Economic Perspectives

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Promoting Trade and Investment in Africa

Joining the Global Economy • Creating Conditions for Investment •
• Expanding U.S.-African Trade • Reducing Debt Burdens

August 1999

ECONOMIC PERSPECTIVES

An Electronic Journal of the U.S. Information Agency

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PROMOTING TRADE AND INVESTMENT IN AFRICA

When President Clinton announced the Partnership for Economic Growth and Opportunity in Africa just over two years ago, he spoke of a new era dawning in the states of sub-Saharan Africa where democracy and free markets are becoming the driving force.

The United States, to the extent possible, should assist this transformation by helping to integrate Africa's nascent free market democracies into the global economy, Clinton said.

"An Africa that is gaining vitality while technology, trade, communications, and travel are bringing millions into the global economy is a continent of greater stability, growing markets, stronger partners, " the president said.

Clinton's partnership initiative has five key elements: further opening U.S. markets to African products, increasing technical assistance to Africa, encouraging more investment in Africa, reducing the debt burdens of the poorest reforming countries, and holding annual high-level meetings between African and U.S. officials. "Our initiative opens the door to real, positive change," said Clinton. But, he added, only the African countries "carrying out serious reforms will reap the full benefits."

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ECONOMIC PERSPECTIVES

An Electronic Journal of the U.S. Information Agency — *Volume 4, Number 3, August 1999*

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❑ SUPPORTING AFRICA'S TRANSFORMATION

By Rodney E. Slater, U.S. Secretary of Transportation

President Clinton has pledged to support African countries that have committed themselves to implementing reforms for democracy, human rights, and free market development, says Rodney E. Slater, U.S. Secretary of Transportation.

One of the ways in which Clinton is fulfilling this pledge is by calling on U.S. departments and agencies to devise programs to provide technical assistance to African governments as they integrate themselves into the global economy, says Slater. The U.S. Department of Transportation, for its part, has developed a multifaceted program to help African countries improve their transportation systems, he says.

President Clinton, during his historic April 1998 trip to Africa, pledged to support African nations undergoing dramatic transformations toward peace, democracy, human rights, and free markets through expanded economic opportunities and stronger cooperation.

Making good on this pledge, the president has launched new initiatives to deepen U.S.-Africa ties. These include initiatives to expand U.S.-Africa trade and investment, to increase technical assistance, to foster education by linking schools in the United States with those in Africa, to protect food security, and to advance peaceful conflict resolution.

An outstanding part of President Clinton's initiative is his request that U.S. government departments and agencies devise programs to assist the African governments in their integration into the global economy. More than 10 departments and agencies are now involved in this effort. We at the U.S. Department of Transportation (DOT) have launched the Transportation Initiative and Partnership with Africa under the theme "Transportation: The Tie That Binds."

TRANSPORTATION AND DEVELOPMENT

Safe and efficient transportation systems are vital to Africa's continued economic development. Transportation plays a key role both in the region's capacity to participate in the global economy and in the well-being of its communities and people. Transportation is about more than concrete, asphalt, and steel; it is also about providing people with opportunity, freedom, and community. This initiative and partnership with the nations of Africa embodies the president's vision to bring increased opportunities and provide a richer, more fulfilling life for both Africans and Americans.

DOT's initiative has three major objectives. The first is to expand trade and investment opportunities. As President Clinton has affirmed, the future of U.S.-African relations lies in building an economic partnership with African nations. In support of this objective, we are advocating stronger, more open trade and investment relations with Africa. This is why the president has made the passage of the African Growth and Opportunity Act, which is now before the U.S. Congress, such a high priority.

The second objective is to support African economic integration. To succeed in the 21st century, the nations of Africa must become integrated into the fast-paced global economy. To achieve this, African countries must continue down the road of economic, political, and social reform on which many already have embarked. The Clinton administration strongly advocates the continuation and expansion of reforms aimed at opening economies, maintaining economic stability, building human and physical capacity, and creating an environment in which profitable trade and investment can take place. Robust and open African economies mean more jobs, higher profits, and an improved standard of living for both Africans and Americans.

The third objective is to foster development in Africa. President Clinton and I understand that Africa needs

more than just trade and economic reform to develop. African nations also need to build human capital, establish a sound institutional framework, and increase their technological capacity if growth is to be sustainable.

I have traveled to the continent several times, representing the United States and President Clinton, most recently to Nigeria in April to witness the inauguration of President Olusegun Obasanjo and the truly remarkable transition from military rule to democracy. I have met frequently with transport and other government officials to observe first-hand some of the challenges that lie before us. I would like to outline some of the tasks we have begun and others that lie ahead.

To implement our initiative, we have reached out to numerous private and public constituencies in the United States as well as in Africa. We are working with a wide range of U.S. government agencies, multilateral banks, African organizations, and nongovernmental organizations. These include the Organization of African Unity, the World Bank, the Constituency for Africa, the Corporate Council on Africa, and others. We are working with these organizations to explore possibilities for cooperative efforts and to look at how the various U.S. government agencies can complement their efforts.

TOWARD SAFER SKIES AND ROADS

An important part of the DOT's efforts is President Clinton's "Safe Skies for Africa Initiative." Launched by the president in April 1998, this initiative promotes sustainable improvements in aviation safety and airport security across the continent. Safe and secure air travel is a prerequisite for expanded air service to the continent, which in turn will support trade, investment, and tourism. The goal of the Safe Skies initiative is to quadruple the number of countries that meet the International Civil Aviation Organization's safety and security standards, to improve airport security at 8 to 12 airports in Africa within three years, and to improve regional air navigation services.

On October 30, 1998, I announced the eight African countries selected to participate in the initiative — Angola, Cameroon, Cape Verde, Cote d'Ivoire, Kenya, Mali, Tanzania, and Zimbabwe. An interagency team composed of personnel from the Federal Aviation Administration and the Departments of State, Defense, Justice, and Treasury visited two countries this year to begin aviation systems/airport surveys. The first survey team visited Kenya in March; a second visited Cote d'Ivoire at the end of July. The interagency team may also visit a third country later this year.

As a follow-up to my discussions with national leaders in Africa, our Federal Highway Administration has established a number of cooperative activities between our agency and individual sub-Saharan countries, as well as on a regional basis with the Southern African Development Community (SADC), which represents 14 sub-Saharan Africa countries. Some of the cooperative activities include:

- Developing a regional networking model to bring about more consistent transport policies, programs, and standards across the member countries.

- Furthering institutional restructuring, including the possibility for a dedicated road fund.

- Advancing safety advocacy and results to reduce the injuries and fatalities in transportation.

- Advancing the Technology Transfer program in the SADC region. Under this program, DOT trains African transportation professionals in the use of advanced technology to improve their transportation systems. At present, there are Technology Transfer Centers in South Africa and Tanzania, and one under discussion for Botswana.

- Further developing strategic roadway management approaches, such as systems, data, and training.

ADDITIONAL TRANSPORTATION INITIATIVES

Another project that takes advantage of rapid advances in technology is the planned Geographic Information System (GIS) for Africa. The Federal Railroad Administration is working with other agencies to develop a CD-ROM-based GIS for the African continent. This technology will allow African countries to simulate traffic forecasts for rail and other transportation modes, as well as to conduct economic modeling.

Our Research and Special Projects Administration is coordinating with the Federal Emergency Management Agency and the U.S. Agency for International Development on a partnership to develop emergency response education and training programs for civil

aviation and other modes that meet the needs of the nations of sub-Saharan Africa.

Road and highway accidents are among the major causes of transportation-related fatalities on the continent. Our Federal Transit Administration and the National Highway Traffic Safety Administration are developing training materials on road and highway safety.

Our U.S. Coast Guard and Maritime Administration are working with the nations of Africa on ways to assure the security of their coasts, as well as to enhance and upgrade their ports to take advantage of the opportunities that a strong maritime industry can provide.

The dedication and expertise of the U.S. Department of Transportation is being utilized on a number of fronts to implement President Clinton's partnership initiative with Africa. All of our efforts will pay dividends in the short- and long-term economic revitalization of the African continent. ❑

❑ INTEGRATING AFRICA INTO THE WORLD TRADING SYSTEM

By Rosa M. Whitaker, Assistant U.S. Trade Representative for Africa

African economies can benefit significantly from the next round of multilateral trade negotiations, to be launched in December at the World Trade Organization (WTO) ministerial meeting in Seattle, says Rosa M. Whitaker, Assistant U.S. Trade Representative for Africa. More open world agricultural trade, for example, could greatly benefit African farmers, she says.

While 38 African countries have joined the WTO, these nations have made fewer commitments to WTO agreements than any other region. And few have joined the crucial agreements on telecommunications, financial services, and information technology. Countries outside these agreements are likely to enter the 21st century with fewer computers, inadequate phone and Internet links, underdeveloped banking systems, and, overall, will be less prepared to compete with other nations, says Whitaker.

Under President Clinton's leadership, U.S. engagement with Africa has increased to levels unparalleled in history. Support for sub-Saharan Africa's integration into the multilateral trading system is a cornerstone of the president's Partnership for Economic Growth and Opportunity in Africa. This policy objective reflects broad recognition that Africa will need billions of dollars in new private sector investment every year, beyond what traditional development assistance can provide, in order to address poverty and to raise living standards. While the economies in many other regions of the world are growing as a result of increased trade and investment, the 48 countries in sub-Saharan Africa maintain a little more than 1 percent of global trade and less than 2 percent of world investment.

U.S. trade policy toward Africa is rooted in the same fundamental principles as our policy toward Europe, Latin America, and Asia. It is based on the principle that we have profound interests in prosperity and peace worldwide, and open trade helps to achieve both.

If Africa is to develop and prosper, its countries must be open to trade and investment with the world, with the United States, and with its regional neighbors. In other parts of the world, such openness has generally led to growth, competition, and broadly based prosperity.

African countries must overcome significant challenges, including instability in various regions, overreliance on primary goods and raw materials, and the relative vulnerability and small size of Africa's economies. However, the United States firmly believes that these obstacles can be surmounted if we and the global economic community work with Africa to ensure that it becomes an active and energetic member of the international economy.

THE OUTLOOK FOR AFRICA

Prospects for Africa, including its two economic giants, South Africa and Nigeria, are good. Since 1994, inflation has dropped, growth rates have doubled, and U.S. exports to Africa have risen by nearly 50 percent. African trade with the United States is also rising. Many African countries are now pursuing trade policies that we support — regional economic integration, liberalization of trade and investment regimes, privatization of state-owned enterprises, private sector development, and trade and investment promotion. Throughout Africa, governments are making the difficult decisions and implementing the often controversial reforms necessary to make African economies more competitive. U.S. support can help ensure that Africa continues to implement reform and that its efforts produce positive results.

The Clinton administration, working with the U.S. Congress and with many African nations, has crafted a multifaceted approach to generate significant new opportunities for African economic growth and increased integration into the world economy. The U.S. approach was developed after comprehensive consultations with African countries. It is a policy with, not for or about, Africa. We are working with African governments in support of regional economic integration, freer trade in services, better agricultural standards, intellectual property protection, and enhanced market access in areas of comparative advantage for Africa like textiles and

agriculture. Among the measures we have proposed or are already implementing are the African Growth and Opportunity Act, bilateral agreements, and technical assistance. The United States plans to coordinate with Africa in the World Trade Organization (WTO) and in other areas through a newly established U.S.-African Economic Community Consultative Mechanism. U.S. Trade Representative Ambassador Charlene Barshefsky chaired the first-ever comprehensive roundtable with African trade ministers on the WTO during the U.S.-Africa ministerial meeting in Washington in March 1999. The roundtable was co-chaired by the Organization of African Unity/African Economic Community.

Thirty-eight African nations are now members of the WTO, and two more are seeking accession. This is critical to expand exports, attract investment, and raise economic growth, but it is only a beginning. African nations made fewer commitments in the Uruguay Round than the countries of any other region. Few African nations have joined the WTO's 21st-century agreements on telecommunications, financial services, and information technology. This slows the growth of trade with Africa and slows Africa's economic development. High tariffs reduce the ability of African firms and farmers to buy essential inputs at lower costs.

If they participate actively, African economies could benefit significantly from the next round of multilateral trade negotiations, to be launched November 30-December 3 at the WTO ministerial conference in Seattle. For example, open trade in agriculture can relieve African farmers of the burden imposed by protectionism and export subsidies, which both block potential markets and depress world commodity prices. Export subsidies, in particular, place an immense and unfair burden on farmers in other countries, especially developing countries in Africa, Asia, and elsewhere.

More open markets in services will help African countries to acquire legal and financial expertise as well as transportion, information, and telecommunications infrastructure that will spur more rapid and stable development. Unfettered development of global electronic commerce is especially important to poorer African nations and microenterprises, since Internet access requires little capital, helps entrepreneurs find customers and suppliers quickly, and eases technical and paperwork burdens. Countries outside the telecommunications, information technology, and financial services agreements are likely to enter the 21st century with fewer computers, inadequate phone and Internet links, underdeveloped banking systems, and, consequently, will be less prepared to compete with other nations.

AN ERA OF OPPORTUNITIES

The United States has developed a series of comprehensive technical assistance programs to help increase the capacity of African countries to become active and informed participants in the WTO and other trade negotiations. Three U.S.-sponsored WTO-related workshops have been held in Zimbabwe, Uganda, and South Africa. USTR and the U.S. Agency for International Development (USAID) are planning to hold a regional WTO workshop, in conjunction with the Organization of African Unity and other regional organizations, in Cote d'Ivoire and another workshop in Senegal. USAID has also launched the Africa Trade and Investment Policy program (ATRIP), which promotes training and technical support for African countries undertaking economic liberalization.

The African Growth and Opportunity Act (AGOA), currently under consideration in Congress, would establish for the first time a comprehensive framework aimed at encouraging greater economic growth and self-reliance through enhanced international trade and investment. AGOA would extend the Generalized System of Preferences (GSP) program, which provides duty-free access for specific goods from qualifying countries, for 10 years in Africa, ensuring greater certainty for prospective traders and investors. AGOA would also expand U.S. market access for many goods from Africa's strongest reforming countries, goods now excluded under the GSP program. AGOA calls for the United States to work with other donors to address the debt problems of Africa and establishes new Overseas Private Investment Corporation equity and investment funds to generate new investment and American and African jobs.

With the creation of my position as the Assistant United States Trade Representative for Africa a little more than a year ago, the United States strengthened its ability to negotiate formal agreements with Africa that create stronger legal and institutional foundations in our relationships. USTR has signed three significant agreements since the creation of the office. In February 1999, the United States signed Trade and Investment Framework Agreements (TIFAs) with South Africa, our largest African trade partner, and with Ghana. These

TIFAs have created an official dialogue on trade and investment issues and are focusing efforts on removing impediments and developing mechanisms to increase trade and investment flows with these two important countries. The United States also signed a Bilateral Investment Treaty with Mozambique in December 1998, which will help Mozambique attract investors and generate jobs while providing U.S. investors with greater levels of certainty and guarantees and creating markets for America.

USTR Barshefsky recently expanded the GSP program by 1,783 tariff items for products from 33 of the world's least developed countries, 29 of which are in Africa. USTR also added special provisions for eligible members of three African regional trade associations: the Southern African Development Community (SADC), the West African Economic and Monetary Union (WAEMU), and the Tripartite Commission for East African Cooperation (EAC). Members of these associations will be able to combine their value-added contributions to exports to qualify for GSP benefits.

The United States views the next few years as a tremendous opportunity and critical juncture for U.S.-Africa economic relations. Trade policy can help create a 21st-century economy in which people are more prosperous, economies more efficient, the environment cleaner, and nations less threatened by hunger and disease. The United States intends to work aggressively both bilaterally and multilaterally to increase trade, expand economic growth, and improve the quality of life of Americans and Africans. ❏

❑ PRESIDENT CLINTON'S PARTNERSHIP INITIATIVE FOR AFRICA

By Witney Schneidman, Deputy Assistant Secretary of State for African Affairs

President Clinton's two-year-old Partnership for Economic Growth and Opportunity in Africa is working to expand U.S.-African trade and investment and assist African leaders in making needed economic reforms, says Witney Schneidman, Deputy Assistant Secretary of State for African Affairs.

African countries can benefit from the Partnership Initiative by taking steps to integrate themselves into the global financial system, open up to trade and investment, stick with macroeconomic reforms and implement anti-corruption strategies, Schneidman says.

The United States seeks a stable, economically dynamic, and democratic Africa with which we can work to promote trade and investment to advance our mutual interests. The Clinton administration has made it a priority of its foreign policy to support increased economic growth in Africa in order to accelerate the region's integration into the global economy. We believe that trade and investment are critical to Africa's long-term sustained development and thus are key to our bilateral prosperity and security in the next century.

Increasing Africa's commercial links with the rest of the world can help eradicate endemic poverty — and the civil unrest that often accompanies it. At the same time, the United States' engagement with Africa's economies is growing by leaps and bounds. Africa is the source of over 16 percent of our nation's imported crude oil, almost as much as from the Middle East. U.S. exports to Africa increased 8 percent last year, the fourth year of consecutive export growth with Africa. In 1998, our exports to Africa were 45 percent more than to all the newly independent states of the former Soviet Union combined.

THE PARTNERSHIP FOR ECONOMIC GROWTH AND OPPORTUNITY

Two years ago, in an effort to structure our commercial relations in Africa, President Clinton launched his Partnership for Economic Growth and Opportunity in Africa. The program is intended to catalyze and complement the work of other industrialized countries, international institutions, and the people of Africa to ensure that the region can compete in the next century. Under the plan, as part of U.S. government policy, we are encouraging greater two-way trade and private sector investment throughout Africa, in part by making available more than $750 million in investment financing from the Overseas Private Investment Corporation (OPIC). We also continue to press for swift passage by Congress of the African Growth and Opportunity Act (AGOA). The AGOA utilizes trade as a long-term stimulus to economic development and will spur greater trade and investment in Africa.

Debt relief is essential if African governments are to accelerate the process of economic reform and development. Debt relief is a pre-condition for African countries to become vibrant members of the global economy. Thus, in mid-June at the Group of Seven major industrialized nations summit in Cologne, the leaders announced a $90 billion debt reduction initiative. This initiative will be an expansion of the existing World Bank/International Monetary Fund-administered Heavily Indebted Poor Countries (HIPC) program. Once implemented, relief will be significantly deeper, faster, and broader for countries taking the necessary steps to help themselves, allowing them to target saved funds on such social needs as education, health, and human development. The number of countries expected to qualify for the enhanced HIPC program would rise from 26 to 33, affecting over 430 million people, the majority of them Africans.

Under the partnership, we have begun a dialogue with Africa's leaders on the most significant issues of the 21st century. In March, President Clinton, eight members of his cabinet, and the heads of the U.S. Agency for International Development, the Trade and Development Agency, OPIC, and the Export-Import Bank invited the foreign, commerce, and finance ministers from 46 sub-Saharan countries to Washington to the first-ever U.S.-Africa ministerial — the largest group of U.S. and African officials ever to meet anywhere. In April, a 100-

member U.S. delegation traveled to Botswana for the first U.S.-Southern African Development Community (SADC) forum, to increase our ties with this critical economic bloc. There, we considered a regional trade and investment framework agreement and agreed to work together to counter trafficking in drugs and firearms, as well as to coordinate efforts to combat HIV/AIDS. Clearly this level of engagement between Africans and Americans signals a new era of regional and bilateral cooperation and interest.

Africans themselves already have made significant strides in opening their economies to international traders and investors. A majority of African nations continue to implement economic reform measures, including liberalizing trade and investment regimes, reducing tariffs, rationalizing exchange rates, ending subsidies, and stabilizing their currencies. Eleven African nations have adopted principles that we hope one day will form the basis of an African Anti-Corruption Convention, and organizations such as SADC, the East African Community, and the Common Market for Eastern and Southern Africa are becoming serious regional economic engines for growth. Regional integration is one of the most important steps toward integrating many more nations into the global economy, allowing smaller countries to test the waters locally before being exposed to competition from abroad. We will support the efforts of African nations to band together to form strong, connected, and promising markets.

CREATING INVESTOR-FRIENDLY ENVIRONMENTS

There are many additional ways in which African nations can take full advantage of what the President's Partnership for Economic Growth and Opportunity has to offer. The first is to continue to have faith in the global financial system. The Bretton Woods institutions are still, and will continue to be, vital to the global economy. Yet the United States and African nations must work together to strengthen the capacity of these institutions to deal with change, inevitable risk, and the potential shocks of this 21st-century economy and its rapidly increasing flow of ideas, capital, technology, and goods and services. As President Clinton noted very recently: "Every single day a half million airline passengers, 1.4 billion e-mail messages, and $1.5 trillion cross national borders." Today, billions of dollars worth of goods and services can be bought and sold, traded and bartered across oceans in a few seconds, and often with just a push of a button. This environment requires additional safeguards from both developed and developing nations to ensure stability and help mitigate the boom or bust cycles we have witnessed in many important emerging markets recently.

The Clinton administration is working to develop a new global architecture that involves important refinements of the Bretton Woods institutions, relying more on accepted codes of conduct to improve overall financial transparency and bank supervision. These improvements will benefit the economies of both developed and developing countries. At the G-7 meeting in June, for example, world leaders recommended strengthening financial regulation in industrialized countries to encourage creditors to act with greater discipline, as well as prudent assessment of risks associated with lending.

Second, we need to encourage developing countries to invest more effectively in their people. An educated and trained work force is necessary to harness the technologies of the 21st century. Investments need to be made in universal and primary education. Moreover, there needs to be a greater effort to encourage the more than 30,000 Africans with doctorates now living outside the continent to return home. The development of Africa's capacity is an urgent priority, especially as it concerns economic and financial matters. We must also take urgent steps to combat the pandemic of HIV/AIDS, especially in those countries where the life expectancy has begun to drop precipitously.

Third, it is apparent that over the last decade, many developing countries have made progress in liberalizing their markets with considerable success. While this is essential to becoming a full member of the global economy, the last two years have also underscored the need for all countries to put into place microeconomic measures, such as sound prudential supervisory mechanisms, appropriate capital adequacy formulas, effective shareholder rights, and transparent financial disclosure practices. With these institutional improvements, both foreign direct investment and privatization can have their full catalytic impact on economic growth and capacity building. At the same time, developing countries' leaders must pay more attention to developing these financial regulatory mechanisms in order to clarify and enforce the "rules of the game" to attract significant volumes of investment.

Fourth, governments must stay the course of macroeconomic reform. The United States will try to lead

by example and keep its markets open. Through the African Growth and Opportunity Act, Africans will be able to export many more products to the United States duty-free. But African nations must do their share by continuing to liberalize, privatize, and nurture the growth of the private sector in their economies, seek foreign investment, and remove barriers to intra- and international trade. Privatization, for example, can lead to the introduction of new technologies, new management techniques, and new investment capital in formerly state-run enterprises. Reforms of this kind can also contribute to more investor-friendly environments and provide important linkages between African economies and other trading nations.

The United States faces hurdles in its bilateral economic relationship with Africa — as we do with all of our trading partners. Many African countries continue to have tariff rates that are among the highest in the world. The United States will continue to advocate vigorously for a reduction of tariff and nontariff barriers and for compliance with World Trade Organization obligations. This includes protection of intellectual property rights and adherence to other standards critical to expanding exports, attracting investment, and raising growth rates.

IMPORTANCE OF ANTI-CORRUPTION STRATEGIES

Finally, together, the United States and Africa need to launch a global campaign for good governance and anti-corruption.

• The Organization for Economic Cooperation and Development's anti-corruption convention, which is aimed at the supply side of the bribery equation, came into effect in February of this year. Twelve OECD states have ratified the convention, and more are expected to do so in the coming months. States that have ratified and implemented the convention are criminalizing the provision of bribes. The goal of the United States, which banned bribery by its firms more than 20 years ago, and now the OECD is to make price and quality the determining factors in public procurement decisions.

• Both the OECD and the Organization of American States have begun to deal with the demand side of bribery and are exploring means to curb the solicitation of bribes.

• In Africa, many countries are beginning to deal with corruption head on because, increasingly, it is seen as the most serious impediment to economic and social development and the creation of an investor-friendly environment.

• In this context, we applaud the steps by the World Bank to make anti-corruption practices central to its global activities, including in Africa. We also applaud the numerous steps that African governments are taking to implement national anti-corruption strategies. Effective anti-corruption strategies are vital to Africa's full engagement in the global economy.

President Clinton said it best when he announced the Partnership for Economic Growth and Opportunity in June 1997: "As Africa's nations join the global march toward freedom and open markets, our nation has a deep interest in helping to ensure that these efforts pay off. An Africa that is gaining vitality while technology, trade, communications, and travel are bringing millions into the global economy is a continent of greater stability, growing markets, stronger partners." A partnership is a give and take, a union formed to achieve a shared goal or aspiration. We stand with Africans as they take the necessary steps to join the community of world nations and become more prosperous economic allies in the next century. ❑

❑ AFRICA'S NEW APPROACH TO DEVELOPMENT: A PROGRESS REPORT

By Mima S. Nedelcovych, President, Corporate Council on Africa, and Vice President for International Operations, F.C. Schaffer & Associates, Inc.

Many African countries have made significant advances in recent years to reorient their economies toward the private sector, says Mima S. Nedelcovych, president of the Corporate Council on Africa, a nonprofit association of U.S. companies that promotes African trade and investment.

These advances are found in new policies and attitudes toward privatization, stock markets, and regional integration. While in some Africa countries business has become routine, others are lagging behind, with the upswing in armed conflicts a major impediment to the continent's progress, Nedelcovych says.

During the 1990s, African leaders have widely embraced a new approach to development and economic growth that emphasizes the private sector over the state, openness to foreign investment and trade, and integration with the world economy. Progress toward these goals ranges from highly successful in some countries to a sharp reversal in others, as armed conflicts reemerge as a major impediment to Africa's advancement.

The new approach has meant fundamental changes for many governments, requiring them to cut regulations, privatize state enterprises, and take other steps to create a more competitive, investor-friendly environment. In Southern Africa, Mozambique, Namibia, South Africa, and Botswana are outstanding examples of countries in which reforms have been put in place and business is going ahead in a routine fashion. These countries have become open to the global economy and are successfully attracting investment.

These countries are part of the Common Market for Eastern and Southern Africa (COMESA), a new regional grouping in which, with certain exceptions, business is becoming "normal," where the priority for foreign businessmen is meeting with their private sector business partners rather than with government officials.

In West Africa, Cote d'Ivoire, Senegal, Burkina Faso, and Mali — all Francophone nations that share a common currency, the CFA franc — are also countries in which business has become routine. Nearby Ghana is doing quite well, and there is considerable hope for Nigeria, with its newly elected leaders. Nigeria, the largest single market on the continent with a population of almost 120 million, has many educated people and natural resources that include agriculture, as well as its well-known oil reserves.

But other countries are lagging or going the other way. A tragic increase in armed conflicts is behind much of this. Ethiopia and Eritrea, praised a few years ago as part of the "African Renaissance," are involved in a border war. West Africa has pockets of conflict, such as in Guinea-Bissau and Sierra Leone. In central Africa, there is one horrendous situation — the conflict in the Democratic Republic of the Congo is acting almost like a whirlpool, dragging in neighboring countries.

The nations involved in conflicts are less likely to move forward. They cannot focus on reforms, such as privatization, because the conflict takes priority. To a large extent, these countries are marginalizing themselves.

AN IMPROVING INVESTMENT ENVIRONMENT

The kinds of activities that attract most foreign investors to Africa continue to be the big-ticket natural resource items, such as petroleum, gas, timber, minerals, and so forth. In these areas, investors can put in money and either get a return fairly quickly, or they can try to mitigate and balance risk through higher potential profits.

But even for these kinds of activities, if the investment environment is poor, companies will go elsewhere.

Africa also has abundant agricultural resources, which are starting to be developed. This is important because agriculture, by its nature, is a major employer.

Investments in agriculture, however, usually require a long-term commitment. My firm, F.C. Schaffer & Associates, primarily builds and operates sugar processing facilities in the countries where we do business. Our investments require 5 to 10 years to begin showing a return. Because our investments are for the long term, we get substantially involved in the details of the local investment climate.

From what I have seen as an investor and with the Corporate Council on Africa, many African countries have made significant advances in recent years to deal with problems that in the past have discouraged investment and growth.

Privatization and Infrastructure: Privatization is now widely accepted across Africa. It is tied to infrastructure development since many of the activities being privatized are infrastructure.

An outstanding development in this regard has been power generation. African governments are now willing to accept independent private power producers. This is extremely important to investors who are setting up facilities and need to install their own power generation plants, which is common in Africa. The option to sell excess power to the national power grid is an important factor for firms in determining an investment's feasibility. This new outlook on the part of African governments also represents an important change in attitude that power does not have to be produced by one huge government-owned entity.

There is also increased interest in fee-based facilities. This includes toll roads, such as the Resano Garcia road between Mozambique and South Africa, toll bridges, and airports. Some governments, such as that of Cote d'Ivoire, have improved airport service by allowing private concessions to run the facilities. Privatization of airport operations in Libreville, Gabon, also led to increased efficiency.

Telecommunications is another area where privatization is moving ahead. Because many African governments do not have the resources to properly expand and operate state telephone systems, they have turned to the private sector, which is putting in systems that use the most modern technology and cost less to install.

More and more African governments are seeing that they can encourage development and get a return on their economic infrastructure through appropriate regulatory frameworks without having to be involved in all the details and using up scarce national budgetary resources.

Stock Markets: Another important advance in Africa has been the development of stock markets. This goes hand in glove with privatization because stock markets provide a framework for governments to sell shares of state-owned companies to local investors.

There have been advances in setting up a regional stock market in Abidjan that takes advantage of the West African countries' common CFA currency. Some smaller markets have achieved important successes, such as those in Nairobi and Kampala. The Johannesburg stock market, Africa's largest, lists mostly South African stocks but includes some companies from other Southern African Development Community countries.

Stock markets help attract foreign capital, such as institutional funds, because they give investors an exit. They also allow Africans who are holding their money outside Africa to invest closer to home.

Common Legal Framework and Regional Integration: There are 48 African countries south of the Sahara, many very small. It is extremely important to create uniform business laws, regulations, and practices, such as standard accounting practices, that a group of African countries agree to follow. Common regulations and laws for a grouping of, say, 100 million people, makes a region much more attractive. Francophone West Africa has made considerable advances in this regard, in part because of its common currency.

Also crucial to regional integration is the ability to move goods across borders without undue delays. COMESA has achieved some progress in making such movement of goods and people easier.

Bribery and Corruption: The new Organization for Economic Cooperation and Development (OECD) anti-bribery convention is very helpful in combating corruption. Because it outlaws bribery by firms from the industrialized OECD countries, businesses like mine are not put at a disadvantage because we do not pay bribes. But the problem of petty corruption — of small bribes and gratuities demanded by lower-level officials such as policemen — continues. This situation stems from governments' having too many public employees that are paid too little and, by custom, supplement their incomes

with bribes. Unfortunately, this happens in many developing countries, and making changes can take time. The World Bank has developed some programs for attacking this problem, but in the end it is up to each government to properly budget for the services it provides.

IFIs and Debt Reduction: As is the case in the rest of the developing world, the portion of capital flows to Africa that are private is increasing. Nonetheless, many African countries have a continuing need for lending by the World Bank and other international financial institutions (IFIs) to fill gaps not covered by the private sector. Many private investments are predicated on the parallel need for public funding of certain infrastructure. Therefore, public-private collaboration is absolutely essential. The World Bank lending programs also help with crucial development issues such as improved governance and civil service reform. This includes anti-corruption programs that create social safety nets for public employees displaced by reforms.

The IFIs can also help with debt relief, which at this point is simply inevitable. In some countries, interest is being piled on top of interest on top of more interest. These countries cannot move forward without substantial relief.

Debt relief, however, must be selective. If the freed-up funds are going to economic and social infrastructure spending, then the debt reduction is helpful. But if a country uses the funds to spend more on weapons or squanders the money on investments better made by the private sector, that's a different matter. There must be conditions. ❑

❑ AFRICA ADAPTS TO THE GLOBAL ECONOMY

An Interview With Edith G. Ssempala, Ambassador from the Republic of Uganda to the United States

Developing the private sector is the key to bringing prosperity to Africa, says Ambassador Edith G. Ssempala of the Republic of Uganda. African countries should seek foreign investment, she says, noting that textiles, shoes, and agricultural products represent promising sectors.

Foreign aid that has fostered dependence has hurt Africa, Ambassador Ssempala says, and building the private sector has been left out of the assistance schemes. In her view, Africa must do more to integrate into the global economy. This includes efforts to empower women in Africa and to end ethnic-based conflicts.

This interview was conducted by USIA Economic Team members Barbara Durant and Phillip Kurata.

Question: You have said that private sector trade and investment are the keys to conquering poverty in Africa and that foreign aid is secondary. Could you explain this position?

Ambassador Ssempala: It is not aid per se that I have a problem with. It is rather the quality of aid and the motivation for aid to Africa that I question. After the Second World War, Europe had the Marshall Plan and Japan was reconstructed with U.S. aid. That aid was basically an investment in their economies so that they could get along on their own. In the case of Africa, aid is basically motivated by sympathy and charity. The private sector has been left out in aid programs to Africa.

Aid that creates dependency is very dangerous and even harmful. Aid that empowers people to stand on their own feet is helpful and very necessary. Aid needs to be geared to help Africa gain its independence.

Q: How can aid programs be changed to make them more beneficial?

Ssempala: It is clear that only the private sector can stimulate economic growth. We would like to see a balance of helping us to take care of needs that cannot wait, like health and education, while developing our own capacity in the private sector. That same combination has worked well for other countries, such as South Korea, that have graduated from aid. That is why, right now, the members of the African diplomatic corps are very much in support of the passage of the African Growth and Opportunity Act. We believe it is a first step in the right direction.

Q: Natural resources have long been the main target for foreign investment in Africa. What other sectors are ripe for development?

Ssempala: The exploitation of natural resources, such as oil and minerals, has not really benefited Africa. It is a paradox that a country can be rich in oil or diamonds but its people live in poverty. In contrast, the people in the oil-producing countries of the Middle East are rich. There must be something wrong.

We welcome investment in agriculture, which is untapped, as well as in tourism and in service industries. We are interested in high tech. We think Africa has the potential to develop its textile industry because we think that China is going to graduate soon from textile production. Mauritius, Kenya, and Uganda are establishing strong textile sectors. In Uganda, we are creating a silk industry with mulberry bushes, which grow very well in Uganda. We are growing long staple cotton, which is the best cotton.

The shoe industry is growing in Africa. Toys will come. Those industries do not require extremely high skills, but they create numerous jobs.

Q: Foreign investment involves quite a bit of risk. What has changed about Africa to gain confidence to invest in the continent, given its history of instability and corruption?

Ssempala: Corruption is a deterrent to investment, but it is not the most serious problem.

Political stability is very, very important because people have to feel sure, especially if they are going to invest for the long run. Africa has come a long way. Fifteen years ago we had political instability. In Uganda, we had a

vicious dictatorship, and nobody knew if we would get out of it. South Africa has thrown off apartheid; it is now democratic and has rejoined the rest of the world. Namibia has made similar progress. Yes, we still have pockets of instability, but I think Africa is going through a kind of self-cleansing.

There are two important things that have been recognized in Africa today. First, we realize that democracy is essential for political stability and economic development because it empowers the people to be creative and to participate in production. Second, economic reforms are occurring in many African countries. African leaders have realized that governments are incapable of micromanaging the economy. They understand that the private sector has to take the lead in generating growth.

There also is a widespread consensus on the fiscal policies that make for a stable economy — keep inflation low and balance the budget. Those structural adjustments have been criticized as being harsh, but I don't think Africa has a choice.

Q: The Organization for Economic Cooperation and Development is implementing a treaty that criminalizes the payment of bribes to foreign officials. What is your view of this treaty?

Ssempala: This treaty is very, very important. It takes two to tango. It would be very difficult, if not impossible, to significantly reduce corruption unless we tackle both sides. We, in Uganda, see corruption as a cancer that must be uprooted. Services become difficult to obtain. It affects education and housing. Corruption causes people to get poor quality for their money. The fight against corruption is vital for the survival of societies.

Q: What are the most urgent reforms that African governments must make to become responsible partners with foreign investors?

Ssempala: Basically, they need to continue what already is taking place — that is, economic and political liberalization, and consolidation of democracy and human rights. We also need to work to resolve conflicts that still exist. Uganda, for instance, has invested a lot of energy into trying to find a resolution to the conflict in Congo. We hope that the conflict between Ethiopia and Eritrea will end. We hope there will never again be genocide in Africa because that has put Africa in a very bad light. The work of consolidating peace, democracy, and justice is very, very important.

Q: The United States has less experience and knowledge of Africa than the former colonial powers, such as France and Britain. What can the United States offer Africa in terms of trade and investment that the European countries cannot?

Ssempala: We want everybody to be interested in Africa, and there is room for everybody.

The United States has contributed to the economic progress of every country. Name any country that has prospered economically, such as Germany or Japan, and now China. All have very strong economic relationships with the United States. The United States is the biggest market, and we think our economic relationship with this market is very important to accelerate our development. We also think that African-Americans can act as a bridge between Africa and the United States.

Q: Uganda is one of the founding members of the Common Market for Eastern and Southern Africa. Twenty-two countries have signed the COMESA charter aimed at harmonizing customs laws, fiscal policies, and trade regulations. How successful has COMESA been?

Ssempala: COMESA is a very important economic area. There is a commitment on the part of Africa to eventually move toward economic integration, but that is a long way off. There must be many smaller building blocks laid before then. One of the building blocks is COMESA. There are other regional groupings such as the Southern Africa Development Community, the East African Cooperation group, the Economic Community of West African States, and the Maghreb group in North Africa. The aim is to integrate the regional markets into one.

COMESA has gone a long way. It has a vibrant secretariat in Zambia. Today it is possible to move goods from East Africa down to southern Africa. The biggest challenge is to build more infrastructure. Each country is at a different level of economic reform.

We expect Uganda, Kenya, and Tanzania to become an economic community very soon. We are moving toward zero tariffs. We are beginning to promote East Africa as one investment area.

Q: Uganda has a convertible currency and a local stock market. By opening itself to capital flows, is Uganda also putting itself in danger by allowing capital to flow out as easily as it flows in?

Ssempala: I think that globalization is not a choice anymore. We just have to adapt.

In Uganda, careful consideration was given to whether we should completely open our market. The president and his government came to the conclusion that if people are not able to get out, they're not going to easily come in either. If you want them to come in, they must be able to leave easily when they want. The question is how to attract them so they don't want to leave. We must ensure good regulation and no corruption. We want to have mechanisms that provide openness, but definitely we are not interested in overexposing Uganda. Basically, we feel that no country can afford to be cut off from the global trading system.

Q: Foreign investors need skilled labor. Where are they going to find it?

Ssempala: Our universities and technical schools produce many graduates each year, and one of the biggest challenges is to find employment for them. There is a surplus of highly trained and trainable graduates who do not have jobs.

Q: Ethnic and tribal divisions are often associated with Africa's instability. How are they being addressed?

Ssempala: What is known as tribalism, or religious bigotry, is not a phenomenon natural to Africa. It is something that has been imported. I think the biggest challenge to Africa is not the tribe. The tribe is natural, but tribalism is evil and is equal to racism or selfishness. Most of the conflicts in Africa are the result of leaders exploiting tribalism, religion, and clanism. Now most Africans are rejecting this.

In Uganda today, we have the anti-sectarian law whereby a person who does good or bad does so in his own capacity, not representing anybody else, his tribe, or his religion. When a person is prosecuted, it is for his own actions, not as a member of a tribe. We think that is very important because it separates an individual and what he does from his group.

Q: Ugandan President Yoweri Museveni has emphasized the need to empower women. What effect has this had on economic development and the creation of microenterprises?

Ssempala: President Museveni has emphasized the empowerment of women because it is not just good politics, it is good economics. If you leave more than half of the population out of the market, then you reduce your market. Apart from that, women are the backbone of their families and communities. They say if you educate the woman, you educate the family and the nation.

The empowerment of women has led to the improvement of the well-being of families because when women have money, they spend it on their children.

Q: How has the empowerment of women been accomplished?

Ssempala: On the political side, we have affirmative action. We have a quota system in our parliament. We have universal suffrage. We also have quotas for women on the district and local government levels. In fact, a third of the local elected officials must be women.

On the economic front, women are being encouraged to start businesses — microenterprises. A number of organizations are supporting the development of microenterprises run by women in particular. We see many women who have gone from making just a few hundred dollars to making thousands of dollars in just a few years. That's significant. ❑

❑ MARKETING SUB-SAHARAN AFRICA AS A LOCATION FOR FOREIGN INVESTMENT

By Louis T. Wells, Professor of International Management, Harvard Graduate School of Business Administration

African countries that have undertaken reforms to make themselves more attractive to foreign investment must be ready to launch campaigns to publicize their advantages and seek out prospective investors, says Louis T. Wells of the Harvard Business School. These promotional efforts are not cheap and are not easy. An effective approach, says Wells, would be for several countries to pool their resources to publicize their attractions and to develop common investment policies. They should also learn strategies to avoid, such as reliance on tax incentives and general investment missions, which are usually ineffective, he says.

Experience suggests that economic reform alone will not attract foreign investors to Africa. Reform generally has to be accompanied by an active marketing or investment promotion program designed to "sell" the opportunity of the African marketplace. Successful investment promotion can be expensive and must be carefully targeted to be effective. Like-minded African countries should consider joint promotion programs — focusing on image-building activities. In these joint efforts countries would not only share the costs of changing investors' perceptions; they would also make commitments to a standard set of reforms and agree to common policies toward investment.

Some caution is in order. The prospects for large amounts of foreign investment flowing into Africa are frequently oversold. Africa's share of total developing world investment has been declining for some years. Since their markets are relatively small and they do not border rich nations, African countries are unlikely to attract foreign investment in volumes that will have a major impact on total capital formation — at least in the near future. The exceptions may be the countries with mineral or other natural resources. On the other hand, the benefits of the foreign investment that does come may be disproportional to what is implied by the overall figures. For example, foreign investment in export manufacturing can encourage local firms to export, and foreign management can increase the efficiency of formerly state-run enterprises. More important, even if less foreign investment is forthcoming than would be desirable, reform efforts directed at attracting foreign investment are the same kinds of reforms that stimulate domestic investment.

A government needs to decide what kinds of investors are desired and are likely to be attracted to a country. When government officials think about foreign investment, they often have in mind investors that will manufacture for the domestic market. The foreign-owned breweries, battery makers, cement producers, and refiners spread across Africa illustrate this type of investor. Obviously, these investors are interested in the size of the local market. Especially attractive to governments is the foreign investor who will manufacture for export markets. Due to global competition, however, export manufacturing industries can be especially difficult to attract to a country that does not have a reputation for such industries. Africa has had considerable experience with a third type of foreign investor — those that come to extract a raw material or to grow plantation crops.

INVESTMENT STRATEGIES TO AVOID

The experiences of Asian and some Latin American countries in attracting foreign investment offer some important lessons to African countries about which strategies to avoid.

Tax Incentives Are Usually Ineffective. On the policy side, the most common mistake a country can make is to rely on tax incentives — particularly tax holidays — to attract foreign investment. Several studies have shown that tax incentives are almost totally ineffective in attracting investment for the domestic market and have only a small impact on export manufacturers. Reduced rates of taxation may be necessary if a country's corporate tax rate is excessively high, but it is better to reduce the general rate than to introduce a system of incentives.

Creating Ineffective One-Stop Shops. Many countries eager to attract foreign investment have created "one-stop shops" — agencies charged with issuing all the permits

required for a foreign investor or with assisting the investor in obtaining those permits from other authorities. Despite governments' good intentions, in the vast majority of cases the agencies have quickly become just another barrier to foreign investment. Without the solid backing of the country's top leaders, one-stop shops quickly lose their ability to issue permits that will be honored by the implementing agencies, and investors find it better to negotiate directly with the responsible agencies.

Marketing a Country Too Early. Several countries have begun their investment promotion efforts before reforms were complete and policies stable. Promoting too early is not only a waste of money; it is likely to be damaging. If a country touts its reforms before they are complete, would-be investors who investigate and find the environment still unattractive are unlikely to take a second look. Certain promotion steps can be safely initiated early in the process. Servicing investors already in the country is helpful in determining whether reforms have really taken root and in identifying policies that need to be revised or reforms that should be undertaken.

Faulty Mixes of Promotion Tools. Research has shown that image-building alone — advertising and general investment missions — very rarely leads to investment. At best it serves to convey to potential investors changes in policies and general impressions of a country. For instance, potential investors — especially outside the raw material industries — tend to lump African countries together. They assume that civil unrest is more widespread than it actually is and that most African countries have backed off from reform. In the case of African countries that have implemented reforms, image-building activities are appropriate for correcting investors' misperceptions. However, these must be followed by "investment-generating" activities.

Governments find it especially difficult to organize investment-generating activities, especially personal selling. To be effective, government officials must choose firms that are likely to invest in the country and must deliver carefully prepared presentations to company managers. Few bureaucrats are equipped with the communication skills, business knowledge, confidence, and initiative for such activities. In addition, governments usually do not devote enough resources to servicing both existing and prospective investors — arranging schedules for investors' visits, meeting them at the airport, accompanying them through the entry formalities, providing guides, and helping them obtain the needed permits and licenses.

Failing to Target. One of the common mistakes of promotion efforts is the failure to target particular investors. Promotion efforts are expensive, so they should be aimed at investors who are desired and who are likely to have an interest in the country. Targeting requires considerable skill, and sometimes the help of outsiders. Often ideas for potential investors can come from the experiences of similar countries. Targeting should be done not only by industry but also according to the investors' size and home country. The best choices are not always obvious.

Relying on Embassies for Promotion. Several countries have relied on their embassies and consulates abroad to promote foreign investment. They believe that because they already have a presence abroad, there is no need to establish additional facilities. The results of this practice have been dismal. Embassies and consulates are staffed by people whose careers are based on diplomacy, not on business. Generally, they do not have the skills or the inclination — nor do they receive rewards — for contacting foreign businesses. They may provide investment literature when asked, but they are almost never aggressive in seeking out investors.

Preparing Feasibility Studies. A number of countries have devoted manpower to preparing feasibility studies for potential investors. In the vast majority of cases, these have been wasted efforts. Private investors rarely place much confidence in business proposals put together by governments. An exception is the financial investment firms that invest in Africa. These firms are likely to be run by members of the African Diaspora and may be of special importance for some African countries. The best approach, however, is to introduce such financial investment firms to local business people who have business proposals.

THE NEED TO POOL RESOURCES

The first stage of investment promotion — image-building — can be expensive. Many African countries find it impossible to devote sufficient budget resources to changing images and generating investment. A solution is for like-minded African countries to pool their resources in this effort.

An initial group of cooperating countries would comprise nations that have instituted major reforms, have some record of sticking with them, and seek foreign direct investment. To encourage an identity, the group might adopt some name for their common effort — "Invest Africa," for example. Although the group should be open to new member countries, they should be admitted only after careful consideration of the extent to which they have implemented reforms and improved their investment climate.

Eventually, the group might encourage certain common policies toward foreign investors. For example, terms for mining projects, rules on local participation, and guarantees that earnings and investment can be repatriated might be standardized across the member countries. Common policies would make common promotion easier and more effective.

Image-building by the group would consist of two activities: advertising and general investment missions. Advertising would explain the reforms and the commitments undertaken by the cooperating countries. It would describe investment opportunities and would list the members' common policies toward foreign direct investment. Investment missions would take prospective investors to the cooperating countries for presentations on the investment environment and encourage contacts with local business people.

To be successful, an image-building campaign must be supported with investment-generating activities by the individual cooperating countries. Although the group might have a single designated unit for managers who respond to ads or who want further information, detailed information and personal selling has to come from the member countries themselves. Each must have a skilled investment promotion unit to follow up on leads generated by image-building and eventually to identify firms on its own to contact.

Even groupings of African countries are unlikely to attract as much foreign investment as possible. They need cooperation from countries and multilateral institutions that can provide advice about creating an attractive investment climate. For the heavily indebted countries, debt cancellation by multilateral institutions and temporary balance-of-payments support from outside Africa are essential to make promises of convertibility plausible to prospective investors.

Richer countries can also provide some help in reducing risk for private investors. The U.S. Overseas Private Investment Corporation, the World Bank's Multilateral Investment Guarantee Agency, and similar agencies cover risks of expropriation, inconvertibility of currencies, and civil disturbances. Risk can also be reduced if the governments of the investors' home countries allow losses in African investments to be written off, as incurred, against profits earned elsewhere, including at home.

Finally, visits by high-ranking government officials from investors' home countries to reforming African countries can do more image-building than the advertising of any investment promotion agency. Visits by heads of state are covered in the home country press. This brings the countries to the attention of investors; often the articles describe the outcome of reform efforts. Foreign visits can lead to foreign investment if the image-building is followed by investment-generating activities. ❑

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❑ LAST CHANCE FOR AFRICA?

By George B.N. Ayittey, Associate Professor of Economics, American University, and President of The Free Africa Foundation

African countries have reached the point where there is really no alternative to reform, says George B.N. Ayittey, an American University associate professor of economics and a native of Ghana. Foreign investors have been withdrawing, foreign aid is declining, and debt burdens have become overwhelming, he says.

The African Growth and Opportunity Act should be seen as a "last-ditch" effort to help Africa reform, Ayittey says. The outside world can do a limited amount to help African countries that resist making long overdue changes, he says.

After years of mismanagement, civil wars, and corruption-ridden economic and political systems, Africa's international donors and foreign investors are fed up. On a grand scale, donors are now linking their African aid programs to good governance, combating corruption, democratic pluralism, and market liberalization. Foreign investors are also holding back, waiting for African governments to make crucial reforms that include further privatization of state enterprises, limiting government regulation in the economy, and improving administration.

At the same time, the global financial institutions and major industrial countries are poised to initiate sweeping debt reduction and trade promotion programs for Africa that hold the promise of reversing decades of economic and political deterioration. Whether African leaders are ready to take advantage of what may be their last chance to narrow the income gap with more prosperous regions of the world is far from certain.

DECLINING ECONOMIC PERFORMANCE AND GROWING POVERTY

The economic performance of sub-Saharan Africa in the post-colonial period has persistently lagged behind other developing regions. For sub-Saharan Africa, by the mid-1990s, real income per capita had dropped by 14.6 percent from its 1965 level, making most black Africans worse off than they were at independence.
Four out of 10 Africans live in absolute poverty, and recent evidence suggests that poverty is increasing. If Africa wants to reduce poverty by half over the next 15 years, it needs to attain and sustain an average annual growth rate of 7 percent. But how? Unconditional foreign aid, which in the past supplied much of the resources, has virtually dried up. In addition to the conditions donors now require, foreign aid is falling victim to donor fatigue, tighter budgets, the Asian financial crisis, and the costs of Balkan reconstruction. The key to accelerated growth, then, is not aid but investment — both domestic and foreign. Africa, however, has become increasingly unattractive to foreign investors.

Net foreign direct investment flowing into sub-Saharan Africa dropped dramatically between 1982 and 1987, from $1.22 billion to $498 million. From 1989 to mid-1994, over half of British manufacturing companies with subsidiaries in Anglophone African countries divested from those operations. The French have also become disillusioned.

A surge of investment capital flowed into the developing countries between 1990 and 1995, when net yearly flows quadrupled to over $90 billion. But Africa's share of this was just 2.4 percent. In 1995, a record $231 billion in foreign investment flowed to the developing world, according to the World Bank. While Singapore alone attracted $5.8 billion, Africa's share was a paltry $2 billion — less than the sum invested in Chile, *The Economist* magazine reported in November 1996.

Foreign direct investment in Africa rose in 1996 to $4.7 billion, stagnated at that level for 1997, and dropped precipitously in 1998 to $3 billion. The UN Conference on Trade and Development (UNCTAD) concluded in its 1998 Trade and Development Report that "Africa has lost attractiveness as a market for Foreign Direct Investment as compared to other developing regions during the last two decades."

To make the situation worse, while Africa was attracting less investment, it was servicing an increased debt load. To maintain income and investment, African governments borrowed heavily in the 1970s. Total African foreign debt has risen 24-fold since 1970, to a staggering $350 billion in 1998, which was equal to its annual gross

national product, making the region the world's most heavily indebted. Currently, debt service obligations absorb about 40 percent of the region's export revenue, but only about half of the outstanding debts are actually being paid. For the rest, arrearages are continually being rescheduled.

Over the past decade and a half, Western governments and multilateral financial institutions have launched various initiatives and proposals to address Africa's economic stagnation. The World Bank's structural adjustment programs (SAPs) are the most notable. They require African governments to adopt transparent management practices, dismantle their state interventionist behemoths, liberalize markets, devalue or float currencies, sell off unprofitable state-owned enterprises, and remove a plethora of controls on prices, interest rates, and rents. In return, the World Bank will provide loans to ease balance-of-payment, debt-servicing, and budgetary difficulties. In 1994 the World Bank evaluated the performance of 29 of 37 African countries with SAPs and concluded that, although "no African country has achieved a sound macroeconomic policy stance," six had performed well: The Gambia, Burkina Faso, Ghana, Nigeria, Tanzania, and Zimbabwe. A year later, only Burkina Faso and Ghana were on the list.

In 1996, the World Bank and the International Monetary Fund (IMF) launched the Highly Indebted Poor Countries (HIPC) Initiative, which called for debt relief for poor countries that undertake economic reform. Most of the eligible countries were in Africa, but only two succeeded in completing the strict conditions of the HIPC program and achieved bilateral debt reduction. Uganda had $650 million in debt cancelled, while Mozambique is set to get $3,700 million in reductions.

The Group of Seven major industrial countries has proposed an enhanced HIPC debt initiative so more countries can obtain debt reductions faster. The World Bank and the IMF are supposed to have the revised rules completed by their September meetings.

AFRICAN GROWTH AND OPPORTUNITY ACT

In June 1997, the Clinton Administration unveiled the Partnership for Economic Growth and Opportunity in Africa. Its centerpiece was a bipartisan bill, Growth and Investment Opportunity in Africa: The End of Dependency Act. This bill sought "to create a transition path from development assistance to economic self-sufficiency for sub-Saharan African countries," according to Congressman Jim McDermott, a chief sponsor of the legislation, in August 1996 testimony on Capitol Hill. The bill is still being considered by the U.S. Congress in the revised form of the African Growth and Opportunity Act (AGOA).

The AGOA provisions include annual high-level discussions of trade and investment policies; a U.S.-Africa economic forum, which, among other things, would encourage joint business ventures; and a commitment to create a U.S.-sub-Saharan Africa Free Trade Area. The legislation also calls for a lifting of some U.S. import restrictions on African textile and apparel imports, and an expansion of duty-free access to the U.S. market for other African products.

To participate in this program, an African country must show a strong commitment to economic and political reform, market incentives, and private sector growth and poverty reduction.

The U.S. initiative is a last-ditch effort to help Africa. Africa must reform or face ever declining economic performance. The alternatives are hardly acceptable. There is only so much the Clinton administration, the U.S. Congress, and the always-supportive Congressional Black Caucus can do. President Clinton was correct in the February 1996 *Comprehensive Trade and Development Policy for the Countries of Africa* report when he said: "The responsibility rests with African countries to commit themselves to these objectives and to make policy choices that will enable them to achieve these objectives. Help from outside Africa cannot overcome lack of commitment or wrong choices by the governments of Africa."

African leaders themselves recognized this stark fact back in May 1986. They collectively admitted before the UN Special Session on Africa that their own "past policy mistakes — especially the neglect of agriculture" had contributed immensely to the continent's deepening economic crisis. The Organization of African Unity report urged African governments "to take measures to strengthen incentive schemes, review public investment policies, improve economic management, including greater discipline and efficiency in the use of resources." Most notably, the report pledged that "the positive role of the private sector is to be encouraged."
Unfortunately, little progress toward reform has been made either by the African governments or international

bodies such as the African Development Bank. The danger is growing that the donor community might believe that African leaders are not serious about reform and might ignore their appeals for help. Indeed, this already appears to be the case. Early this year, the United Nations High Commissioner for Refugees (UNHCR) launched an emergency appeal for $8 million to help resettle and feed Sierra Leonian refugees. By June, it had received only $1.3 million. And tired of incessant trading of accusations, the United Nation's peacekeepers have pulled out of Angola. At present, they are not even under consideration for the Congo war.

A MATTER OF CHOICES

Lack of reform will eventually lead to state collapse and implosion. Somalia, Rwanda, Burundi, Liberia, Sierra Leone, and Zaire imploded because of their leaders' adamant refusal to implement economic and political reform. By contrast, the whites in South Africa reformed their abominable apartheid system and managed to save South Africa from destruction.

African leaders may choose to go the way of Rwanda or of South Africa. The choice is theirs to make. The African Growth and Investment Opportunity bill before the U.S. Congress gives them a chance for a better life. ❑

❑ U.S. GOVERNMENT INITIATIVES FOR AFRICA

DEPARTMENT OF COMMERCE

Through commercial promotion, outreach to the U.S. business community, technical assistance to African governments, and advocacy for U.S. firms competing for projects, the Commerce Department pursues an activist policy to help U.S. firms do business in Africa.

To support these efforts, the department in 1994 created key regional centers in Cote d'Ivoire, Kenya, and South Africa. It also announced this year plans to increase the number of its foreign commercial service officers assigned to Africa.

Commercial relations also are fostered through trade missions, sometimes led by Secretary of Commerce William Daley or other high-level officials, that bring together U.S. and African entrepreneurs. Other business outreach efforts include an annual conference on U.S. trade and investment in Africa and a business information Web site (http://infoserv2.ita.doc.gov/afweb.nsf).

The department provides technical assistance to African governments and the private sector on building commercial infrastructure. It has established a Manufacturing Technology Cooperation venture with South Africa's Center for Industrial and Scientific Research. Its National Oceanographic and Atmospheric Administration has a variety of weather, water, commercial fishery, and other programs in Africa aimed at improving crop and fisheries management. Its National Telecommunications and Information Administration has developed programs to increase Africa's Internet connectivity, as well as promote broader use of telemedicine.

EXPORT-IMPORT BANK OF THE UNITED STATES (EX-IM BANK)

The Ex-Im Bank is an independent U.S. government agency that helps finance the overseas sales of U.S. goods and services. It provides guarantees of working capital loans for U.S. exporters and makes loans to foreign purchasers of U.S. goods and services. It also provides credit insurance that protects U.S. exporters against the risks of nonpayment by foreign buyers for political or commercial reasons.

The Ex-Im Bank provided Africa with $49 million in financing in fiscal year 1998. The bank can provide project financing for U.S. firms in 45 sub-Saharan African countries and export financing in 21 of these countries. Some recent activities include the sale of construction equipment to Uganda, cold storage containers to Ghana, diagnostic medical equipment to Cote d'Ivoire, and a Boeing 737-300 aircraft to Kenya.

Information on Ex-Im Bank's Africa programs is on the Internet at http://www.exim.gov/africa-i/index.html.

OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)

OPIC is an independent U.S. government agency that provides financing and political risk insurance to U.S. companies investing in developing and transitional countries. It is currently providing about $890 million in support for 50 projects in approximately 20 countries in sub-Saharan Africa. OPIC programs are available in 39 of the 48 sub-Saharan African countries. About 43 percent of OPIC's total exposure in Africa is in financial services, 20 percent in manufacturing, 16 percent in the oil and gas sectors, 14 percent in mining, and the rest in tourism, communications, services, and agriculture.

OPIC currently has four privately managed funds to support investment in Africa. They are the $120 million New Africa Opportunity Fund for southern Africa; the $150 million Modern Africa Fund, focusing on manufacturing, mining, and telecommunications; the $120 million Global Environment Emerging Markets Fund II, investing in sectors related to clean energy and water; and the $300 million Aqua International Partners Fund for equity investments in companies involved in water treatment, bulk supply, and distribution in emerging market countries.

OPIC has participated in four high-level U.S. missions to Africa, and since 1997 has signed 12 new bilateral agreements in sub-Saharan Africa.

TRADE AND DEVELOPMENT AGENCY (TDA)

TDA, a small independent federal agency, has invested nearly $60 million since 1981 in funding feasibility studies, orientation visits for foreign decision-makers, and conferences aimed at promoting U.S. exports to Africa.

The feasibility studies help U.S. firms get in on the "ground floor" of major projects abroad by examining the technical, legal, economic, and financial aspects of a proposed development project. The agency is currently involved in studies in 15 African countries. A complete list of TDA's Africa projects can be found on the Internet at http://www.tda.gov/region/africa.html.

The orientation visits familiarize foreign decision-makers with American-made products and services, build business relationships, and encourage U.S. companies to export to developing and middle-income countries. In April 1999, TDA brought the ministers and heads of major oil companies from 10 countries in Africa and the Middle East to the United States to meet with American petroleum equipment producers. In June, the agency sponsored the visit of 10 representatives of African stock exchanges looking for ways to create more effective exchanges. In July, it brought African government officials to learn more about identification and passport technology.

DEPARTMENT OF ENERGY

On April 1, 1999, Secretary of Energy Bill Richardson announced the department's energy initiative for Africa: development of sustainable energy sources, promotion of clean energy technologies, and private sector investment. Other projects will support capacity-building by providing training and workshops for energy and business personnel. A cornerstone of the initiative will be an energy ministerial in the fall of 1999 on energy infrastructure issues, co-hosted by the departments of Energy and Transportation.

The Energy Department already is working in South Africa and Ghana on solar power for schools and homes, in Uganda on developing geothermal resources, in Botswana on renewable energy sources and power development, and in Senegal on clean energy sources.

DEPARTMENT OF LABOR

The primary focus of the Department of Labor in Africa is on fighting abusive child labor. On March 19, 1999, Secretary of Labor Alexis Herman announced that $7.5 million would be committed to this effort, primarily through grants to the International Labor Organization's International Program on the Elimination of Child Labor (IPEC). These grants include $1.5 million in Kenya, South Africa, Tanzania, Uganda, Zambia, and Zimbabwe to remove children from hazardous work in commerical agriculture and help them stay in school; $1 million to combat the trafficking of children for the purpose of domestic work in Benin, Burkina Faso, Ghana, Mali, Togo, Cameroon, Gabon, Cote d'Ivoire, and Nigeria; $3.7 million to fund the participation of Ghana, South Africa, Uganda, Zambia, and Nigeria in IPEC; and nearly $1.3 million to conduct statistical surveys to document the nature and extent of child labor in Ghana, Nigeria, Uganda, and Zambia.

A second element of the department's Africa policy is to help develop African governments' institutional infrastructure and capacities to deal more effectively with labor issues. For example, the department's Bureau of Labor Statistics is sharing its ideas with the South African government about building its statistical infrastructure. The department also is providing African governments with information about occupational safety and health, anti-discrimination efforts, employment training for young people, and mine safety and health.

DEPARTMENT OF TRANSPORTATION

In 1997, Secretary of Transportation Rodney Slater launched the Transportation Initiative and Partnership With Africa with three key objectives: expanding trade and investment, supporting African economic integration, and fostering development. As part of this initiative, the department, in coordination with various transport administrations, is working to improve the transportation infrastructure in Africa — air, railway, roads, ports, inland waterways, coastal safety, and security. Specific initiatives include:

• The Federal Aviation Administration's implementation of President Clinton's "Safe Skies for Africa Initiative." This progarm is aimed at quadrupling the number of African countries that meet the International Civil Aviation Organization's standards for safety oversight, improving airport security at up to 12 airports in Africa

within three years, and improving regional navigation services.
• The Maritime Administration's work with Ghana to secure and finance the purchase of two power barges.
• The Federal Highway Administration's partnership with South Africa's department of transportation to establish a technology transfer center to select technologies that meet South Africa's specific needs in building and maintaining its roads.
• The Federal Railroad Administration's work to arrange on-site advisory teams and technical assistance programs for the southern Africa railway association.
• The National Highway Traffic Safety Administration's development of a plan to support low-cost safety measures in African countries to decrease the current high rates of road accident-related injury and fatalities.
• The U.S. Coast Guard's assistance to a number of African nations in maritime law enforcement, search and rescue, marine environmental protection, and port safety and security.

Additional information on the department's activities may be obtained on the Internet at http://ostpxweb.dot.gov/aviation/Africa/afrimain.htm.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

USAID, working with more than 14 U.S. government agencies, funds a multitude of programs aimed at addressing development challenges that impede trade and investment in Africa. These include:

• The Africa Food Security Initiative, which supports national and regional agricultural technology development and food aid, including crop demonstration projects in Uganda, a market information system in Mali, rural enterprises in Mozambique, and related programs in Ethiopia and Malawi.
• The Africa Trade and Investment Policy (ATRIP) Program, which provides trade and investment assistance, including export/import regulatory reform in Mozambique, removal of regional export and import tariffs in Mali, and database and marketing development in South Africa.
• Education for Development and Democracy, which fosters investment in education, especially for girls, including electricity for primary schools and Internet access in Uganda, and improved core academic and administrative functions, as well as distance education capabilities in the National University of Rwanda.
• Great Lakes Justice Initiative, which supports training for legal professionals, police, and justice officials in Rwanda.
• Malaria Research and Training Center, which provides ongoing aid for malaria research and control in Mali.
• USAID-Africa Country Partnerships, which supports a broad range of programs geared to individual country needs including energy sector assistance, environmental programs, and Internet access for Ghana; training for elected female local government officials in Uganda; AIDS awareness, support for microcredit initiatives, and housing development in South Africa; customs reform, railway development, and regional development for members of the Southern African Development Community; and business development and regulatory reform in Senegal.

U.S. INFORMATION AGENCY (USIA)

The United States Information Agency is an independent foreign affairs agency that will merge with the Department of State on October 1. Its mission is to explain and support U.S. foreign policy to overseas audiences. USIA has offices in some 35 sub-Saharan countries. USIA programs that assist efforts on promoting Africa trade and investment include the following:

• USIA's International Visitor Program brings approximately 5,000 people to the United States for three- to four-week visits to meet and confer with professional counterparts and to see firsthand the United States and its institutions. Recently, USIA, working with the Corporate Council on Africa, brought a group of African managers to the United States for business training.
• USIA's Information Bureau produces a number of printed and electronic materials on U.S. policy issues affecting the investment climate in Africa. The bureau also sends speaker-specialists abroad to address officials, business persons, students, and nongovernmental organizations on a broad range of economic issues, such as business development, intellectual property rights, transparency, good governance, and liberalization of trade and investment regimes.
• USIA funds the translation of books on numerous economic issues, including business management and leadership.
• USIA has outreach programs to African countries on contingency planning to counter the economic threat posed by the anticipated year 2000 computer (Y2K) problem. ❑

❑ THE AFRICAN GROWTH AND OPPORTUNITY ACT

A top legislative priority of the Clinton administration is passage by the U.S. Congress of the African Growth and Opportunity Act (AGOA).

The bill's most outstanding provision is to extend U.S. duty-free access for certain products imported from 48 sub-Saharan African countries that have been excluded under the Generalized System of Preferences (GSP) law. The bill would also establish a framework for closer U.S.-Africa trade and investment relations and direct U.S. agencies charged with promoting exports and foreign investment to intensify their efforts in Africa.

In the 1997-98 session of Congress, the House of Representatives passed an Africa trade bill supported by the administration; the Senate Finance Committee approved a somewhat different bill, but opponents blocked consideration of it by the full Senate, and the legislation died.

The current session of Congress has largely repeated the work of 1997-98. In June, the Senate Finance Committee approved its version of the Africa trade bill. In July, the full House passed its more-generous version by a vote of 234-163.

The Republican leadership has not yet scheduled consideration of the Finance Committee bill by the full Senate. If the Senate passes an Africa trade bill, then members of the House and Senate would have to reconcile any differences in the two bills, either in a conference or some other way. For the bill to become a law, the House and Senate would have to pass the reconciled version of the legislation, and President Clinton would have to sign it.

In both the House and Senate, the Africa trade bill is meeting with opposition from members who represent textile-manufacturing districts, which already face stiff competition from inexpensive imports. These opponents argue that providing duty-free access for sub-Saharan African textiles will lead to illegal transshipments through Africa of Chinese and other third-country textiles to evade U.S. import quotas.

African governments strongly support the bill, but it divides African-American members of the House. Some, like Representative Charles Rangel of New York, the senior Democrat on the committee that has primary jurisdiction over the legislation, embrace the bill. Others, led by Representative Jesse Jackson, Jr., of Illinois, a Democrat and son of the well-known civil rights leader, oppose the bill as providing too few benefits. A rival bill introduced by Jackson would have provided for Africa debt forgiveness, development assistance, and money to combat AIDS, but it failed to win much support.

DIFFERENCES IN HOUSE, SENATE FINANCE BILLS

The African Growth and Opportunity Act bills passed by the House and approved by the Senate Finance Committee differ somewhat.

The House bill would extend AGOA benefits through June 2009; the Senate Finance bill, through September 2006.

The House bill would extend GSP duty-free treatment to imports of all sub-Saharan Africa-produced goods that the U.S. International Trade Commission determines do not compete with U.S. industries producing the same or similar products. The Senate Finance bill would extend GSP treatment to this category of goods, with the exception of most textiles and apparel. Certain narrowly defined categories of textiles and apparel would be eligible for GSP:

- Apparel assembled in sub-Saharan Africa made from U.S. fabric with U.S. yarn.

- Apparel cut or assembled in sub-Saharan Africa made from U.S. fabric with U.S. yarn and sewn together with U.S. thread.

- Hand-loomed, handmade, and folklore apparel produced in sub-Saharan Africa.

GSP rules of origin require that some proportion of the product's value must originate in the exporting country

claiming GSP treatment. Both the House and Senate Finance bills would allow up to 15 percent U.S. content of a good to count toward the 35 percent local-content requirement. The House bill would also give GSP treatment to any articles if 35 percent of the value were added in any eligible sub-Saharan African country.

Both bills would waive GSP competitive need limits for sub-Saharan African countries. Those limits require the president to halt GSP treatment for imports of a product from a country that in any year exceed 50 percent of total U.S. imports of that product or surpass $85 million in value.

The House bill would eliminate existing quotas on textiles and apparel from sub-Saharan Africa; the Senate Finance bill, only quotas on the restricted number of eligible products. Both bills impose safeguards against illegal transshipments.

Both bills would set conditions for beneficiary countries to qualify for the expanded GSP treatment, including continued movement toward market-based economic policies and enforcement of basic human rights.

For AGOA's nontariff-related provisions, the House and Senate Finance bills direct the president to meet with leaders of the sub-Saharan African countries to discuss expanding trade and investment relations. The House bill calls for the president to "convene" annual high-level meetings. The Senate Finance bill directs the president to meet with the heads of government of sub-Saharan African countries to discuss expanding trade and investment, but does not specify more than one meeting. Both bills call for the establishment of a United States-Sub-Saharan Africa Trade and Economic Cooperation Forum. This forum, according to the House version, "shall, among other things, encourage joint ventures between small and large businesses." Both bills call for the study of the creation of a United States-Sub-Saharan Africa free trade area.

The House bill also directs the Overseas Private Investment Corporation (OPIC) and the Export-Import Bank of the United States to increase financial assistance in sub-Saharan Africa, and it directs the Department of Commerce to station at least 20 U.S. and Foreign Commercial Service officers in the region. The House bill also calls for OPIC to create an equity infrastructure fund to support projects, particularly those that help women entrepreneurs and the poor. Such provisions were not included in the bill reported by the Senate Finance Committee.

GSP EXPIRATION

The Generalized System of Preferences program, launched in 1975, grants duty-free treatment to more than 4,400 products and product categories imported from more than 140 designated developing countries and territories.

The program, however, must be reauthorized periodically by the Congress. The AGOA's extension of GSP to sub-Saharan Africa to 2006 or 2009 would eliminate, at least for those eligible African countries, a persistent problem in recent years of Congress allowing the program to lapse. GSP has lapsed five times in six years: September 30, 1994; July 31, 1995; May 31, 1997; June 30, 1998; and, most recently, June 30, 1999. Each of the first four times, Congress reauthorized the program after a delay and applied it retroactively to the expiration date.

The Senate Finance Committee on June 22 approved a bill to deal with the latest lapse by reauthorizing GSP for five years, through June 30, 2004, at a cost to U.S. tariff revenue estimated at $1,877 million. Like the Africa trade bill, the GSP bill has not yet come before the full Senate for consideration.

While the full House has passed the Africa trade bill, GSP reauthorization has not yet cleared any House committee.

Only 3 percent of imports getting GSP duty-free treatment have been coming from sub-Saharan Africa. In 1996 those imports amounted to $588 million, with imports from South Africa accounting for $429 million of that amount. ❑

❑ THE COLOGNE DEBT INITIATIVE: THE G-7 DEBT RELIEF PLAN

The Group of Seven (G-7) industrialized nations is acting to expand debt relief for the poorest developing countries by granting faster and deeper relief so that beneficiaries can make earlier use of the funds freed up by reduced debt payments for pressing social spending.

An outline of the G-7 debt relief proposals was unveiled in June at the group's annual summit. The Cologne Debt Initiative — named after the site of the summit — calls for an expansion of the World Bank/International Monetary Fund (IMF) Heavily Indebted Poor Countries (HIPC) initiative and additional cancellation of bilateral debt owed by the poorest countries.

The G-7 called on the World Bank and IMF to work with all parties, including nongovernmental groups, to develop the enhanced HIPC program so that "concrete proposals" will be ready by the World Bank/IMF annual meetings September 28-30. Discussions toward this goal have been going forward.

President Clinton, a major voice for expanded debt relief, outlined an enhanced debt relief program in a March 16 speech to the U.S.-Africa ministerial meeting in Washington. Clinton's arguments for expanding the HIPC initiative and granting additional relief were reflected in the Cologne initiative.

THE HIPC INITIATIVE

The HIPC initiative was first launched in September 1996. The G-7 called for the program recognizing that debt service burdens were making it impossible for some developing countries to make progress, even when they were implementing growth-oriented reforms. The HIPC initiative allows the poorest countries to obtain reductions in their payments of debts owed to international financial institutions and bilaterally to donor country governments. These kinds of debt form the largest amount of the obligations owed by the poorest countries.

To gain the HIPC debt relief, countries agree to enter into a two-phase World Bank/IMF program in which they must implement economic reforms, then demonstrate that they will stick with them. Debt relief is an incentive for the country to complete the reform program.

Debt relief "is not an end in itself. It is a means to a more ultimate objective: a successful development process," said U.S. Secretary of the Treasury Lawrence H. Summers on July 26.

When HIPC was launched, the IMF identified 41 "heavily indebted poor" countries, 33 of them in Africa. Twenty-six of the 41 countries were designated initially as eligible to apply for HIPC programs.

By July 1999, four countries had completed their HIPC programs and obtained debt relief. They are: Bolivia, total debt relief of $760 million; Guyana, $410 million; Mozambique, $3,700 million; and Uganda, $650 million. Three more had completed the first phase: Mali, set to complete the program in December; Cote d'Ivoire; and Burkina Faso. If all seven countries complete the program, total debt reduction will exceed $6,800 million, according to the World Bank.

Two more countries, Benin and Senegal, completed the first phase of the program, then did not need to go through the second phase and instead used traditional debt relief mechanisms to lower their debt payment burdens.

The G-7 now seeks to improve and expand the program. To provide faster relief, the G-7 is calling for changes to allow more debt relief earlier in the program's two phases — each of which can take up to three years.

At present, during the first phase, a country implements reforms as part of the World Bank/IMF supervised program while receiving traditional assistance such as grants and concessional loans. Some bilateral debt relief may be obtained, as in the traditional forum for government-to-government debt renegotiations known as the Paris Club.

In the second phase, the country establishes a further track record of good performance under the IMF/World Bank program. Bilateral and commercial creditors

reschedule obligations, and the international financial institution creditors can begin to provide assistance. Most international financial institution debt relief is provided at the program's end.

STEPPED UP DEBT RELIEF

The Cologne initiative calls for "faster debt relief through greater flexibility in the timing of the delivery of agreed debt relief, and a stronger focus on earlier cash flow relief by the international financial institutions," said the G-7 statement on economic issues released at the summit.

HIPC programs "should focus more on significantly reducing the cash-flow burden of debt service payments, in order to release resources for poverty reduction," according to the G-7 report on the Cologne Debt Initiative, also released at the summit.

The World Bank/IMF and the HIPC participant countries should work together to develop poverty reduction plans that target "savings derived from debt relief, together with increased transparency of budgetary procedures to protect social expenditures," the report said.

At the G-7 summit, the kinds of targeted social spending that were cited as likely to be encouraged under the new arrangement include health care, child survival, AIDS prevention, education, and creation of more transparent government.

The initiative seeks deeper debt reductions for countries that get the HIPC relief. The so-called "target ratios," such as debt-to-exports and debt-to-revenues, should be lowered to free up more resources and to ensure that debt levels are sustainable, the report said.

The G-7 statement also called on the Paris Club and other bilateral creditors to forgive commercial debt by "up to 90 percent and more in individual cases if needed to achieve debt sustainability," and for "full cancellation" of bilateral official development assistance (ODA) debt.

For poor countries that do not qualify for the HIPC initiative, the Paris Club could consider a "unified 67 percent reduction" under the terms adopted at the G-7 Summit in Naples in 1994, the declaration said. For other debts, industrial country creditors should consider an increase in their existing limits on debt swap operations.

If all these measures are fully implemented — including the forgiveness of ODA debts — they would reduce overall debt stocks by more than half, said the G-7 statement.

A White House fact sheet released at the summit said the new HIPC rules should increase the number of countries eligible to apply for the relief from 26 to 33. The White House also said that the Cologne initiative, together with earlier debt relief commitments, should reduce the total debts of the HIPC countries from $127,000 million to as low as $37,000 million.

THE NEXT STEPS

A crucial issue that is still being worked out is how to pay for the enhanced debt reduction. The G-7 statement noted that the new proposals will entail "significant costs." The G-7 countries will have to provide funds to finance the enhanced program, and contributions are being sought from other developed countries. There was also a proposal for the IMF to sell up to 10 million ounces of the gold that it holds. However, that proposal faces considerable opposition.

The progress achieved on bilateral debt cancellations, securing financing for other debt relief plans, and others issues should be discussed at the next G-7 finance ministers meeting, which will precede the World Bank/IMF meetings in September. ❑

❑ SUB-SAHARAN AFRICAN ECONOMIC ORGANIZATIONS

Common Market for Eastern and Southern Africa (COMESA)
Marché commun de l'Afrique orientale et australe
Founded December 1994, headquarters in Lusaka, Zambia.
Members: Angola, Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe.
Web site: http://www.comesa.int

Southern African Development Community (SADC)
Communauté de développement de l'Afrique australe
SADC was created in 1992 from the Southern African Development Coordination Conference (SADCC), founded in 1980. South Africa joined 1994.
Headquarters in Gaborone, Botswana
Members: Angola, Botswana, Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.
Web site: http://mbendi.co.za/orsadc.htm

The Commission for East African Cooperation (EAC)
Formed in March 1996 as a revival of the defunct East African Community.
Members: Kenya, Uganda, and Tanzania.

CFA Franc Zone
The CFA franc zone comprises 12 West and Central African countries that formerly were French overseas territories, one former Portuguese territory, and one former Spanish possession, all of which share the CFA franc as their common currency. Established in 1948, the CFA franc is linked to the French Treasury, an arrangement that has offered monetary stability and a convertible currency linked to the French franc. CFA stands for *Communauté Financiére Africaine* -- Africa Financial Community.

The CFA zone countries are divided into two groups, each with its own central bank:

- **West African Economic and Monetary Union (WAEMU)**
Union économique et monétaire ouest-africaine (UEMOA)
Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

- **Central African Economic and Monetary Community**
Communauté économique et monétaire de l'Afrique centrale *(Cemac)*
Cameroon, Central African Republic, Republic of the Congo, Gabon, Equatorial Guinea, and Chad.

Economic Community of West African States (ECOWAS)
Communauté economique des Etats de l'Afrique de l'Ouest (CEDEAO)
Founded in 1975, headquarters in Abuja, Nigeria
Members states: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo.
Web site: http://www.cedeao.org/

Organization of African Unity (OAU)/African Economic Community
Organisation de l'unité africaine (OUA)/Communauté économique africaine
The members of the OAU, nearly all African countries, signed a treaty that entered into force in May 1994 that will operate through regional economic communities to create a continent-wide African Economic Community in six stages over a 34-year period. The OAU's Economic Co-operation and Development Department (EDECO) is charged with implementing the treaty.
EDECO Web site: http://www.oau-oua.org/direc_info/dir_edeco/index.htm

❑ U.S. -SUB-SAHARAN AFRICA TRADE

Figures for 1994 and 1998 in millions of U.S. dollars

	1994		**1998**	
Country	**U.S. exports**	**U.S. imports**	**U.S. exports**	**U.S. imports**
Angola	197.4	2,079.2	354.7	2,240.9
Benin	25.9	10.0	43.6	3.6
Botswana	22.7	13.7	35.6	19.8
Burkina Faso	7.2	0.4	16.1	0.6
Burundi	17.7	6.2	4.7	7.7
Cameroon	53.5	56.3	75.1	53.3
Cape Verde	4.9	0.1	9.6	0.2
Central African Republic	2.5	0.2	4.5	2.8
Chad	7.5	1.8	3.5	7.5
Comoros	1.0	6.0	0.6	0.8
Cote d'Ivoire	111.2	185.3	151.4	425.9
Congo (Brazzaville)	38.0	403.0	92.0	315.4
Congo (Kinshasa)	39.5	187.0	34.1	171.7
Djibouti	6.7	0.1	20.4	0.5
Equatorial Guinea	1.9	0.3	86.7	66.6
Eritrea	8.4	0.1	25.1	0.8
Ethiopia	143.1	34.1	88.9	52.3
Gabon	40.1	1,232.7	61.6	1,258.8
Gambia	3.9	2.7	9.3	2.0
Ghana	124.5	198.5	225.1	143.2
Guinea	49.8	92.8	65.4	115.3
Guinea-Bissau	0.9	—	0.9	0.2
Kenya	169.5	111.0	198.9	98.5
Lesotho	3.6	62.7	1.4	100.0
Liberia	46.4	3.5	50.1	25.1
Madagascar	47.9	56.7	14.9	71.6
Malawi	18.7	48.0	14.5	60.4
Mali	19.0	4.0	25.3	3.4
Mauritania	14.0	3.5	19.5	0.4
Mauritius	23.8	216.8	23.3	271.6
Mozambique	39.4	20.8	45.7	25.8
Namibia	16.3	30.2	51.2	51.8
Niger	12.0	4.3	18.2	1.7
Nigeria	509.2	4,595.4	816.8	4,194.0
Rwanda	34.8	1.7	21.8	4.0
Sao Tome and Principe	13.0	0.4	9.4	0.7
Senegal	42.5	11.4	59.1	5.2
Seychelles	6.1	3.4	10.1	2.2
Sierra Leone	24.2	51.5	23.5	12.3

Country	U.S. exports	U.S. imports	U.S. exports	U.S. imports
Somalia	30.0	0.1	2.7	0.6
South Africa	2,172.7	2,019.7	3,628.0	3,049.1
Sudan	54.5	35.3	6.8	3.1
Swaziland	5.4	37.8	8.2	25.1
Tanzania	48.9	14.9	66.9	31.5
Togo	12.5	4.1	25.4	2.2
Uganda	27.7	34.9	29.8	15.1
Zambia	32.6	63.5	21.7	47.3
Zimbabwe	92.8	106.0	93.1	127.2

Source: U.S. Department of Commerce

KEY CONTACTS AND INTERNET SITES

KEY CONTACTS

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1660 L Street, N.W.
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http://www.africacncl.org

U.S. Agency for International Development
Africa Bureau
1300 Pennsylvania Avenue, N.W.
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Telephone: (202) 712-0410
http://www.info.usaid.gov/regions/afr/

U.S. Department of State
Bureau of African Affairs
2200 C Street, N.W.
Room 5242A
Washington, D.C. 20520 U.S.A.
Telephone: (202) 647-3502
http://www.state.gov/www/regions/africa/index.html

Office of the U.S. Trade Representative
Assistant U.S. Trade Representative for Africa
600 17th Street, N.W.
Room 501
Washington, D.C. 20508 U.S.A.
Telephone: (202) 395-9514
http://www.ustr.gov

U.S. Trade and Development Agency
1621 North Kent Street
Suite 200
Arlington, Virginia 22209-2121 U.S.A.
Telephone: (703) 875-4357
http://www.tda.gov/region/africa.html

The World Bank
1818 H Street, N.W.
Sub-Saharan Africa Division
Washington, D.C. 20433
Telephone: (202) 458-8418
http://www.worldbank.org/html/extdr/offrep/afr/afr.htm

KEY INTERNET SITES

African Development Bank Group
http://www.afdb.org

Export-Import Bank of the United States
(Africa programs)
http://www.exim.gov/africa-i/index.html

International Finance Corporation
Africa Business Network
http://www.ifc.org/abn/library.htm

International Monetary Fund
HIPC Debt Initiative
http://www.imf.org/external/np/hipc/hipc.htm

Overseas Private Investment Corporation
http://www.opic.gov

United Nations Economic Commission for Africa
http://www.un.org/Depts/eca

U.S. Department of Commerce
African Trade Information Center
http://infoserv2.ita.doc.gov/afweb.nsf

U.S. Department of Transportation (Africa programs)
http://ostpxweb.dot.gov/aviation/Africa/afrimain.htm

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CALENDAR OF ECONOMIC EVENTS

Aug 30-31 — 2000 and Beyond: Promises and Pitfalls for the Global Economy, Helsinki, sponsored by International Management and Development Institute

Sep 9-10 — Eleventh APEC Ministerial, Auckland, New Zealand

Sep 12-13 — APEC Economic Leaders Meeting, Auckland, New Zealand

Sep 14-16 — Western Hemispheric Transportation Ministerial, New Orleans Louisiana

Sep 14-16 — WIPO Conference on Intellectual Property and Electronic Commerce, Geneva, Switzerland

Sep 27 — International Atomic Energy Agency General Conference, Vienna, Austria

Sep 28-30 — World Bank and International Monetary Fund 54th Annual Meeting, Washington, D.C.

Sep 29-Oct 1 — U.S.-Africa Infrastructure Ministerial, Atlanta, Georgia

Oct 5-6 — USAID-sponsored Lessons in Transition in Central and Eastern Europe.

Oct 8-19 — U.S. Commerce Secretary William Daley trade mission to the Middle East

Oct 10-15 — Ninth International Anti-Corruption Conference, Durban, South Africa

Oct 16 — World Food Day

Oct 17-20 — Third International Intellectual Property Judicial Conference, Washington, D.C.

Oct 25-29 — CGIAR International Centers Week, Washington, D.C.

Nov 30-Dec 3 — Third Ministerial Conference of the World Trade Organization, Seattle, Washington

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