. They go to a neighborhood, find out whether a loan applicant pays their bills on time, how they treat their family, what kind of business are they engaged in, and what do the people in the neighborhood think of this person. This kind of up close information enables them to lend on the basis of the merits of a project and the character of the borrower.

Another secret of these organizations is that they start off initially by lending very small amounts, and when they find that a customer pays back religiously even small amounts of borrowed funds, they can then gradually raise the lending limit based on a person's proven credit history. The analogy to credit card limits is obvious. After a year or two, if you pay your credit card balance every month, you notice that the bank will automatically raise your credit card limit. They will do so even without your having to ask for it because they have an objective basis on which to judge your credit behavior. Eventually, they may wind up sending you a gold card, and you graduate to even higher levels of credit.

As with credit card evaluations, small business development involves just this kind of development of mutual trust and performance. And, it is important to note that this approach is working for private enterprises throughout the developing world and in the process it is providing access to credit for hundreds of thousands of small-scale enterprises that would not have had this opportunity through more traditional banking channels.

We could talk about a near endless stream of examples where small-scale lending and enterprise development have been successful. You can walk into houses that have a bank of twenty sewing machines and all of the people in the neighborhood are coming in to make jeans that they then sell to some retail outlet or to some other producer.

Mention was just made of enterprise zones. This has in fact been a part of the enterprise development strategy and it works, especially free trade or export processing zones. I am amused when a country decides to create a free trade zone so that foreign investors can come in and do not have to worry too much about local tax laws, import duties, or a red tape bureaucracy. These zones really do work.

Enterprise zones have created tens of thousands of jobs in exports for Mauritius, and it has created whole new sectors of the economy that re growing and globally competitive. But the reason why it is amusing is that it is an admission by government, a surrender if you will, to the fact that the established ways of doing business simply are not working, and the export processing zone becomes a laboratory test of this fact.

Here is a typical conversation that I have come across on the topic of export zones. “Our country has so many problems that the laws of my country will end at the border of this free trade zone. If your focus to to try to do business beyond this little point where we are going to put up a barbed wire border, then the laws in my country will no longer apply and you can do business freely.” Well, frankly, that is a nice thought, and maybe we could do some good business under this kind of arrangement. I remember that just such a venture was tried in Togo for a free trade zone, along with Senegal and a few other West African countries, and Kenya in East Africa also gave some thought to moving in this direction.

Export zones make money for their owners and developers. It does not require a lot of capital and you can get investors to participate. And while companies may decide to move out after a trial run, in the meantime a lot of jobs will have been created, along with a fair amount of indirect employment for which some tax revenues are also generated. The point of this is wouldn’t it be nice to think of the whole country as a free trade zone or an export processing zone.

Let me add one final thought to this discussion. In many African countries, there has been a lot of discussion about how no banking systems really exists for the vast majority of poeple. Angola is an example, while Rwanda and Guinea-Bissau also come to mind. What is remarkable in all of this is that while a stock market may be a visible symbol of

financial development, for many countries, the kind of small-scale intermediation which we have been discussing here is an important building block along the road to development on which Africa's future is going to depend.Perhaps we can return to this question when we resume our discussion this afternoon.

LUNCHEON BREAK

Longy Anyanwu, CERAF

It is now my pleasure to introduce to you our keynote speaker, Mr. John Walker. As you can see, Mr. Walker has extensive experience with development issues in Africa. He is the Deputy Secretary of the U.S. Department of Commerce and has been responsible for the development and implementation of business accounting systems in over twenty countries in Africa.

Africa In Transition: The Challenge For U.S. Business

John Walker
Deputy Assistant Secretary
Economic Development and Policy for Africa and Middle East
U.S. Department of Commerce

Let me convey my personal thanks to the Center for Economic Research on Africa at Montclair State University for organizing this conference and inviting me to participate. As Deputy Assistant Secretary of Commerce for Africa and the Near East, I obviously hold a strong personal attachment to Africa, and it is always a pleasure for me to participate in a program about Africa's investment opportunities.

This event comes on the heels of a great tragedy for all of us who work at Commerce. The loss of Secretary Ron Brown and so many of our friends and co-workers -- as well as the business leaders who died with them in Croatia - weighs heavily, as you can imagine. Many of you are sharing our grief as you mourn for friends and colleagues from the business world. We appreciate your expressions of condolences and your caring.

Secretary Brown worked tirelessly, shoulder-to-shoulder with American business, to open new markets for U.S. firms around the world, and to enhance economic opportunity for all Americans. He died while carrying the banner of the U.S. private sector into another troubled region, where it could make a real contribution to lasting peace. As a

great friend and champion of Africa and of U.S. business, Secretary Brown would want us to carry on the important work of strengthening our commercial ties with Africa. His untimely death challenges us to strive that much harder to bring the benefits of U.S. trade and investment to a region that sorely needs it. We are re-dedicating ourselves to that goal as part of his legacy.

Here in the United States, we tend to associate Africa with an endless cycle of crisis and suffering. We are accustomed to the recurring themes of famine, disease, war, political instability, and general economic stagnation. But today, in the closing years of the twentieth century, Africa is undergoing unprecedented political and economic change, and that change is opening the region to commercial opportunity as never before.

President Clinton has said that the challenges the world will face tomorrow are mirrored in the challenges Africa is facing today, and that helps to explain why Africa is so important to us. The American experience holds a special relevance for Africa. Our peoples share many common goals and common aspirations: democratic, responsive governments; basic human rights and personal security; freer movement of people, goods, and ideas; and prosperity based on free markets.

I would like to share some thoughts with you about how we in the U.S. Government view Africa's commercial potential, and what we are doing to ensure that the U.S. business community participates fully in Africa's expanding opportunities. There are some valuable lessons that we can learn from this experience.

Democratic Reform Is Expanding in Africa

As recently as the beginning of this decade, Africa's true democracies could be counted on one hand, maybe with a finger or two left over. Free elections were an alien concept throughout most of the region. Just since 1990, more than 25 African countries have turned to the ballot box in multi-party elections, and more are following suit almost every month. In fact, just three weeks ago, Sierra Leone became the latest African country to experience a peaceful democratic transition from a military government to a civilian one.

The democratic process has been uneven, and there have been setbacks. We can't dispute the fact that some elections have been flawed. In a few cases governments that were freely elected have later been removed by coups or other non-constitutional means. Yet, even though the road to democracy in Africa is long, and in some cases tortured, there is clearly a growing democratic tide sweeping the region.

Democracy brings with it important fundamental values: predictability, accountability, and the rule of law. These concepts also happen to be essential elements in building a climate of business confidence.

Economic Reform in Africa

Africa's democratic revolution has been accompanied by sweeping economic reform. More than thirty countries have instituted programs to dismantle their long discredited state-centralized economic systems, and replace them with a free enterprise system.

Under the guidance of bilateral and multilateral donors such as the World Bank and the International Monetary Fund, more than thirty African countries have enacted fundamental economic reform measures.These measures include: devaluation of over-valued currencies; increases in producer prices, particularly for farmers, to expand basic production; privatization of state-owned enterprises; institution of tigher discipline over government expenditures; elimination of costly internal subsidies; and the removal of artificial barriers to trade and investment.

The road to economic reform has not been an easy one, but the reforms that have taken root have built a foundation for greater prosperity in the future, a future in which American business enterprise can play a major role. In some cases these reforms are quite fragile, like the transition to democracy, and some countries have already slid backward and have undone some of their earlier progress.

The Impact of Economic Reform in Africa

But the World Bank has studied closely the progress of economic reformin Africa. It has now become clear from a number of these studies that although African countries have an uneven record in implement economic policy reforms, those countries that have achieved the greatest improvement in these policies have also achieved the largest increases in Gross Domestic Proiduct, export growth, and in industrial and agricultural production.

As the reform process proceeds, African countries are gradually becoming larger players in the global trading system. In 1994, the 48 countries of Sub-Saharan Africa exported nearly $65 billion in merchandise to the world, and imported $71 billion.

The Magnitude of U.S. Trade with Africa

U.S. sales to Africa in 1994 totaled $4.4 billion, for a market share of just over six percent, so we obviously have lots of room to grow. We don't have market share statistics yet for 1995, but the prospects are a bit more encouraging. U.S. exports to Sub-Saharan Africa jumped nearly 23 percent, to $5.4 billion. That's a new high, eclipsing the previous high mark set in 1992. The dramatic increase in U.S. exports to Africa in 1995 was led by surging sales to South Africa, which accounts for more than half our total shipments to the region.

For Africa as a whole, we registered strong performances in: oil and gas field equipment, construction machinery and parts, computers, aircraft and parts, industrial chemicals and plastics, telecommunications equipment, wheat, corn, and rice. Motor vehicles and parts, agricultural machinery, used clothing and textiles, and mining equipment also performed well.

For the sake of comparison, U.S. exports to Sub-Saharan Africa in 1995 were more than 54 percent greater than our exports to the Newly Independent States of the former Soviet Union. In fact, our sales to South Africa alone were roughly equal to our sales to Russia, and greater than those to all the countries of Eastern Europe combined.

In terms of investment, Africa is largely uncharted territory for U.S. firms, except in oil and certain strategic minerals. At year-end 1994, the U.S. direct investment position in Sub-Saharan Africa was $3.7 billion, heavily concentrated in South Africa, Angola, and Nigeria.

Investment in Africa consistently shows high rates of return. U.S. direct investment by non-bank U.S. affiliates generated net income of slightly more than $1 billion in 1994, a 30 percent return on book value. That compares with an 11 percent return for the U.S. direct investment position worldwide, 14 percent in Latin America, and 1 2 percent in Asia and the Pacific region.

U.S. Department of Commerce Initiatives

Given the impressive trade and investment potential of Sub-Saharan Africa, what is the U.S. government doing to help U.S. business get a bigger piece of the pie? I will concentrate on the initiatves of the U.S. Department of Commerce.

Until recently, much of our attention was on South Africa, whose economy clearly dominates the entire region and which accounts for more than half our African trade.

South Africa is building a Free , enterprise democracy that can serve as a growth engine for all of Africa. Its economic success is of paramount importance to the entire region.

South Africa as a Big Ten Emerging Market

We have designated South' Africa as one of the world's ten Big Emerging Markets, with special initiatives aimed at influencing its commercial policy and opening its market opportunities. As part of the South Africa Initiative, we have organized a Business Development Committee, consisting of carefully selected American and South African business leaders, who have set out a comprehensive work plan to build strong bilateral commercial ties and to open new opportunities for South Africa's black majority population.

The U.S.-South Africa Bi-National Commission

We have also established a government-to-government Bi-national Commission, led by Deputy President Mbeki and Vice President Gore. The Commission works to construct an equally strong bilateral relationship between our governments, and to identify and remove barriers to private sector cooperation. In view of the dramatic increase in our exports to South Africa last year, those measures seem to be bearing fruit.

The Comprehensive Trade and Development Policy Toward Africa

While our South Africa Initiative is continuing, we are also engaging in the rest of Africa, a region of particular importance to the Clinton Administration. Last February, the White House transmitted to Congress the first of five annual reports on a new Comprehensive Trade and Development Policy toward Africa. The report stressed that our relationship with Africa is entering a new phase, based on trade rather than aid. The Administration has committed the United States to helping Africa in various ways to build a future based on democracy and free markets:

We will participate in bilateral and multilateral efforts to support those African countries that pursue meaningful economic and regulatory reform.We will support efforts to improve essential government and non-governmental institutions and physical infrastructure. We will also help to create a more growth-oriented African business climate that will generate trade opportunities and attract both domestic and foreign investment.

The private sector will have the lead role in helping Africa to alleviate poverty and build prosperity, and the U.S. Government will work with African governments to identify and remove impediments to the functioning of free markets. The Africans

themselves will have to empower their own private sectors to partner with U.S. enterprises.

The Legacy of Secretary Ron Brown's Commercial Development Mission to Africa

Shortly after the White House report was released, Secretary Brown led an historic Commercial Development Mission to Africa. The mission demonstrated clearly just what the report envisioned. The mission visited five countries: Côte d'Ivoire, Ghana, Kenya, Uganda, and Botswana. In each country, major initiatives were undertaken with African governments and private sector representatives to start a lasting process of economic and commercial expansion based on close cooperation with American companies.

Secretary Brown held discussions with government leaders and private representatives from nearly 40 African countries and more than 150 U.S. firms. He announced contracts and agreements for American companies totaling nearly $500 million, and he advocated on behalf of U.S. firms competing for projects that eventually could total more than $3 billion of U.S. exports.

The Secretary also challenged African leaders to recommit their countries to democracy, free enterprise, transparency, and lowering of commercial barriers.He signed a Memorandum of Understanding between the Department of Commerce and the Southern Africa Development Community aimed at increasing trade and investment ties between the United States and that important twelve-country regional organization. The agreement outlines a framework for cooperation between the Commerce Department and SADC with respect to commercial development in Southern Africa.

Secretary Brown declared the United States as ready to engage fully in Africa. We want to help Africans secure their share of growing world prosperity, and will no longer stand aside and allow our major trade competitors to treat Africa as their private commercial preserve. The United States is staking a claim to its fair share of Africa's growing markets. We are determined to build strong and lasting partnerships with African governments committed to free enterprise, and with African entrepreneurs ready to establish joint ventures with U.S. business. This is clearly a relationship for the mutual advantage of Africans and Americans alike.

After returning from Africa, the Secretary moved to further consolidate our commercial partnership by convening a new Africa Working Group under the Trade Promotion Coordinating Committee, an organization of nineteen U.S. Government agencies involved in facilitating exports and overseas investments. As part of the

Secretary's legacy, the Africa Working Group will meet periodically to help formulate and implement U.S. trade and investment initiatives toward Africa, and to address specific problems and impediments to commercial expansion in the region.

The U.S. Trade Promotion Coordinating Committee

At the Department of Commerce, we have already instituted several measures to help U.S. firms in Africa and elsewhere, as part of the Clinton Administration's National Export Strategy. I have already mentioned the interagency Trade Promotion Coordinating Committee--we call it the TPCC. The Committee brings together all the federal agencies involved in trade and investment promotion to ensure full coordination of government services and programs.

We are striving to improve Commerce services to the business community, through better coordination of the Department's component parts. Within the International Trade Administration, where most of our international programs are situated, that includes the country desk officers and industry specialists in Washington, and the Commercial Service throughout the United States and in our diplomatic posts overseas.

Here at home the entire domestic office structure has been redesigned into a network of Export Assistance Centers. The centers are an innovative step toward providing, in a single convenient location, hands-on export marketing and trade finance support for small and medium-sized companies. They are a joint effort of the Department of Commerce, the Small Business Administration, Eximbank, and in one site, the U.S. Agency for International Development. Companies no longer need to run from one agency to another seeking information on their commercial support services, and the co-location of these agencies allows for close coordination in helping firms.

The TPCC has established the Trade Information Center at the Department of Commerce headquarters in Washington to assist New-to-export companies to break into the marketplace. By calling 1-800-USA-TRADE, businesses receive personalized export counseling and a wealth of information on U.S. government export assistance programs. The Trade Information Center works very closely with our Export Assistance Centers.

We have created the National Trade Data Bank as the central repository for all commercial, financial, marketing, statistical, and demographic information on countries throughout the world. This information is developed by some 23 separate government agencies, and is updated each month. It Is available in a flexible and user-friendly format that allows cross reference by country and business sector. You can access the National

Trade Data Bank on the Internet through STAT-USA, or at any of more than 1,000 federal depository libraries throughout the United States.

U.S. Advocacy Coordinating Network

An Advocacy Coordinating Network has been established among U.S. Government agencies to 'organize and coordinate high-level official intervention on behalf of U.S. exporters competing for foreign contracts. An Advocacy Center has been set up at Commerce to coordinate the efforts of senior officials for the benefit of American companies. The Advocacy Center works closely with the country desk officers, industry specialists, and our overseas diplomatic posts to support U.S. bids. Secretary Brown made excellent use of this coordinated effort in his overseas travel, including his recent Africa mission.

With the limitations on Africa's own financial resources, the operations of the multilateral development banks take on increased importance. Commercial Service officers are assigned to each of the banks, including the World Bank and the African Development Bank, to help U.S. exporters participate in the banks' project procurements.

I mentioned that the Commercial Service has a component in our overseas diplomatic posts to complement the Export Assistance Centers here at home. In Africa, Commercial Service offices are located in Abidjan, Cote d'lvoire; Lagos, Nigeria; Nairobi Kenya; and Johannesburg, South Africa. During the Commercial Development Mission last February, Secretary Brown opened our fifth office in Accra, Ghana.

These offices work to identify commercial opportunities and local partners for American firms, and to assist firms in closing transactions. Our posts in Abidjan, Nairobi, and Johannesburg have larger regional responsibilities in West, East, Central, and Southern Africa, where they work closely with State Department posts to deliver the best commercial support possible.

Obviously, many of the initiatives I have described have a global focus, not confined to Africa. But we recognize that Africa remains the world's neediest region and among the most difficult in which to conduct business, in spite of its economic and political progress of recent years.

It is clearly a region in which U.S. business needs and deserves the best assistance we can offer. And it is equally clear that the U.S. Government--and the Department of

Commerce in particular--is working to build a strong support network to assist the commercial activity of U.S. firms in Africa.

As Secretary Brown often said, we will no longer concede Africa's growing markets to our trade competitors. The Clinton Administration understands that in a time of shrinking federal funding, any strategy to support trade and development in Sub-Saharan Africa needs to rely on increased U.S. commercial involvement in the region. American firms and workers stand to benefit greatly from engagement in Africa. By playing an active role, the private sector will generate significant benefits for Americans, for Africans, and for future generations. What better legacy could Ron Brown leave us? Thank you.

Longy Anyanwu, CERAF

We will go ahead with the program and introduce the next speaker. So far we have gotten views from within U.S. AID, the United Nations, and the U.S. Department of Commerce. At this point, let us look at the issue of equity markets from within Africa.

MaryAnn Rogers-Wright, Acting Director, Institutional Research, Montclair State University

Good afternoon. It is my pleasure to introduce the next speaker, who is the commercial counselor at the Embassy of Ghana in Washington, DC. He received his first degree, a B.S. in economics, from the University of Ghana, and his second degree from the GAP trade policy Center. He also has a certificate in professional law.

He is currently the commercial counselor at the Embassy of Ghana and has a wealth of experience in African affairs, and has worked for International Trade Centers throughout the world. Prior to his appointment to the Ghanaian Embassy in Washington, DC, he was also a member of the Ghanaian delegation to various conferences in West Africa and in Europe and the United Nations. Please help me to welcome Mr. Daniel K.O. Hagan.

African Policies and Involvement

Daniel K.O. Hagan
Commercial Counselor, Ghanaian Embassy
Washington, DC.
Deputy Director of Internal Trade
Ministry of Trade, Tourism and Industries, Ghana

Thank you MaryAnn, for these very kind words. Good afternoon ladies and gentlemen and thank you, Dr. Anyanwu, for inviting me here. Ghana, as you well know, has been described as a success story by various international organizations. I know that a lot of the speakers who have already spoken have been to Ghana or have had something to do with Ghana and this certainly makes my task a little easier because I am talking to an audience that basically knows quite a few of the things I'm already going to say.

Our conference today is concentrating on securities markets, so I am going to talk more about what the government has put in place in Ghana to develop our securities market. That should give you some perspective of where we hope to go in the future.

Overview of the Ghanaian Economy

There is some background that needs to be taken into account and that is the general economic structure of Ghana. First of all, you need to recognize that Ghana is very rich in both natural and human resources. It has an investment environment that has been the result of close interaction between the private sector and the government. It has developed a national vision which aims at making Ghana at least a middle income country by the year 2020. And it is pursuing this agenda in close cooperation with the countries in the West African subregion.

Ghana enjoys a relative worth of natural and human resources. In the last decade and a half we have had very solid and sound economic policies. These elements have made Ghana a model for developing countries in Africa since the economic recovery program was introduced in 1983.

Our typical growth has been on the order of five percent per annum. In the process, the economy has become very diversified as growth of industry and mining has outpaced agricultural production, and we have had both internal and external balance in our regime.

Our present debt ratio is a modest twenty percent, which means that we are considered a very credit-worthy country. In 1994, Ghana exceeded the expectations of the IMF, which basically means the government guarantees convertibility of its currency into all the major currencies. This has been no mean accomplishment and failure to achieve this status has often been viewed as a bar to the development of trade and investment in any number of countries.

Building Ghana's Financial Institutions

Now talking about our financial sector, Ghana has a pretty well developed financial sector. We have some development banks, some investment banks, commercial banks, one central bank, insurance companies and the like. Following the restructuring of our economy, the government has focused in the last few years on developing a financial sector to complement the development of the rest of the economy.

First of all there has been what we call the Ampex, which is like a commission that was created to take over the bad loans of the banks and create a new slate for the banks. This has meant that the banks end up with a clean slate to recapitalize and following that their performance has been exemplary.

In 1990, we completed the Ghana stock exchange. This stock exchange has shown incredible performance in the last five years. Now, we come to a situation where we are looking at what we have done so far and what can be done to better improve the chances of take off.

As a practical matter, many non-bank financial institutions in Ghana have been privately held firms, venture capital institutions, building societies, financial investment firms, unit trusts and mutual fund firms, as well as contractual financial institutions such as insurance companies. Through the accounting standards which have been established, when we look at these Ghanaian institutions under their present operations, we can state with confidence that these are institutions that have a sound economic base that can appeal to investors who are normally reluctant to entry the country.

Let me go back to the story told by my friend Kevin Murphy, the one about Jim Rogers. I got to meet Jim Rogers when I was in New York. Jim Rogers went to Ghana on his African bike trip, and when he got there, we were just then about to launch the Ghana stock exchange. However, Jim Rogers thought it fit to just threw $5,000 into the stock exchange, an exchange with no history, and by somebody known for wanting to know investment fundamentals before a commitment is made. While I would like to

speculate on how much money Jim Rogers has made, the last time I met him he was quite happy with what he had done there.

Ghana's Investment and Economic Growth Goals

When we think of the area the American investment should concentrate on, or consider concentrating on, that area is the non-bank financial sector. What are the reasons for this? One is that the country is a targeted area of substantial economic growth, with a proven track record over the past several years. At the moment, Ghana's average annual economic growth is around five percent. In the tiger economies of East Asia, average economic growth is around eight percent. If we are to equal or exceed this rate, and we can do so, we are looking to expand the amount of private sector investment.

For Ghana to expand its economic growth rate from five to eight percent, we are going to need an investment rate of about twenty-four percent of our Gross Domestic Product, with the greater proportion coming from private sources. This would mean that there will need to be more investement coming from non-official sources. These sources are going to have to increase from around ten to sixteen percent. It also means that the bulk of this financing is going to have to take the form of private foreign portfolio investment flows into Ghana.

The reasons for these projections are that official flows of around five percent of GDP which Ghana has been receiving up to now, are not going to be there over the long-run. This has been made clear by the Ministers of Finance of Ghana in the last two to three regimes. Although these pronouncements have been made, we have not yet found an antidote to official international aid that has come traditionally from bilateral and multilateral government agencies.

In 1992, foreign direct investment in Ghana was a mere $23 million, or .35 percent of GDP. Until 1993, foreign portfolio in investment was non-existent because the stock market was inaccessible to non-resident portfolio investors. However, by 1994, the amount of investment from portfolio investors had grown to $55 million, or .77 percent of GDP. Although this growth is impressive, it is still a fairly small percentage of GDP. We thus view the development of the non-bank financial sector as extremely important to our goal of achieving a higher rate of national economic growth and development.

Steps Toward Financial Diversification in Ghana

The idea of expanded portfolio investment in Ghana is meant to complement, not displace, the banking industry in our economy. These non-bank financial services will

become indispensable tools to respond to a variety of risks and liquidity demands that differ from traditional forms of finance. These special institutions will be able to apply financial engineering techniques to bring about an increased number of new enterprises, and to enable existing enterprises to become larger ones. By financial engineering, we mean the use of equipment leasing options, venture capital projects, and initial public offerings, all of which are just not possible through traditional modes of financial intermediation.

To give you an idea of why we view these new financial institutions as necessary, let me list for you the kinds of institutions we now have in place. At present, there are roughly about 20 insurance companies, 3 building societies, 2 discount houses, 2 unit trusts, 3 half-purchase and leasing companies, 1 venture capital company, 10 relatively small securities firms and1 finance company. For some African countries, this might be considered quite a well developed the financial sector. We don't think so, especially when we look at how we can expand the level of investment to produce the target rates of economic growth we seek.

Goals for Financial Institutional Creation in Ghana

It is clear that there are gaps in the non-bank financial institutional framework. There is, for example, no credit rating agency in Ghana and there is no local credit reference company. Even where these institutions exist, their numbers are inadequate or they lack the relevant resources, financial or otherwise, not to mention appropriate technology. Also, their services are lacking in variety and sophistication. Therefore, we are welcoming new entrants into this sector, hopefully to bring with it the level of advancement as well as the resources that will create the kind of environment that we believe would be necessary to further attract the private investment that we are looking for.

To facilitate new financial instituitons, let me say that prospective investors could form joint ventures with local counterparts, or they could set up new wholly-owned subsidiaries. In this context, we view the divestitute of such entities as the Ghana Insurance Company as an important step in helping to attract new entrants and partners to our financial market sector.

Looking to related measures of support, we are also looking to such changes as the privatization of telecommunications in Ghana, the creation of an export processing zone covering the whole country, and the creation of an international bond market. For this

latter innovation, we hope this will encourage cross-listings of international world-class enterprises, especially mining companies, on the Ghana Stock Exchange. This will provide important benchmarks for our own investors and managers as we seek greater participation in the world market.

As I hope this description makes clear, we have done much to eliminate barriers to entry in Ghana's markets. At present, entry is based only on capital adequacy, technical competence, and business integrity, as opposed to nationalistic or other discriminatory considerations. For most institutions, the minimum stated capital requirement is 100 million cedis, which is about $100,000 at current market exchange rates. At this level, investment can owned and operated wholly by foreign interests. They do not require Ghanaian counterparts.

Tax rates are also relatively low in Ghana. Under the new investment code, there is a ten percent final tax on dividends, corporate tax rates of between ten and fifteen percent, loss carry-over provisions, immigrant quotas, government guarantees against expropriation, and unconditional transferability of capital and investment proceeds.

As a measure of the government's commitment to the development of our financial sector, we have negotiated credits with the World Bank in the amount of $24 million, which we view as a form of collateral support for attracting new foreign investment to the economy. This credit, which was granted early this April, has much support from the local community as well as from the international community, and it provides financing support for training and for companies with an interest in setting up or expanding operations in Ghana.

The Choice of Investment Instruments in Ghana

There are bright opportunities for portfolio investors in our Ghana Stock Exchange. Portfolio investors need to consider investing in listed securities as well as investing directly by listing their companies on the Ghana Stock Exchange. Now why would somebody make such a statement? I would like to tell you just a little bit about the Ghana Stock Exchange, which will give credence to what I have just said.

In a nutshell, the Ghana Stock Exchange is in very good shape. Every day, reports coming from the Exchange show that the level of activity there is far higher than can be expected of an exchange which is less than 6 years old. The pursuit of excellence has become a way of life. Record setting and record breaking have become routine. Even when the Exchange was still a project, it had the distinction of being judged by CEDA,

the Canadian Development Agency as being the best CEDA sponsored project in 1991 in the whole world in terms of design and management.

The Ghana Stock Exchange is not even five years old, and yet it continues to generate high expectations. On the other hand, just to mention a few, let us look at a few other African exchanges by way of comparison. La Bourse de la Côte d'Ivoire is 70 years old; the Nigerian Stock Exchange is 35 years old; the Nairobi Stock Exchange is about 40 years old; and the Zimbabwe Stock Exchange is over 70 years old. I would not even try to tell you how old is the South African Stock Exchange, but I believe it is the oldest one in Africa

Even though the Ghana Stock Exchange is younger than most of other African stock exchanges, it is already well known world wide. Additionally, the Ghana Stock Exchange seems to enjoy more attention and interest than some of the longer established African stock exchanges. It has been covered by most of the major electronic and printed media interested in global financial news. There is no major financial newspaper or periodical today that fails to look at Ghana when comparisons are made of Africa's financial marketplace.

There are a few reasons why the Ghana Stock Exchange has been so popular. First, thanks to the ever growing list of policy measures and reforms and treaties by the government these past fourteen years, the economic business and tax environment of Ghana has been quite favorable. Some of these financial incentives are as listed below.

Why is Ghana's Stock Exchange an Attractive Market?

The tax rate on income and dividends is ten percent. Interest income is completely tax exempt. The capital gains tax for securities listed on the Ghana Stock Exchange for the past five years has been completely tax exempt, and this has been extended for another tenyears. There is no value added tax and there is no transactions tax on securities. As I have already said, there is a full and uncodntional payback of capital proceeds.

A second reason why the Ghana Stock Exchange is attractive is that it is among the few African exchanges to whose listed securites non-resident portfolio investors have access. Thirdly, the simultaneous listing of fuels on the Ghana Stock Exchange and the London Stock Exchange has given our market a whole new international dimension and stature.

As a further indication of the importance of the Ghana Stock Exchange, let me add an additional benchmark. The Ghana Stock Exchange is one of the very few emerging markets to have at least one of its securities lsited on a G-7 country major stock exchange. That number will soon increase to two, with the addition later this year of Panea Gold Fields, which is another mining company owned by the Boston Group.

The Listing of PGF would take the operations of the Ghana Stock Exchange to yet another plane. This will be the first time an externally incorporated corporate partner will be doing a crosslisting. Not surprisingly, with a current capitalization of $2.5 billion, the Ghana Stock Exchange has become the second largest in Sub-Saharan Africa.

To this list, we can also look at the operational rules for the Ghana Stock Exchange. The Ghana Stock Exchange maintains high quality standards for its listings, so much so that they are compared to standards found for mature stock markets in developed country markets. As evidence of this quality, the Ghana Stock Exchange is a corresponding member of the International Federation of Stock Exchanges, and is committed to uphold all of the generally accepted principles of securities and market business.

The dedication, commitment, and professional conduct of key individuals and institutions have helped to give the Ghana Stock Exchange the credibility that it has in today's global market. This includes the general counsel and managers of the GSE, the support of the Minister of Finance. In 1994, DuBurge Duvale stated in their annual report that the Ghana Stock Exchange was judged to be the best index performing stock market among all emerging markets in the world.

The gain for the GSE in the 1983-1993 period was 124.3 percent. The report further noted that the African region was one of the most attractive market places for international investors in 1994, and indeed, one of the most favorable. In 1995, the performance of the GSE reached its highest level, with a return on investment of over 70 percent. And even though the GSE also has had its fluctuations, the underlying market fundamentals have continued to prove sound.

During the 1990 to 1992 period, the Ghana Stock Exchange had approximately 4 million shares outstanding. During this period, the market value of shares stood at approximately $U.S. 350 million. In 1994, 93 million shares were added, with another 10.4 million through September of 1995. At current rates of exchange, this means a market value of approximately $U.S. 2.5 billion.

One notable transaction during this period was two sales of the Sentegal Fuels Company, and a corresponding listing of the company on the New York Stock Exchange. About 350,000 Ghanaian investors bout some 12.5 advanced depository receipts. That this transaction has so many Ghanaian nationals participating is clear evidence of the commitment that Ghanaians have placed in the health and future of the Ghanaian Stock Exchange.

One further example may help to reinforce the point. This year, the Home Finance Company decided to raise 1.1 million cedis through the GSE, and the issue was oversubscribed. In another instance, the Ghana Commercial Bank sought to raise 63 million cedis and this was also oversubscribed. And one of Ghana's major banks, the Security Bank, completely sold out the 70 billion worth of shares it also offered. So when my colleagues here talk about the possibillity of Africans not having enough liquidity to invest in firms that are being privatized, I can not say that this is the case in Ghana.

Constraints on Ghana's Financial Sector Performance

Although I have given you a very positive picture of Ghana's financial markets, let me also tell you about some of the problems. There are sensitive changes within the market itself, and within the national enviornment thatimpinge on the market. For one, the market still does not have full liquidity. Measured as a ratio of the secondary turnover to market capitalization, liquidity was a mere 3.7 percent in 1994. Price volatility is also a factor. Thirdly, with only nineteen companies, the number of listings on the Ghana Stock Exchange is still relatively small, and businesses are not fully representative of all key activities in the economy.

Additionally, as trading and investment are not optimal, neither are the technical skills at many levels of the security industry.There is a need to consolidate, upgrade, and modernize all aspects of the securities industry in Ghana. Inflation rates in the past two years have also increased, which adds to local economic uncertainty. Interest rates are currently fairly high, reflecting current and anticipated inflation rates.

In the international area, export receipts, which this year have exceeded expectations, have generally been less than projected. Our current account deficit persists, and there have been ongoing discussions of a continuing need to improve fiscal sector management.

Looking to the Ghana's Financial and Economic Future

As we look to the future, Ghana is moving to further strengthen its financial sector. One recommendation is for the establishment and early operation of a full securities regulatory commission. At present, the Governor of the Bank of Ghana acts as the sole regulatory commissioner. Even though we have not had very many problems, the presence of a full-fledged commission would do much to enhance the perception of the Ghana Stock Exchange as a transparent institution. Under such a commission, we would expect rules to raise even further standards for listings, trading, membership, clearing, delivery, settlement, as well as the upgrading of procedures for systems management and technology as new financial products emerge.

We also are looking at ways of improving the quality of market surveyors, corporate resolutions, enforcement mechanisms, and other investor protections within the Exchange. All of these are being considered in concert with ongoing efforts to develop linkages with regional and global markets. For its part, my government continues to pursue measures in the areas of taxation, macroeconomic policy, institutional and legal reforms, as well as improvements in the infrastructure to enhnace confidence in our investment environment.

Some of you may be interested in current efforts by the government to build on the above framework. One is that the government recently abolished the 2 percent stamp duty. Another is that the Government announced at the end of 1995 that it plans to continue with its program of privatization. The government started initially with some 300 state-owned enterprises, and these have been either sold outright, liquidated, or sold through shares on the stock market. The new commitment has been to privatize those state enterprises still remaining, and the Ghana Stock Exchange has reacted accordingly.

The governmentis also thinking of encouraging the Ghana Stock Exchange to establish a local bond market, complete with the kinds of cross-listings that have been used in stock securities. The government's commitment to the private sector is undiluted and any measures that the private sector through the private sector advancement group would bring up for the government's consideration would be given top priority.

Next is the fact that the Ghana government has recently outlawed international trading duties This idea is to make Ghana the financial center of the West African subregion by making it very easy for companies to set up, particularly data processing, data transmission centers, in the country without having the government control any of the activities. Again part of the trade mission is to have free ports and open status where

it will be possible for you to bring in both goods and services and not the border duties, so long as you are able to enrich some employment.

We believe that all these initiatives should enhance the attractiveness not only of the Ghana Stock exchange, but also of general investment of the economy of Ghana. If there are any other areas that I have left out that you would like me to consider, I'll take that in the coming question and answer session. Thank you very much.

Discussion - part II

Question:
My question is for Mr. Walker. I would like to know specifically what the government is doing to assist these medium-small sized businesses directly in the United States and what business arrangements or institutions to facilitate businesses in general with African countries.

John Walker, U.S. Department of Commerce
This is a very good question and was mentioned earlier by Kevin Murphy in terms of small and medium sized enterprises. A very important part of whas Secretary Ron Brown was trying to do was to develop small and medium-sized business. Small and medium-sized enterprises are very important. What the Department has done basically has been to provide information that may be needed on any country, inclusive of national statistics, sectoral information, and other data that would be of assistance to any company that is interested in developing economic ties with the continent. We do not provide grants for this purpose, but do have all types of assistance that would be useful.

Our country desk offices follow economic and political trends for just about any area of interest on the continent in which you may be interested. We coordinate a lot of this information and a lot of the things that we do with the State Department, with U.S. AID, with the Ex-Im Bank, with OPIC, in addition to contacts that we maintain with other agencies. We are in touch with the U.S. Trade Representative's Office, and as you may well know, Mickey Cantor was appointed as Secretary of Commerce to carry forward the work of Secretary Brown.

Question:
Is there an Internet address for the kind of informationyou have described, and is it available free of charge or is there a fee?

John Walker, U.S. Department of Commerce

I mentioned in talking that a lot of information is available on CD ROM, and a lot of it is on the Internet. If you call us, we can also fax out information to you directly.

Question:

You mentioned you have a department which is trying to identify opportunities in the different African counties. How do we get access to that information?

John Walker, U.S. Department of Commerce

All you have to do is call the US Department of Commerce. We have an 800 number for trade statistics that is listed on our internet address. If you would like to reach one of our nine country desk sites, you can call our office in Washington at 202-482-4925. These offices handle information for some forty-eight countries in Africa.

In terms of the cost, let me say that a lot of people do not realize that the information you have are supported by tax dollars. Some have gone on to advocate abolition of the Department of Commerce, but that does not seem very likely at the moment. We have a good service that can assist you if you are interested in expanding your business operations abroad. We are there to help you so let us know how we can be of assistance.

Question:

Mr. Secretary, I noticed that you suddenly became part of the development of a new policy of commerce towards Africa. Can you give us some idea of what the Department's focus is at this point in relation to that policy and so just to guide what we in Africa can do and what your business people coming over can expect.

John Walker, U.S. Department of Commerce

On Secretary Brown's trip to Africa, one of the things that we looked at was in finding ways to help more African companies bring delegations to the United States. We think that if the companies can themselves get business leaders together to discuss trade, it can be very productive. This is already done in many other regions such as by countries in North Africa and in the Middle East.

At this point, we have just received our first request to receive a delegation from Kenya. What I would not expect, however, is to have delegations from all forty-eight countries of Africa because the logistics can be very demanding. What we are encouraging is for a number of countries to organize themselves into regional delegations. In fact, when we made our trip to Africa, we planned it on a regional basis,

for West Africa, for East Africa, and for Southern Africa when we invited delegations to meet in Botswana.

There is a group in New York, BCIU, that we think will be able to assist us as we look forward to an expanded calendar of delegations. For our part, we have commercial service offices in various cities to help in arranging to host visiting trade missions.

Question:

Mr. Secretary, you had mentioned that you had made some kind of an arrangement with the South African Development Organization, SADCC. Have you thought of developing such an understanding with ECOWAS, which is a counterpart organization designed to promote regional trade and investment in West Africa.

John Walker, U.S. Department of Commerce

Yes. In Botswana, we just signed a Memorandum of Understanding which will allow us to work more closely in developing a bilateral relationship. SADCC has twelve African country members. We think that by bringing them together we can do more to help them on a bilateral basis.

When we put together our trip to West Africa, we did not then have in place a memorandum of understanding which we could pursue with ECOWAS. One of the reasons why we did not pursue a memo with ECOWAS at that time is the the membership in ECOWAS id a mixture of English and French-speaking countries, and it was thus a little bit more difficult to arrange. However, I see no reason why it could not be done in the future. It might be one of the things that the TOCC African working group could do.

I should add that we also did not pursue a memorandum of Understanding in East Africa, even though there is a KAMISA Group that could be a suitable institutional vehicle through which to do so. My sense is that the reason why it was done first with SADCC is that this group is very well organized and thus well positioned to move forward with a memorandum. KAMISA has been a little fragmented, but it seems to be coming together again. I do think that there are sound reasons for us to pursue memoranda of understanding with ECOWAS as well as with KAMISA.

If there are any other questions you might have, as I said, I encourage you to call me in Washington and we will be glad to help you in any way we can. Thanks so much.

Question:

Given the conditions that African states are facing and given the separation that exists among Africans, someone from Zimbabwe sees herself as separate from someone from Monrovia. Someone from the north sees him or herself separated from someone from the east. In your view, what kind of development scenario do you think could respond to this sense of division in Africa.

Hamid Temmar, United Nations

I would like to respond. If I understand you correctly, given differences between various regions of Africa, you do not see any coalition of interests. Well, I beg to differ. I think the evidence points to cooperation rather than division.

For some time, the typical view was to look at the world as it is and then say that we needed to do a lot more than we have been doing if Africa is going to get out of the political trap of historical divisions. African countries have made moves toward economic integration. It was in Lagos that African leaders set up the idea of an African economic community. The idea was that initially, regional organizations could serve as a bridge to the unification of Africa, and it was out of this notion that SADCC, ECOWAS, KAMISA, and MAGHREB, were established. These regional groupings were developed with countries of like mind and training, if you like, so that when these building blocks were established, you could have one general meeting to bring together the members as part of a broader integrated economic unit.

In West Africa, we have been struggling with ECOWAS and there are quite significant successes. At the same time, ECOWAS has also had its share of problems, particularly when a country such as Liberia went through civil strife which took up the energy and resources of member states until that conflict could be brought to a basic level of resolution.

In East Africa, we have seen a similar problem, with this community breaking up and then coming back together again. We think that with the current governments in place, the East African Community has far stronger prospects for economic cooperation and integration than it has had in quite some time.

SADCC, as it was explained here, is a very well organized community. With the emergence of post-apartheid South Afirca, I have very high hopes that SADCC can provide the kind of leadership that will be easy for the rest of Africa to follow.

MAGREB countries have also been fairly closely knit, despite pictures of differences that the Western press has tended to paint. The truth is that in all of my studies and readings, I have not found that MAGHREB countries have had much by way of differences in the economic sphere. And so while someone from Zimbabwe might not consider him or herself a West Africa, there is a sense of belonging to a regional grouping such as SADCC, and this is a plus in terms of the prospects for economic development on a regional basis.

Longy Anyanwu, CERAF

May I interject with an observation. Sometimes what we think is unique to Africa turns out to be true everywhere else. It is understandable that someone in Namibia or in South Africa might not feel part of ECOWAS, yet this does not translate into disocciation. In more developed countries, we find similar levels of association and dissociation. Regional associations exist as well in those countries. It thus seems natural that African leaders should opt first for developing regional ties, and that the momentum that may be established from their operation provides a foundation for broader levels of cooperation.

Question:

Why should we think that Africa represents a single political force? Within Africa there are many different types of people, much as is the case in Europe. It is only fairly recently that Europeans began to develop a system of economic cooperation. The Common Market was established as recently as 1957, and this became the foundation of the present-day European Community, and which only now is making any tangible moves toward currency integration and a continental system of central banking.

In Africa, we have ECOWAS and SADCC as examples of economic cooperation organizations. We also have the Organization of Africa Unity (established in 1963), which has worked to provide some measure of political coordination for Africa. It is going to take time to get any kind of trade agreement that would link all of the regions of Africa together. What we have now are general links that are mostly economic in nature. All of this points in the right direction, and we should begin with this reality rather than pretend that Africa is some kind of whole entity when this is just not the case.

There is no such thing as “the African”, or “the African economy”, and the reason is that the continent is enormous with many divisions. I thus think that strengthening regional groupings is the best way of working toward African economic integration.

Question:

I was wondering if we might get some more specific information on how one might participate in Africa's financial markets that we have heard so much about. If one is interested in investing in Africa, how does one go from here?

Daniel K.O. Hagan, Ghana Embassy

I mentioned a while ago Panea Mining, a stock that is already listed on the New York and London exchanges. You could have access to them right now through local brokers.

Participation in the Ghana Stock Exchange can now be done throug a variety of investment banking companies. Merrill Lynch is a firm that is already involved with the Ghana Stock Exchange. The Africa Fund is another institution that also helps with overseas placements. Anyone who is interested in additional information may contact our Embassy in Washington and we will be happy to provide particulars on any firm listed on the Ghana Stock Exchange.

Question:

One thing that has been difficult to come by in the deliberations is specific information on how to go about investing in African economies. Someone with a business background and with an interest in Africa is probably going to be interested in a lot more specific information that the kind we have been able to discuss thus far. A one-day conference might not be able to do justice to that interest, but my sense is that someone with this kind of interest would like to know a lot more about a specific country, even though we did get some specific information about Ghana today.

My question is whether the idea of looking at Africa is a whole hurts the investment effort, since at this level we wind up discussing things pertaining to general events, and these general events can turn on current political events as much as they turn on economic conditions of specific interest to the business community. In short, do you think that approaching Africa as a group, as one continent, as opposed to individual countries seeking out a specific identify, is harmful or beneficial?

Hamid Temmar, United Nations

I think that it is appropriate to consider both levels. To have a realistic picture for one country, one should look at specific conditions in that country, but also in the broader geographic and regional economic environment in which the country is located. I do not see how you could discuss Senegal without thinking about Mali, Ghana, and other countries in the region. It is in this sense that it is useful and realistic to think of West

Africa as a regional economic unit. Certainly the use of a common currency, the CFA franc, among a number of ECOWAS members, makes a compelling case for looking beyond a single country to the regional grouping of which it is a part.

The same would hold true for East Africa. The economies of Uganda, Tanzania, and Kenya are linked, by trade, by language, and by culture, and even though there are significant differences, the idea of KAMISA as an economic region is quite realistic. In this sense, our discussion of regional groupings does help us to get more specific without being too general.

There is certainly something to be said for having a general idea of Africa as a whole. This is particularly true for people living outside of Africa and who may have relatively little knowledge of what Africa is about. In this sense, it is reasonable to differentiate Kenya in relation to Liberia, or Ghana relative to Somalia, or Uganda in relation to Rwanda. An investor who gets the kind of news that typically comes through the media often winds up thinking that these countries are next door neighbors, and this leads to gross and misleading generalizations.

The question is an interesting one, and one that has come up any number of times at conferences such as this. In a similar conference in Houston not long ago, there seemed to be a general consensus that if one focused only on countries, one misses important parts of the picture that a regional perspective can provide. An investor is going to look for stability, a good market in which to make an investment, and because individual countries do not operate in isolation, it makes sense to place them in at least a regional setting to get a sense of the overall operating environment. If you focused only on Ghana, or Togo, or Côte d'Ivoire, you would not have a sufficient picture of how economic conditions are likely to evolve since these countries, all ECOWAS members, have regional patterns of trade that affect conditions within any single country.

As an example, Ghana and Côte d'Ivoire recently signed a Memorandum of Understanding to combine their tourism investment strategies in support of commercial tourism. One practical reason why this took place is that Côte d'Ivoire has, for example, excellent golf courses. But some tourists might like the friendliness and the castles, along with the general atmosphere, in Ghana more than in Abidjan, and Ghana does not have excellent golf courses. So both countries develop a program of cross border joint promotion, which helps the tourist who comes into Abidjan first, but would also like to visit the historic sites in the sites in Cape Coast. Such cross-border tourism is a win-win

situation for both countries in that they wind up having a greater number of tourists than either one would in isolation.

From an administrative, institutional development, and business point of view, emphasizing regional development is clearly the most logical way to proceed. This is not because someone has made a choice of sub-regions, but that sub-regions are now beginning to develop a positive agenda of acitivity. It is the kind of specific sub-regions that we have been discussing here where we see this activity taking place, and they can help to accelerate initiatives taking place within any one country.

Daniel K.O. Hagan, Ghanaian Embassy

Let me add one further dimension to the discussion. In an academic setting such as this, there is sometimes a lack of knowledge of the basic and critical issues pertaining to Africa, such as are being discussed in this conference. You may have had examples of students who sometimes come to you and think about Africa as though it were just one big city. I would occasionally explain that just as we don't think of the United States as one city, neither should we think of Africa in these terms.

Just as business leaders and government officials need to know about Africa, so too do students. Certainly to know one country in particular, and in depth, would be rewarding, but this usually can not come about without a broader frame of reference. And, as we have seen today, when you hear references to Africa in terms of an investment perspective, you sometimes get broad generalizations in terms of the potential of the region. To understand that potential, one does have to start somewhere with a perspective, and talking about one country is just not enough.

What we have been doing today is to provide a mix of information that combines some specific perspective for a single country such as Ghana, with a broader set of perspectives such as those provided by the United Nations, U.S. AID and the U.S. Department of Commerce. This has been the direction in which CERAF has sought to move, to focus on topics that can embrace both the particular and the general. The last time we held a conference, it was on Managing the Economic Transition in South Africa. This was focused on one specific country, even though there were implications for the Southern Africa region as a whole.

Question:

My name is Joyce Schaffer. I work as the government documents librarian in Sprague Library of Montclair State University. I think the work that Ghana has done is exemplary.

I am interesting in finding out if that with the success that has been achieved in Ghana, has there been any thought to mentoring other countries in the region?

Daniel K.O. Hagan, Ghana Embassy

We have not thought of Ghana as a mentor. It is true that African countries have come to us to learn from what have been doing. One example is Uganda. Uganda has been working very closely with us to develop their investment promotion organization, to revise their tax laws to reflect what we have done in restructuring our own tax laws in terms of encouraging business expansion. Ugandans have also picked up on what we have done in terms of re-focusing public sector policies in support of business initiatives. As an illustration, In Uganda, they have developed a one-stop investment center. We have also had discussions with other African countries, especially those from East and Southern Africa. Namibia is one case in point.

Hamid Temmar, United Nations

On this question, as you know, the UNDP operates programs on a worldwide level. In the various offices of UNDP, we offer the kind of information exchange which has already been described, to which we also add our effort to have regional meetings every six months or so to bring things up to date. Each office has senior economists, national economists, and junior economists on its staff. At these meetings, every effort is made to look to ways in which an assistance program can be improved and in which an investment program can be stimulated.

These programs are part of the technical assistance which UNDP traditionally provides. As such, we view this as a kind of network which we think provides a continuous flow of information from which business leaders and government officials can benefit as they reshape existing investment and economic strategies. As information technology improves, we would also expect the quality and speed of communications to accelerate, even as we expect the level of private investment to expand.

Question:

Given the favorable labor environment in Africa, why is it that more production can not take place locally rather than abroad?

Daniel K.O. Hagan, Ghanian Embassy

Technology is the key here. Up to now, production of kente cloth in Ghana has been done largely by manual labor, and this makes production fairly expensive. We now find people who are looking for millions of yards of kente cloth. Now, unless Ghana is

prepared to develop a more automated production system, we are going to see a gap between supply and demand. What we find is that when Ghanaian producers could not meet demand for kente cloth in the U.S., especially among African-American consumers, other countries began to provide substitutes, notably, South Korea. This represents a lost opportunity for African producers who have not adapted production to the evolving scale of world demand.

Technology is one way that Africans can retain ownership of kente cloth production. Another is to emphasize the authenticity of production. Traditional kente cloth is supposed to be rolled, and if it is not, then it is not considered authentic. African producers could develop an advertising and promotional campaign to establish a brand name identity for Ghanian kente cloth.

Longy Anyanwu, CERAF

The kente cloth example is instructive. Whenever we discuss development issues, we often seek ready-made answers. Handwoven kente has a market premium, and you would think that one of the initiatives that the Ghanaian government should emphasize would be to help to expand the training of more hand weavers rather than to say that there is no money to buy machines for automated production. This could help to generate many jobs and to the extent that there is brand loyalty, it could provide an important source of export earnings for Ghanian producers.

This brings our conference to a close. I hope that those of you who came today have been able to benefit from the presentations and from the question and answer discussions. I appreciate some of the suggestions made today in terms of our conference agenda and want you to know that we welcome your involvement in helping to broaden the base of the Center.

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APPENDIX

Table 1

FACTORS CONSTRAINING FINANCIAL MARKET DEVELOPMENT IN DEVELOPING COUNTRIES		
Economic Factors		***Results***
Low per capita income	☞	Low marginal savings rate
Skewed income distribution	☞	Concentration of capital
Economic concentration in few sectors	☞	Limited lending/investment opportunities
Inflation	☞	Reduced incentives to save and invest in financial assets
High debts	☞	Limited capital availability
Management inexperience in financial and other sectors	☞	Inhibited performance of banks, reduced ability of borrowers to repay loans
Lack of real assets	☞	Decreased supply of funds
Family ownership	☞	Fear of losing control

Table 2

Policy Factors		*Results*
Government ownership	☞	Reduced efficiency
Interest rate ceilings	☞	Lowered ability of banks of attract funds
Excessive regulation	☞	Decreased freedom to seek investment diversification
Portfolio selection restrictions	☞	Limited investment alternatives
Excessive taxation	☞	Reduced financial returns to investment
Budget deficits/mandated bank purchases of government paper	☞	Crowding out of the private sector
Barriers to entry	☞	Reduced competition and efficiency
Overvalued exchange rate	☞	Reduced export returns; capital flight