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THE ECONOMIC ROLE OF THE STATE IN AFRICA: PAST TRENDS AND FUTURE OPTIONS PRIVATE

Jean K. Thisen

INTRODUCTION

Political philosophy (particularly as exemplified by the contributions of writers such as Plato, Aristotle, and Locke) seeks to identify forms of government that are essential to fulfilling the temporal welfare of the people. The main thrust of efforts of the classical scholars has been towards proving that representative government or democracy is the best form, in the sense that it is more fitting for a free society not only to be ruled but also to share in the act of ruling. However, for democracy to succeed, people must have had a long apprenticeship in self-government. In theory, all forms of government are ethically acceptable in the circumstances consistent with people's own traditions, aspirations and the stage of historical development reached. In practice, only those forms of governments are acceptable that actually succeed in realizing the ends of the state, the common good and welfare of the people.

There exists, however, various viewpoints on how far the government should go in the exercise of its authority and in controlling the lives of its citizens. At least five possibilities may be considered in determining the optimum role of the state:

(a) the first is that of anarchy: this presupposes that government should be abolished as unnecessary;
(b) the second (or individualist/liberal/minimalist) option limits government to the maintenance of law and order; in other words, government should be confined to mere policing or watchman role and let each individual worry about his/her livelihood;
(c) the third (mixed enterprise) viewpoint assigns to government the task of assisting private enterprise in the attainment of the common good;
(d) the socialist or statist option conceives of the role of government in paternalistic terms and vests government with the power and authority to control almost every aspect of the citizen's life - the assumption being that a collective response to social problems is likely to prove more effective than individual efforts;

(e) the fifth, totalitarian, possibility, assumes that government is omniscient, and that the "irrational" impulses in the individual can only be checked if government is given total control over the life of the citizen.

The contemporary world has ruled out the first and the last extreme cases as contrary to human nature. This is because the first denies society the right to impose duties and obligations necessary for collective survival, while the last option fails to acknowledge the individual's innate rights (Consalves, 1989). For several decades the debate centred around the second, third, and fourth approaches, and up to the collapse of communism, these three philosophical positions crystallised into two opposing systems - capitalism and socialism. Although the sun appears to have set on rabid socialism, the debate on the role of the state is far from over.

Within the capitalist camp, the notion of liberalism - one founded on both an economic and political theory - was first mooted by the physiocrates in France, among them, François Quesnay and Anne Robert Turgot, as well as by the economic liberals of the Manchester School in England, particularly, Adam Smith, David Ricardo, Richard Cobden, and John Bright. With liberalism came the "laissez-faire" concept of the role of the state. "Laissez-faire" places emphasis on extreme individualism based on the tradition of natural laws and natural rights according to which the criterion of economic policy consisted essentially of conforming to a pre-established natural order which is perpetual and in time and space.

The laissez-faire function of the state is based on the premise that the drive of the people for profit in a free market system would culminate in a "universal opulence which extends itself to the lowest ranks of the people" (Smith, 1937). A fundamental characteristic of this free market system is private ownership of means of production such as land, capital, and labour. An extension of the laissez-faire logic is that workers without land or capital are free to sell their services to employers, and this determines the distribution of value added between wages and salaries, on the one hand, and the returns to the owners of means of production on the other.

In contrast, the utilitarian concept of the state function was defended by the English Classical School (i.e. Bentham). According to adherents of this school, all laws and rights are to be regarded as essentially man-made and to be evaluated according to their effects on general happiness. This concept focuses attention on the welfare of the nation within which the individuals or classes operate. The utilitarian concern for overall happiness informs its advocacy of government intervention, and particularly of the need to regulate the functioning of an economy at the aggregate level - that is, over and above the basic law and order and security functions of the state.

For the past three decades or so, political economists have increasingly debated the role of the state in developing countries (Przeworski and Limongi, 1993); Sirowy and Inkeles, 1990). The economic crises of the early 1970s and early 1980s raised the issue of the relative capacity of governments to maintain stable macroeconomic environments and, at the same time, to clear the way for sustainable economic growth and social development. Recent empirical evidence on the relationship between regime type and economic growth shows that there is no significant relationship, one way or the other, between the level of government intervention and overall economic performance. The major international financial institutions (namely the World Bank and the IMF) have often argued that poor economic performance in the Africa region was associated with excessive government intervention in the economy. Hence their advocacy of market reforms and of the liberalization of the economy through privatization.

It is the thesis of this article that the level of African governments' intervention in the economy is not as high as frequently stated. The article seeks to provide a theoretical background on liberalism and conservativism before measuring the size of government intervention in the economy, and comparing that size with what obtains in the other regions in the world. The economic performance indicators of the African region as well as those of other regions of the world confirm that there is no significant difference between the regime types. The paper is of the view that Africa could gain more by following the example of China in its endeavour to improve both economic performance and social development through balanced economic growth and development.

I. THE DEBATE IN PERSPECTIVE

In the contemporary American usage, anything involving less government, or a slight indication of preference for the status quo or for slow, moderate change is branded "conservative", while anything involving more government and progressive change is termed "liberal". A survey conducted in 1984, by the Roper Centre for Public Opinion showed that those Americans favouring "smaller government/fewer services" (49 per cent) barely outnumbered those wanting "larger government/many services" (43 per cent), although the gap may have widened somewhat in recent years.

The "liberal" claim that government can correct most social problems runs counter to public distrust of centralized bureaucracies and citizen aversion to higher taxes. At the same time, the "conservative" dogma that government is the root of all evil clashes with the practical reality that many Americans have become dependent on government (through social security welfare, college loans, farm subsidies, unemployment benefits, scientific and technological research and development, etc.) (Samuelson, 1995)). The point is that both extreme liberalism and extreme conservatism are beginning to take a moderate face not only in the United States but in different parts of the world.

What constitutes the optimum role of the state has been a subject of much debate since time immemorial. However, the line became sharply drawn in the 1970s when Keynesian economists most of whom taught at Harvard University in Boston-Cambridge joined issues with their professional colleagues (mostly monetarist economists) at the Chicago University's school of economics.

Needles to say that the Keynesian and neo-Keynesian economists who argue in favour of an active role of the State in the economy base their theory on the simple observation that most economies failed to achieve full employment because of factors militating against instantaneous market clearing in the real world, and see business cycles as being caused by the volatile and inefficient investment behaviour of the private sector. Thus, they favoured policies to encourage consumption so as to maintain aggregate demand at a level near to full employment, and state control of investment so as to smooth away business cycle fluctuations (Keynes, 1936).

The monetarists, while accepting that there are factors preventing continuous market clearing, blame fluctuations predominantly on unstable government behaviour. They do not share Keynes' belief in the ability of government to control investment and resource allocation decisions more efficiently than the private sector. The monetarists also doubt the ability of the government to intervene successfully in the economy by fine-tuning its macro-economic policies in response to the performance of the economy, although such policies may have some real short-run effect (Friedman, 1956 and 1959). The monetarists tend to be conservative in the sense that they support the competitive, private enterprise system and are suspicious of state intervention.

The monetarist non-activist view of the state was reinforced recently by the "New Classicals" most of whom taught at the University of Chicago. They went further by virtually assuming away any factors preventing continuous market clearing apart from inevitable random elements producing expectational errors (Hahn, 1980). For them, the private sector has its own checks and balances which promote efficient resource allocation, and government intervention is not only superfluous but wasteful. Even a perfectly wise and benevolent government could not improve upon the outcome of the private sector's behaviour; at best, government can do no economic good, and at worst, it could generate more expectational errors with a complicated or unpredictable policy.

II. DEGREE OF GOVERNMENT INTERVENTION: COMPARATIVE EMPIRICAL EVIDENCE

There are several ways of measuring the degree of government intervention in the economy. The most important ones are the ratio of public expenditure to GNP, the size of public investment relative to total fixed capital formation, the degree of openness, the per centage of public employment over total employment, and the nationalization ratio for the major economic sectors. In this paper, we have selected two indicators. One is internal, i.e., the ratio of public expenditure to GNP, and the other external, viz: the degree of openness.

The size of Public Expenditure

As to the first indicator, the historical data produced in Table 1 show that government expenditure, including the purchase of consumer and investment goods, as a per centage of GNP or GDP, has increased more than four times in most industrialized market economies during the period between 1880 and 1985.

Table 1: Percentage Share of Government Expenditure in GNP or GDP in Selected Industrial Countries, 1980-1985

PRIV ATE	1880	1929	1960	1985
France	15	19	35	52
Germany	10	31	32	47
Japan	11	19	18	33
Sweden	6	8	31	65
United Kingdom	10	24	32	48
United States	8	10	28	37
Average	10	19	29	47

Source: World Bank, *World Development Report* 1991; p. 139.

Table 2 compares such central government expenditures as percentage of gross national product (GNP) in all industrial market economies with those of planned economies and other selected semi-industrialized developing countries of Europe and Asia during the period between 1972 and 1989. The Table (2) confirms that the role of the state in economic affairs keeps expanding in the market economies. Indeed, the unweighted overall average rose from 27.8 per cent in 1972 to 36.4 per cent in 1989. In centrally planned economies, the share of public expenditure in net material product decreased from 59.2 per cent to 55.9 per cent in the respective periods, although here the latest data must be taken with caution. In some of these countries, particularly, Hungary and Poland, the share of public expenditure in the economy has decreased from 87.3 per cent in 1972 to 58.6 per cent in 1989 and from 45.7 per cent to 40.4 per cent, respectively.

Table 3 reproduces the data on public expenditure as a percentage of GDP in selected African countries for the period 1980-1990 - i.e., the period when government intervention was assumed to be at its highest level and therefore needed to be checked by the implementation of stabilisation and structural adjustment programmes. However, it can be noted that, in several of these countries, such a percentage is either similar to, or lower than, the one depicted in the industrialized market economies. Contrary to previous belief, the size of government involvement in economic and social affairs (at least, as reflected by that percentage of public spending) is small. This leads to one inescapable conclusion, i.e., that the bulk of economic activities is generated by the private sector and farmers. The data in Table 3 is comparatively far closer to those of sub-section A of Table 2 relating to the industrialized market- and private enterprise economies than to sub-section B of centrally planned

Table 2: Central Government expenditure as percentage of GNP and NMP

Country	Central Government Expenditures				
	1972	1980	1985	1989	1990
A.Industrial Market Economies:					
Australia	20.2	25.9	30.2	27.0	25.1
Austria					
Belgium					
Canada					
Denmark					
Finland					
France					
Germany Fed.Rep.					
Ireland					
Italy					
Japan					
Netherlands					
New Zealand					
Norway					
Spain					
Sweden					
Switzerland					
United Kingdom					
United States					
Overall Average					
B. Centrally Planned Economies:					
Bulgaria					
Czechoslovakia					
Germany Dem.Rep.					
Hungary					
Poland					
U.S.S.R.					
Overall Average					
C. Other Developing Economies:					
Yugoslavia					
China					
India					
Overall Average 1972					

Source: World Bank, *World Development Report 1991*, Statistical Appendix, Tables 9 and 11; ECE, *op.cit.*; and OECD *National Accounts, 1960-1989*, (Paris, 1991).

state-controlled economies. Even the countries that for sometime proclaimed themselves socialist (like Guinea, Congo, Ethiopia, Zimbabwe, Angola, Tanzania, Egypt) the level of government spending in the economy never exceeded fifty per cent and never approached the level attained in the planned economies of Eastern Europe. In these African countries, the private sector was and still is relatively active.

Table 3: Government Expenditure as percentage of GDP in Selected African Countries, 1980-1990

Country	1980	1985	1989	1990
Botswana	34.0	30.7	36.4	34.8
Burkina Faso	16.2	13.4	18.7	18.1
Cameroon	20.8	21.3	22.4	23.4
Egypt	45.7	47.1	49.6	47.0
Ethiopia	25.4	37.4	38.4	39.1
Ghana	13.1	13.3	13.9	12.5
Kenya	27.8	27.6	32.0	30.1
Lesotho	55.8	47.4	51.4	48.0
Liberia	31.3	26.9	21.3	22.4
Malawi	33.4	30.3	27.3	29.5
Mali	24.4	29.3	33.9	25.7
Mauritius	29.0	27.3	25.0	25.9
Morocco	33.1	33.2	45.5	30.9
Nigeria	21.6	13.8	11.5	23.5
Rwanda	14.5	23.1	21.0	21.3
Senegal	23.7	16.3	19.4	19.3
Sierra Leone	28.9	12.1	18.3	14.5
Somalia	25.4	20.6	22.4	25.0
Sudan	20.0	32.5	21.0	16.7
South Africa	21.6	29.3	32.1	34.7
Swaziland	24.4	28.6	27.1	25.9
Tanzania	28.7	39.0	30.9	29.1
Togo	31.8	36.3	27.1	28.3
Tunisia	31.8	37.3	35.8	41.3
Uganda	6.5	15.4	15.8	14.1
Zaire	17.3	37.3	35.0	30.3
Zambia	37.1	35.1	37.1	35.4
Zimbabwe	34.8	39.0	40.3	35.4

Source: IMF, *Government Finance Statistics Yearbook*, 1991

The issue therefore is not that of the size of government, but the entrepreneurial capacity of the private sector enterprises. This is predicated on the fact that African countries are lagging behind industrialized and other developing countries in the deployment of appropriate entrepreneurial capacities for accelerated growth and development. While government has its own share of the blame, the private sector has itself not proved capable of responding to the challenges of increased globalization, and has so far failed to mobilize the resources and to design the strategies necessary to enhance the region's chances in global economic competition.

There are explanations for the lack-lustre performance of the private sector. Some of these point to acts of omission or commission on the part of the government. Others are internal to the private sector itself. First, the pre-independence socio-economic policies did not actively encourage the development of indigenous entrepreneurial capacities and an indigenous private sector. The only possible exception is North Africa where indigenous private entrepreneurs (mostly through partnership with settlers from the Arabian peninsula) have acquired experience in operating large-scale enterprises in virtually all sectors, including industry. In other parts of Africa, particularly sub-Saharan Africa, indigenous enterpreneurs were marginalized by European and Indian settlers. This had profound implications for African entrepreneurial capacity for more than a century and, in consequence, for the size and scope of ventures owned and managed by Africans.

Secondly, during the post-independence period, a sizeable number of African governments used the public sector for major investments in virtually all sectors and to bring about the redistribution of productive assets. In the process, the development of private entrepreneurial capacity was neglected. This was the case particularly in those countries which adopted socialist policies during the 1960s through the 1980s.

A third explanation for the relative weakness of indigenous enterprise is the misconception of entrepreneurship as trading, especially petty trading. Rather than establish and nurture firms from the ground up - paying particular attention to market demand - many an African "entrepreneur" was content with serving as trading-post agents of foreign multi-national firms, or peddling consumer goods smuggled across borders. It is only in recent years that African business men and women are showing interest in value-adding operations such as metal fabrication, wood-work and furniture manufacture, leather processing, fashion design and garment making.

For all of these reasons, private indigenous entrepreneurial capacity has remained weak in most African countries. The gap is most significant in large-scale, technology-intensive ventures calling for above-average managerial capability. Yet, and in addition to the recent developments mentioned above, there is evidence to suggest that a significant degree of indigenous entrepreneurial expansion did occur after independence in countries with mixed economies. From operating predominantly small businesses, especially in sub-Saharan Africa, many indigenous entrepreneurs have "graduated" to running intermediate- and large-sized enterprises. According to ADB's recent report, the private sector in Africa now accounts for about two-thirds of GDP, more than half of modern sector employment, and about 50 per cent of gross investment (ADB, 1997).

The Degree of Openness

The degree of openness of an economy is reflected in its import- and export-GDP elasticities. Where the degree of state intervention is high, the government would interpose itself between its (domestic) economy and external actors, and from this position, begin to impose barriers to trade - pushing exports and discouraging imports. Under such circumstances, the import or export/GDP elasticities would tend to be low. In a free market economy, the classical free trade theory would prevail and, therefore, the import- or export-GDP elasticities could be expected to be much higher. Table 4 compares the past and projected values of total import- and export/GDP/NMP elasticities for various economic systems or regions. The data show the extreme variability of the global trade elasticities.

Table 4: Overall Trade Elasticities by Region

	1965-73	1974-80	1981-85	1986-90	1991-2000
Import-GDP/NMP Elasticities:					
North America	2.46	1.47	3.23	0.96	1.46
European Market Economies	2.18	1.29	1.89	1.92	1.48
Centrally Planned Economies	1.47	1.27	0.20	1.03	1.03
Other Developed Economies	1.21	1.15	0.56	1.94	1.24
Developing Oil-Exporting Econ.	1.50	3.36	-0.49	1.08	1.20
Developing Oil-Importing Econ.	1.23	1.24	1.39	1.18	1.20
Export-GDP/NMP Elasticities:					
North America	2.16	2.13	-0.13	2.50	1.95
European Market Economies	2.25	1.72	4.25	1.30	1.33
Centrally Planned Economies	1.44	1.50	0.28	1.07	1.09
Other Developed Economies	1.19	2.81	1.53	0.60	1.08
Developing Oil-Exporting Econ.	1.52	-0.36	-14.68	2.15	1.30
Developing Oil-Importing Econ.	1.11	1.28	2.97	1.26	1.12

Source: ECE Secretariat, *op.cit.*

After the very high values witnessed in the 1960s in North America and European market economies and the developing oil-exporting economies, a significant decline took place in the second half of the 1970s. This reflects the implementation of restrictive import policies in a large number of the "free market" economies which were now acting to control the trade deficits resulting from high oil prices. During the first half of the 1980s, trends varied, showing a dramatic increase in North America's import elasticity and the similarly noticeable decline for the other developed countries, the centrally planned economies and the developing oil-exporting economies. All in all, the trend is towards falling import-export elasticities, meaning that most of the countries in the world are, and will be, adopting protectionist, state intervention measures rather than the laissez-faire policies suited to open economies.

The trend in trade/GDP elasticities for selected African countries is reported in Table 5. While in some cases, the African elasticities depict declining trends, their magnitude remains comparatively higher than those reported in Table 4 for industrialized market economies and for planned economies. This means that the African region is much more open to the world, as its trade (exports and imports) has in general been growing and continue to grow faster than its GDP.

Table 5: Trade/GDP Elasticities in Selected African Countries

Country	Import Elasticities			Export Elasticities		
	1981 1985	1986 1990	1991 1995	1981 1985	1986 1990	1991 1995
Botswana	0.3	0.8	-1.8	1.1	1.9	0.6
Burkina Faso	-1.4	1.5	2.9	0.7	3.8	11.1
Cameroon	0.9	-0.3	1.9	2.1	7.6	1.1
Egypt	0.5	2.2	3.0	-0.9	2.1	27.3
Ethiopia	8.1	0.0	3.2	2.9	0.2	3.1
Ghana	22.8	7.3	3.1	2.2	1.5	1.3
Kenya	6.3	-1.5	30.3	-1.9	0.1	14.3
Lesotho	2.8	1.7	5.6	-14.0	3.1	7.5
Liberia	6.9	3.8	2.1	3.9	4.5	1.5
Malawi	3.2	9.1	3.0	-0.6	9.3	1.9
Mali	2.1	1.7	2.9	2.3	3.4	1.6
Mauritius	2.9	2.0	1.2	0.2	2.7	2.9
Morocco	0.8	2.9	0.9	1.4	2.9	0.8
Niger	2.9	0.8	5.0	3.7	0.8	1.0
Nigeria	5.1	1.0	6.5	4.5	0.9	1.6
Rwanda	1.2	0.5	0.8	1.4	0.6	3.5
Senegal	1.3	2.6	6.3	1.6	1.4	11.6
Sierra Leone	-29.3	1.1	2.0	11.7	0.1	3.7
Somalia	19.4	5.6	1.8	11.6	1.9	5.0
Sudan	7.9	2.4	2.0	3.2	9.4	5.2
South Africa	0.7	0.8	1.5	0.8	0.7	0.6
Swaziland	0.8	3.2	30.7	3.5	4.7	3.2
Tanzania	5.8	0.5	1.9	17.1	1.2	4.9
Togo	-26.6	5.2	4.6	17.4	2.3	1.2
Tunisia	1.3	5.4	2.4	1.6	5.7	2.4
Uganda	0.1	0.3	14.6	0.8	-3.1	5.4
Zaire	0.4	2.3	2.6	0.0	2.9	2.9
Zambia	49.0	6.1	6.3	38.0	4.4	11.9
Zimbabwe	2.4	3.1	5.3	1.4	2.1	2.6

Data Source: UNECA, *Economic and Social Survey of Africa*, various isues;
UNDP/World Bank, *African Economic and Financial Data*, 1989;
IMF *International Financial Statistics Yearbook*, 1996;
UNCTAD, *Handbook of International Trade and Development Statistics*, Geneva, 1994.

III. ROLE OF THE STATE AND OVERALL ECONOMIC PERFORMANCE

Our aim here is to show the extent to which the effectiveness of the role of state - least-tax-public expenditure or most-tax-public expenditure - has been maintained in the various groups of countries in Africa as well as in other regions of the world. An attempt is made here to compare the past and projected trends with regard to:

(i) overall economic performance as measured by the growth of gross domestic product (GDP) or net material product (NMP);
(ii) the size of gross fixed capital formation in the economy; and
(iii) labour force, employment, productivity and inflation.

The analysis of these indicators is based on the data published by the United Nations Economic Commissions for Africa and for Europe, the World Bank, the IMF and the OECD.

Overall Economic Performance

As can be seen from Table 6, the pre-oil shock period (1965-1973) which was characterized by government intervention, witnessed unprecedently high rates of economic growth in Africa and all other economic groupings of the world. This development, however, was mostly uneven.

In the market economies of North America, overall GDP grew by 3.8 per cent per annum, and in European market economies, it grew by 4.3 per cent. This, however, compares very poorly with the centrally planned economies and other developed economies which grew by 7.1 per cent and 8.6 per cent, respectively. There was also a strong upswing in the developing countries. However, during the post-oil shock period (1974-1985), GDP/NMP growth rates in all economic systems decelerated considerably to reach 2.3 per cent yearly in North America, 2.0 per cent in European market economies, 4 per cent in centrally planned economies and 3.4 per cent in other developed countries. Consequently, the developing oil- exporting- and oil-importing economies, which are closely linked with the developed countries by trade, also recorded a deceleration from 6.9 per cent in 1965-1973 to 2.3 per cent in 1974-1985 and from 6 per cent to 4.1 per cent, respectively.

Likewise, the GDP growth rate in Africa decelerated from an average annual rate of 6.1 per cent in 1965-1973 to 4.2 per cent in 1974-1985, further down to

1.5 per cent in 1986-1990 and to 1.2 per cent in 1991-1995. Africa's overall performance in the 1980s (the "lost decade") has been dismal, compared to other regions. Economic decline was a fact of life in almost all the African countries regardless of the political and economic ideology proclaimed by the government. Future projections indicate that there will be recovery in real GDP (to about 3.4 per cent per annum) during the remaining years of the 1990s.

Table 6: Overall Real GDP/NMP Growth Rates (Per cent and per annum)*

1965-73	1974-85	1986-90	1991-95	1995-2000	
North America	3.8	2.3	2.5	1.9	4.1
European Market Economies	4.3	2.0	2.4	1.5	2.6
Centrally-planned Economies	7.1	4.0	3.9	-1.4	2.5
Other developed countries	8.6	3.4	3.6	-9.9	2.0a
Oil-exporting developing countries	6.9	2.3	2.5	2.7	3.8
Oil-importing developing countries	6.0	4.1	4.0	3.1	3.0
Africa	6.1	4.2	1.5	1.2	3.6
North Africa	6.2	5.7	0.9	1.2	2.8
West Africa	7.8	2.8	3.2	2.0	3.6
Central Africa	4.0	3.9	-2.0	-1.9	4.3
East Africa	4.6	2.1	3.8	3.8	4.6
Southern Africa	6.5	3.9	3.4	1.1	2.8
World Product	5.3	3.0	3.2	-0.1	3.2

Source: UNECA and ECE Secretariat data base and estimates.
*The figures 1995-2000 are those of SEM base-line projection (SEM = simulation explanatory model of ECE);
a = adjusted with recent economic transition events.

Thus, as a result of oil-price shocks and growing budget deficits, the industrialized market economies did not recover their firmly established post-war economic gains. A reversal of economic trends also occurred, though somewhat later, in the centrally-planned economies. The rise in the price of oil was initially a boom for the USSR, coinciding with the increase in oil production in Siberia. Although the rise in the oil price had adverse effects on the other countries of Eastern Europe, they nevertheless succeeded in maintaining their NMP growth rates. Only in the late 1970s and the early 1980s did NMP and labour productivity growth slow down in several countries of the region. This has been interpreted as indicating a need for a transition from an extensive type of economic growth to intensive use of all available resources. The shift towards an intensive path of development is all the more necessary as the growth in manpower supply has declined considerably and the mere maintenance of existing fuel and raw materials extraction levels necessitates steadily rising expenditures.

The economic performance of industrialized, market economies of North America and Western Europe as well as other developed economies and oil-exporting developing countries, is projected to improve slightly in the 1990s while economic growth in centrally-planned economies will decelerate substantially since the high growth achieved in the post-energy crisis period is not likely to be sustained in the future. The oil-importing countries would maintain growth rates at the level of the past decade. In contrast, there is considerable degree of uncertainty regarding future developments in the North American and the European market economies. Thus, the overall economic growth performance of the various tax-state management systems is mixed.

Despite the expansion of trade and the small size of public expenditure, growth in Africa was comparatively very poor in the 1980-1995 period. Among the possible explanations for this slow growth are the inherent weaknesses of indigenous private enterprise, and the inadequacy of foreign private investment. Unlike what happened in East Asia, the African countries have not been able to attract financial resources, technology and management skills from foreign multinational companies.

Size of Fixed Capital Formation in the Economy

Table 7 shows that the share of capital accumulation in GNP/NMP is higher in the centrally planned economies and in developing countries than in the market-oriented economies, contrary to classical teachings that capital accumulation is the natural outcome of free enterprise. The deviation from this objective stems from the Keynesian consumption theory that is widely applied in most western market economies in order to keep industrial productive capacity operating. Another reason is the increased efficiency in capital (increased capital productivity) as result of technological innovation which makes growth to depend not only on the volume, but on the quality of capital investment.

Table 7: Gross Fixed Capital Formation as percentage of GDP

Region/Country	1965	1985	1989	1990
A. Industrial Market Economies				
Australia	20.2	24.8	26.0	22.8
Austria	29.6	23.4	27.0	25.5
Belgium	39.3	14.9	20.0	20.4
Canada	20.1	20.2	23.0	20.7
Denmark	32.6	19.6	19.0	17.3
Finland	24.4	24.2	30.0	28.1
France	32.3	18.9	21.0	22.5
Germany F. R.	24.2	21.8	22.0	24.6
Ireland	19.6	19.8	21.0	20.6
Italy	29.5	22.5	24.0	21.0
Japan	12.7	28.0	33.0	32.5
Netherlands	41.0	20.0	19.0	22.2
New Zealand	31.1	26.9	32.0	19.9
Norway	35.0	24.2	27.0	23.3
Spain	43.9	19.2	25.0	20.6
Sweden	27.9	19.2	22.0	21.3
Switzerland	13.3	24.4	30.0	29.3
United Kingdom	31.8	17.2	21.0	19.2
United States	19.1	20.2	15.0	16.9
Overall Average	27.8	21.5	24.1	22.6
B. Centrally Planned Economies				
Bulgaria	54.1	16.1	32.0	26.9
Czechoslovakia	63.4	15.1	28.0	15.7
Germany Dem.Rp.	51.1	23.8	20.0	15.8
Hungary	87.3	25.0	26.0	25.4
Poland	45.7	27.7	33.0	25.6
U.S.S.R.	53.6	21.9	30.0	25.8
Overall Average	59.2	21.6	28.2	22.5
C. Other Developing Economies:				
Yugoslavia	21.0	41.7	48.0	35.9
China	65.7	32.8	36.0	38.7
India	10.5	23.1	24.0	25.2
Overall Average	32.4	32.5	36.0	33.3
D. African Region	16.0	20.0	19.5	21.2
North Africa	15.1	28.9	20.6	21.9
West Africa	15.7	15.4	*14.2*	*17.2*
Central Africa	*11.5*	18.2	15.9	15.9
East Africa	15.1	16.4	21.9	24.1
Southern Africa	21.9	21.1	24.9	27.1

Source: Ibid.

In centrally planned economies, national plans and economic policy measures before the energy crisis (1973) have tended to maintain the leading role of capital accumulation over consumption (extensive methods). Lately, there has been a tendency towards the involvement of more actors in production and consumption activities, and public policy is beginning to lean towards achieving continuous improvement in the quantity and quality of consumer goods throough the application of new technologies. Therefore, the share of consumption in NMP increased; but at the same time there have been measures to increase the efficiency of fixed investments through acceleration of technological innovation, increasing labour productivity (technical education) and investment in infrastructure development.

In Africa, the ratio of gross investment to GDP stagnated around 20 per cent during the period 1980-1995. Although this rate is lower than the average for other developing countries which stood at 33.3 per cent in 1990, the realized rate is still high considering the level of income and the absorption capacity of the African economies. The problem is not essentially one of under-investment but also of productivity of investment. The efficiency in the use of scarce resources as expressed in incremental capital-output ratio (ICORs) stood at an average of 15:1 during the period 1985-1995, meaning that a gross investment of over US$15.00 was required in order to increase GDP by one dollar.

Generally speaking, the African ICORs were not only high but also rising steeply. These trends in ICORs reflected major declines in the utilization of industrial capacity in the private and public sectors, resulting in most cases from an assortment of factors like inappropriate distribution of investible funds, locational problems, infrastructural gaps, poor levels of economic management, defective organization and control processes, inappropriate technology, weak, or complete lack of, sectoral linkages, as well foreign exchange constraints which in turn resulted in shortage of raw materials and spare parts.

Employment, Productivity and Inflation

In most of the economic groupings, the low-growth conditions of the past decade have deeply affected the trends in employment and labour productivity. In North America, there has been a slow-down in the growth of output per worker - that is, from 1.5 per cent a year during the period 1965-1973, to 0.4 per cent a year during 1974 -1985. The explanations for declines in per capita productivity range from reduction in average working hours, to the rapid expansion in part-time employment, especially in the services sector.

The share of GDP growth of output per worker growth was 40 per cent in 1965-1973 period, but fell to 16 per cent in 1974-1985, and then rose to 47.2 per cent in 1986-1990. The contribution of labour to GDP growth was about 60 per cent. Despite the decline in the rate of productivity growth and a relatively high level of job creation, the rate of unemployment rose substantially from 5.4 per cent in 1973 to 7.5 per cent 1985 and 8.2 per cent in 1986-1990 (See Table 7). However, inflation averaged around 4 per cent during these periods due to the resolute anti-inflationist line pursued by the government. The contribution of employment to GDP in European market economies did not exceed 10 per cent and this explains the persistence of high unemployment rates in Europe compared to North America; although the contribution of labour productivity to GDP growth has remained above 90 per cent. The rate of inflation also averaged around 6 per cent.

In the centrally-planned economies, the real NMP per worker which accounted for 87.2 per cent in 1973 slightly increased to 89.2 per cent in 1990 and the employment growth contribution to GDP was small and gradually declining, while the share of technical progress (or global factor productivity) increased from 40 per cent in 1973 to an average of 60 per cent in the 1980s. The growth rates of employment which were higher in the period following the energy crisis continued to decline steadily throughout the 1980s. Likewise, the rates of inflation which were low before 1973 have been increasing substantially, particularly in Poland and Hungary. The centrally planned economies are currently passing through an unprecedented wave of political and institutional changes coupled with the transition to market economies. There is still uncertainty about the final objective of the transition to a market economy as well as the speed and timing of the transition. A more radical economic reform programme might have started giving rise to higher unemployment and inflation in those countries.

In Africa, high population growth rates and a steady decline in real GDP had a combined effect of reducing per capita income during the period 1980-1995. Other notable developments within the same period are declining investment, reduced labour productivity and rising unemployment. Table 8 uses these indicators to project into the future.

Of particular interest is the average inflation rate which rose from 5.2 per cent in the pre-oil chock period (1965-1973) to 16.9 per cent in 1974-1985 and 18.4 per cent in 1986-1990. It accelerated in the 1990s due to the hyperinflational situation which had developed in Zaire, Sudan, Zambia, among other countries. The double digit inflation stems from the fact that governments in those countries relied on seigniorage for a substantial portion of their revenue (nearly 10 per cent) to finance their budgetary deficits.

Table 8: Labour Force, Productivity and Employment (Average annual Growth rates - per cent)

Region	1965-73	1974-85	1986-90	1991-2000
North America				
Population	1.1	1.0	0.9	0.8
Labour Force	2.3	2.1	1.5	1.0
Real GDP per worker	1.5	0.4	1.2	1.3
(Percent of GDP)	(40.1)	(16.0)	(47.2)	(50.8)
Employment	4.4	2.4	0.6	1.3
Unemployment	4.9	7.4	5.8	4.8
Inflation rate	6.3	3.6	5.4	4.5
European Market Econ.				
Population	0.7	0.4	0.3	0.3
Labour force	0.4	0.6	0.6	0.3
Real GDP per worker	4.0	2.1	2.2	2.3
(Percent of GDP)	(93.5)	(103.0)	(91.7)	(91.6)
Employment	1.6	0.8	1.4	1.4
Unemployment	3.3	10.1	8.0	6.5
Inflation rate	8.8	7.1	6.6	5.6
Centrally Planned Econ.				
Population	0.9	0.8	0.8	0.7
Labour force	1.3	0.9	0.5	0.5
Real NMP per worker	6.2	3.4	3.6	2.6
(Percent of NMP)	(87.2)	(85.4)	(89.2)	(88.8)
Employment	1.6	0.6	0.9	0.7
Unemployment	1.5	2.5	4.2	9.5
Inflation Rate	1.0	3.7	11.5	6.8
African Region				
Population	2.6	2.9	3.0	2.8
Labour Force	2.3	2.4	2.5	2.7
Real GDP per worker	5.9	1.8	2.3	2.9
(Percent of GDP)	(98.9)	(89.6)	(84.9)	(85.4)
Employment	1.8	0.9	1.2	1.8
Unemployment	3.2	5.8	7.9	8.5
Inflation Rate	5.2	16.9	18.4	42.7

Source: ECE, *op.cit.*; Figures on employment, unemployment and inflation are for the end of year 1973, 1985, 1990 and 2000 and are estimated from data provided in ECE, *Economic Survey of Europe in 1990-1991*, Statistical Appendices (New York: United Nations, 1991).; ECA and ILO data bases and estimates.

From the data presented in Tables 5-7, it is reasonable to assume that in the real world, there is no discernible difference between the economic performance of the "liberal" vis-a-vis "conservative" regimes.

It is also possible to infer that both moderate conservatism and moderate liberalism, are valuable depending on the circumstances prevailing at any point in time. The first (monetarist approach) is probably better applied when the economy is healthy and performing smoothly. The keynesian remedy becomes necessary when the economy is sick - that is, during depression or recession. In the next section, we focus on the experience of an emerging economy, China, in balancing growth with sustainable development.

IV. THE STATE IN ECONOMIC DEVELOPMENT: CHINA'S EXPERIENCE

China's economic management experience could prove useful to the distressed economies of Africa. Although China is the largest of all Asian countries and has the largest population of any country in the world (1990 estimates: 1.2 billion inhabitants), its share of world output is relatively modest and, notwithstanding its substantially rapid development since the establishment of the People's Republic, China is similar to Africa in many respects. Apart from being a developing country, it is heavily dependent on agriculture which provides the livelihood for the bulk of the population and accounts for 50 to 60 per cent of export earnings (Gurley, 1975; and Hsu, 1982).

In 1949, the government launched a radical development policy aimed at attacking mass poverty, unemployment and the skewed distribution of income. Land reform was introduced, resulting in the redistribution of land in favour of the poor and landless peasants. This singular move contributed to the acceleration of the rate of fixed capital formation in agriculture and the mobilisation of rural savings. Land redistribution was followed in 1949-1952 by the establishment of mutual aid teams which were a collection of household units providing labour and private agricultural inputs during the planting and harvesting seasons. Between 1955 and 1956 elementary co-operatives comprising 30 to 40 households were established. They were soon followed by advanced agricultural co-operatives varying in size from 100 to 300 households (Gurley, 1975).

The first plan failed to attain its targets. The government therefore decided (during the second plan period, 1958-62) to revise its policy in a radical manner.

This second plan coincided with the proclamation of the "Great Leap Forward" which placed emphasis on agriculture, small-scale industry and the creation of people's communes (Berger, 1982). From this period, China moved from a strong, command economy to a balanced economic management system which placed high premium on the mobilization of resources from every region.

The underlying premise of the new economic management style is that the rush to industrialization should not be attempted at the cost of depriving agriculture and light industry of vital resources. This policy enabled China to avoid the pitfalls associated with the centralist planning model applied by the Soviet Union for the greater part of its existence. China also did not think that meaningful development could be brought about by favouring the urban sector at the expense of the rural sector. Economic development, according to the Chinese policy makers, should strike a balance between one sector and another, among regions, and, above all, between indigenous and modern technologies. Under the Great Leap Forward, agriculture was to be the foundation on which industry rested. The rationale behind this strategy was that the surplus from agriculture and light industry could easily be used to provide the funds needed for investment in heavy industry (Aziz, 1973-74).

Balance was also advocated in technology on the grounds that until such a time when China was able to operate advanced technology, a balanced spectrum of techniques (both indigenous and modern) should be vigorously pursued for the rational development of the country's resources (Rifkin, 1975). This policy has resulted in the establishment of a large number of small-scale industries in different parts of the country and in providing employment for a large number of people. Balance between and among regions meant that investment should simultaneously take place in both the backward and the richer areas, and that the surplus extracted from the relatively prosperous areas could again be used for investment in the less developed regions.

Economic planning in China was highly decentralized not only to encourage the participation of local and regional actors but also to maximize the exploitation of local resources. As Keesing (1975:1-32) observed,

> "central authorities concentrate on influencing the style and basic objectives of economic activity, while keeping the aggregate level in a comfortable balance with resources."

The commune is composed of various production brigades, and each brigade is divided into several worker production teams. While a commune may have 20 to 100 brigades, the basic unit i.e. the production team is composed of a village of 25 to 30 families. The production team is responsible for planning output targets and deciding how income should be used. It is estimated that 50 to 55 per cent of a commune's revenue is distributed among its members, 20 to 25 per cent is set aside for working capital requirements and 15 to 20 per cent is transferred to a special fund for capital formation.

The main role of the commune is to coordinate the work of the production brigades, provide social services, and mobilize the masses for the utilization of local resources. It supervises arrangements for the fulfilment of local needs in the areas of agriculture, irrigation, road building and so forth. Private plots and material incentives co-existed with the running of the communes (Gray, 1973).

In its planning exercise, China has always maintained a balance between aggregate demand and aggregate supply. Contrary to what is observed in some countries, the Chinese obtain a feedback on their products and ensure that goods offered for sale are readily available and are of good quality.

The concept of balanced state management propounded by Mao enables each sector, region, or unit to collect part of the tax revenue for local development, and to use part of the income from labour and capital for its consumption and fixed capital formation. Incentives are thus an integral part of the Chinese socialist system. So is the equal attention paid to the development of rural and urban communities, and to the development of agriculture and industry. The Chinese model integrates social, political and economic goals and aims at the full development of human beings, no matter in what region they reside in. As Mao once noted, development is not worth much unless everyone rises together. These are lessons of great moment for African countries.

CONCLUSION

The contemporary world is witnessing tremendous change in the role of the state. While there has been a general tendency for centrally planned countries to liberalize their economies, not only in the field of external trade but also in allowing wider sovereignty for the consumer than before, private-enterprise economies have been compelled to raise the level of taxation to curb deficits and counter recessions. The debate can no longer be simplified as a choice between state intervention and pure laissez-faire. In today's dynamic world, economic and social objectives are becoming increasingly intertwined, and, therefore complex. Defining government's precise role in the attainment of these objectives entails examining the constellation of forces operating on the economy at any point in time.

With particular reference to Africa, it is advisable that the role of the state be strengthened in the domains of development policy, infrastructure development and maintenance, rehabilitation of the decaying social sector, human capacity building and utilization, and balanced development of rural and urban communities. It is also the duty of the state to provide an enabling environment for the mobilization and optimum allocation of private sector and other non-governmental resources.

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REGULATORY REFORM IN SUPPORT OF PRIVATIZATION : PRIVATE PATTERNS AND PROGRESS IN AFRICA

Ejeviome E. Otobo

I. INTRODUCTION

Regulatory reform is a key prerequisite for successful privatization. However, just as regulatory reform is but one requirement for successful privatization, so privatization is only one reason for regulatory reforms. Governments, for example, usually embark on regulatory reforms in response to such diverse needs as seeking to eliminate restrictive business practices, to improve transparency in financial markets, to promote occupational safety, to reduce health and consumer risks, to protect the environment, and to encourage fair trading and competition.

Conversely, and aside from regulatory reforms, there are many other requirements for successful privatization. Principal among these are strong political commitment to privatization, transparent procedures, effective institutional framework, cooperation of stakeholders in public enterprises (employees, managers trade unions, consumers), existence of capital markets, and economic reforms necessary for private sector development (Rondinelli & lacono 1996: 258-259).

To understand why regulatory reform is essential for privatization, it is important to explain each of these two terms and how regulatory reform is needed to support privatization, especially in certain sectors of the economy. Privatization refers to three distinct but interrelated actions, namely: transfer of state-owned enterprises(SOEs) to the private sector (asset divestiture); allowing new operators into sectors that have been the exclusive domain of the state (de-regulation or liberalization); and introducing efficiency enhancing techniques or market-based mechanisms in state-owned enterprises or other government operations (the so-called public use of market mechanisms).

On the other hand, regulatory reform has been used in this paper to refer to changes in rules or laws in response to economic or social needs. Regulatory reform can take the form of de-regulation, re-regulation or new regulation.

Typically, regulation involves three discrete but interrelated steps: setting rules or standards to influence the behaviour of economic or social agents, monitoring their compliance, and enforcing them.

There are, by now, extensive analyses on the experience with, and impact of, one type of regulatory reforms in African countries; namely, deregulation in such areas as trade (abolishing import licencing and reducing tariffs); money (eliminating administrative controls on credit and interest rates); exchange rate (allowing market-determined rates); investment (liberalising of investment codes); and other productive incentives (lifting price controls and revising taxes). Such is the intensity of focus on these forms of regulatory reforms that progress, or the lack of it, in some of these areas has been used to classify and assess the performance of African countries on economic reforms. Similarly, there is a respectable and growing body of analyses on privatization techniques and trends, as well as its scope and impact — economic, fiscal, social and political — in African countries.

By contrast, there have been few analyses of the experience of African countries in devising regulatory frameworks needed to support the privatization of SOEs. This paper aims to contribute to filing that gap by examining the patterns and progress in establishing regulatory frameworks in response to privatization of SOEs in some African countries. It addresses such questions as what regulatory frameworks have been created in response to privatization in Africa and where — in what sectors and in which countries? The main focus of the paper will be regulatory frameworks for newly privatized enterprises in the infrastructure sector. This is because the challenge of regulatory policy and management in this sector is most pronounced. A regulatory framework consists of a legislative enactment or decree that establishes a regulatory agency, indicates the functions of the agency, including its enforcement powers, and spells out the general orientation of government policy towards competition in the industry, for example, whether or when and how many firms may operate in the industry.

The creation of effective arms length regulatory structures lies at the heart of regulatory reform required to support the operations of privatized SOEs, especially in the infrastructure sector. The term "arms length" is used to connote the fact that the regulatory agency is separate from a department of government but also the regulated industry. Effectiveness comes from both the clarity of the goals of regulatory agency as well as the credibility and integrity with which the agency conducts its operations. Assessing the effectiveness of a regulatory framework requires that a particular regulatory arrangement be in existence for a reasonable period of time. Arms length regulatory frameworks in Africa are undoubtedly in their infancy. The functioning and effectiveness of the regulatory structures that are emerging in Africa will be the subject of a separate paper.

This paper provides preliminary evidence on patterns and progress in creating arms length regulatory frameworks for newly privatized infrastructural enterprises. In doing so, it examines four propositions: First, the need to create regulatory framework to support privatization will be best appreciated in countries which have made more progress in economic reforms. Second, countries with a market economy tradition will show more appreciation for establishing a regulatory framework to support the privatization of SOEs. Third, arms length regulatory frameworks are more likely to be the norm in industry/ firms in a monopoly market structure. Fourth, regulatory structures are more likely to emerge in the context of asset divestiture rather non-asset divestiture privatization.

Before turning to the discussion of the preliminary evidence on the foregoing propositions, it would be helpful to review very briefly how pre-privatization and post-privatization regulation differ.

II. PRIVATIZATION AND REGULATORY REFORMS

Privatization is linked to regulatory reform through an intricate pathway. As a starting point, it is useful to recognize the various objectives of privatization. These include promoting private sector development, reducing fiscal deficits, boosting capital market development, and improving economic efficiency (Adam et al 1992:22); reducing the role of government in the economy and promoting widespread ownership among the population at large (Bishop & Thompson 1993:1). Some of these objectives can arguably be achieved without the transfer of ownership of SOEs to the private sector through, for example, performance or management contracts. There is, however, considerable empirical evidence of the shortcomings of performance and management contracts as a means of improving the efficiency of public enterprises .

As a result, the view has evolved that the efficiency gains from public enterprise reforms other than through privatization do not endure and, therefore, privatization is the outcome most likely to produce lasting gains. According to this view, ownership of an enterprise matters (Kikeri, et. al. 1992:21; World Bank 1996:49). This view is, however, strongly disputed by those who argue that ownership by itself is rarely the critical determinant of enterprise performance. Instead, the efficiency impact of privatization is dependent on the nature of product demand, the degree of market competition and effectiveness of the regulatory structure (Adam et. al. 1992: 22). Reconciliation of these divergent views lies in the consensus that effective regulation is needed when a public monopoly is transferred to the private sector, to induce its behaviour to approximate that of a firm in a competitive market structure.

A few points deserve to be emphasized here. The first is that regulation may not be needed if the privatized enterprises operate in a competitive market structure. However, because privatized enterprises in the infrastructure sector, especially in telecommunications, exhibit many monopolistic features, an explicit regulatory regime is the best way to preserve various public interests. Regulation produces winners and losers, and generates fierce political battles, especially as some vested interests use regulation for rent seeking. Similarly, some vested interest use the non-existence of monopoly regulation for rent seeking — that is monopoly rent seeking. Regulatory policy must respond creatively to public demand for action by always striving to serve public rather than private interest.

Second, the infrastructural enterprises are vitally important to the functioning of the economy. This is why they are described as strategic or being at the 'commanding heights' of the economy. (See Table 1 for the various categories of SOEs and their market structure as well as some options to inject competition into otherwise monopoly market situations.) Third, the small size of the economy in many African countries means that even firms that should be theoretically operating in competitive market structures will turn out to be monopolies or duopolies. This is a major structural issue that regulatory policy would have to address. Such situations are outside the purview of this paper, but they illustrate the regulatory challenge in many African countries. Then, there is the problem of developing an effective capacity for regulatory policy and management - even for the limited cases of the privatized SOEs. We now review the key features of pre-privatization and post-privatization regulation.

Table 1: Enterprise Sector and Industry Structure

Enterprise Sector	Industry Structure
INFRASTRUCTURE	
Public Utilities	
Telecommunications	M (HUP)L
Water	M (VUP)L
Electricity	M (VUP)L
Piped gas	M (VUP)L
Sewerage Disposal & Sanitation	M (VUP)SC,L
Transport	
Railways M (VUP and HUP)SC,L	
Airlines	CDM L
Airport	M (HUP)SC,L
Waterways	CDM,L
Public works	
Roads	M (SC)L
Bridges	M (SC)L
Dams	M (HUP)L
Highways	M (SC)L
Irrigation	M (HUP)L
MANUFACTURING	
Steel	CDM
Chemical	CDM
Light Manufacture	C
PRIMARY SECTOR	
Agriculture	C
Animal husbandry	C
Mining and Minerals	M L
Petroleum	M (VUP)L
Other Mineral Deposits	VUP L
SERVICES	
Banking	C
Tourism	C
Hotels	C
Housing & Construction	C
Trading companies	C
Insurance	C

Note: M (HUP) = Monopoly, but Horizontal Unbundling Possible
M (VUP) = Monopoly but Vertical Unbundling Possible
C = Competitive market structure
L = Lease agreement feasible
SC = Service contract for maintenance feasible
CDM = Competition Depends on Market size
M = Monopoly - natural or induced

Pre-privatization Regulation

Before privatization, state control over a public enterprise tends to be all-embracing. The state's roles as an owner, operator and regulator are fused, even if exercised discretely by various agencies of government. In practice, the ownership and operating (management) roles are divorced and, in addition, the property rights that derive from ownership are either dissipated, or poorly allocated and subject to conflicting instructions from the various controlling agencies (Galal 1991:3-4, Adam et al 1992:13). As an owner, the government appoints the board of directors who manage the enterprise, makes decisions on the location of the enterprise, and exercises the property rights — rights to control assets, cash flow rights, and right to dispose of the asset. This role is usually exercised by the relevant department of government that controls the SOE or the Public Enterprises Commission.

As an operator, the government, through its appointed board, makes decisions on investment, production, procurement and personnel matters. Before privatization, the interests of government as investor in an SOE and the public as consumer of any SOE goods or services are presumed to be protected or reconciled. This is achieved through the influence that the public exercises on government policy through their representatives in the legislative process, who periodically review SOE performance during budgetary debates on financial allocation to an SOE or through public pressure on the controlling ministry of the SOE. These public pressures are sometimes transmuted into ministerial directives to the SOE.

As a regulator, the government sets technical standards of products but also the prices of the product and sometimes gives directives on cross-subsidization, for example, when it instructs a public monopoly to serve rural areas at below prevailing price or cost. The regulatory role is exercised by either by the minister responsible for the SOE, guided by a presidential decree or, in many cases, by parliamentary legislation. In other words, regulation is internalized by government. It may be emphasized that internal regulation of SOEs may not always serve public interest. There is evidence, for example, that SOEs use their bureaucratic connections to escape pollution control in many developing countries (World Bank 1995:41).

Post-Privatization Regulation

Privatization severs the link between government's ownership and operating roles from its regulatory role and this has several consequences. Once the ownership of SOE is transferred to the private sector through privatization, concerns for investor protection and consumer protection become non-convergent and public interests about SOE performance or conduct is expressed through regulatory policy. With the regulatory functions of government separated from operating and ownership functions as a result of privatization, designing a regulatory framework for preventing a private monopoly from abusing its market power becomes imperative. To understand why, it is important to recognize that state-owned enterprises operate in all three types of market structures: competitive, oligopolistic and monopolistic. Invariably, the divestiture of SOEs into competitive markets reinforces greater competition - and here regulatory reform will take the form of strengthening competitive market structure, often through anti-trust legislations on, and prevention of, restrictive business practices.

It is an entirely different matter when the divestiture results in the emergence of a private monopoly enterprise. This is usually the case when public infrastructural enterprises such as electric power, telecommunications, water, piped gas, etc. and public transport enterprises, for example, railways, are divested. These categories of enterprises exhibit three characteristics: natural monopoly, which means that their marginal costs decline over virtually all potential output; price inelasticity, an increase in the price of services produced do not lead to a sharp fall in demand; and huge sunken costs which represents a major barrier to entry and exit.

Although advances in technology, especially in telecommunications, transport and electric power, have virtually eliminated the monopoly argument for government provision of these services (UBS 1996:5), the fact remains that the enterprises in many of these sectors will continue to be natural monopolies and, thus, in need of regulation. In this regard, it has been emphasised that it is a myth of deregulation that liberalization of telecommunications markets and opening of opportunities for competitive entry will decrease requirements for regulatory oversight, at least in the short- and medium -term, (Fowler and Pisciotta, 1993:119). What advances in technology have done, in combination with regulatory innovations, is to make possible the separation of monopoly from the competitive aspects of the industry. In electric power, it is now much easier to allow many firms to undertake generation, while transmission and distribution remain natural monopolies.

Just as competition does not occur simply because government legislates it, but depends on the economics of the market place, the advances in technology and institutional framework do not eliminate the monopoly power of the newly privatized monopoly enterprises in these sectors. Moreover, competition and regulation are not incompatible. Regulation can help competition by creating a level playing field, for example, through anti-trust legislation. Competition can also help regulation, for example, through unbundling - breaking private monopoly firms into components, by stages of production (vertical unbundling) or service category or geographic (horizontal unbundling). Maintaining some sectors in bundled form was justified in the past because where economies of scope are significant, unbundling raises costs of provision. However, unbundling is desirable where it makes cross subsidies more transparent and improve management accountability (World Bank 1994b:53).

In sum, post-privatization regulation differs from pre-privatization regulation in three important respects: in the creation of an independent regulatory agency for the regulated industry; in the greater reliance on competition to improve service delivery in the regulted industry; and in the encouragement provided for technical innovations and growth in the regulated industry as opposed to the heavy emphasis on social goals in public enterprise.

III. PRELIMINARY EVIDENCE ON THE ESTABLISHMENT OF REGULATORY FRAMEWORKS

A number of caveats should be entered regarding the findings that are presented below on the four propositions indicated earlier about the patterns and progress in devising regulatory frameworks to support privatization of SOEs in African countries. The first is that privatization in Africa has been slow (World Bank 1994a:101-105; The Economist 1993:17); although the pace has now accelerated somewhat. The constraints to privatization vary from country to country. In general, the main impediments to privatization in Africa have included stiff public resistance; absence of stock exchanges to facilitate initial public offerings; opposition by some stakeholders in the enterprises, mainly workers and trade unions; the sorry and unattractive state of companies on offer; lack of buyers for enterprises on offer; and weak indigenous private sector.

The very gradual pace of privatization in Africa can be gleaned from comparing the cumulative total number of privatization transactions up to 1995 with the size of PE portfolio of 30 selected African countries in the mid-1980s (See table 2). By 1995, 2007 SOEs had been privatized in Sub-Saharan Africa out of an estimated total of 4,700 (Kerf and Smith, 1996:18). But this is a considerable underestimation when it is recognized that the number of public enterprises reported by privatization agencies at the 2nd APN conference in Africa exceeded the figures commonly cited. For example, it was indicated at the conference that Tanzania had 425 SOEs in 1990; Ghana 300 in 1993; Kenya 240 in 1992; Uganda 156 in 1992; and Sierra Leone 44 in 1993 and that Nigeria alone had about 1,800 SOEs at the Federal and State levels as of 1980. But the figure of 107 SOEs cited for Nigeria in many reports are the SOEs which the government listed for privatization in the 1988 Decree on Privatization and Commercialization (Ramanadham, 1993: 367-369).

Another dimension of privatization, less often discussed, especially as it pertains to regulatory reform, is the pattern of privatization. The majority of the divestitures in the period 1988-93 occurred in the agricultural and services sectors, which accounted for about 85 per cent of the value of all divestitures in Sub-Saharan Africa compared to 0.004 per cent in the infrastructure sector (Sadder 1995:40). The implication of this pattern is clear when viewed from the perspective that privatization of public enterprises in the competitive market structures result in less need for regulatory reform. A key observation, then, is that regulatory reform to support privatization has been slow because the scope of privatization has been narrow. The situation, as indicated latter, is changing in regard to both the pace and scope of privatization.

There is a profound way in which past ideology could influence the scope and direction of regulatory reform, namely, the degree of discretionary latitude that governments are willing to relinquish to regulatory authorities and the type of advantages that governments confer on commercialized enterprises. The first can be gauged from the autonomy given to regulatory agencies and the second on the privileges that are given to commercialized SOEs.

Box 1: Sample of objectives of regulatory agencies in the telecommunications sector in Africa

A: Objectives of the Nigerian Communications Commission (NCC)

- To create a regulatory environment for the supply of telecommunications services and facilities to promote fair competition and efficient market conduct;
- To facilitate the entry into markets for telecommunications services and facilities of persons wishing to supply such services and facilities;
- To ensure that licences or authorized carriers and other providers of telecommunications services and infrastructures meet their services and infrastructures meet their commercial obligations and their other obligations under this Decree, and in a manner that promotes cooperation and fairness;
- To protect licensees and the public from unfair conduct on the part of other providers of telecommunications services, with regard to quality of service and tariff;
- To ensure that the standard of telephone services is supplied as efficiently and economically as possible and at such performance standards which reasonably meet the social, industrial, and commercial needs of the community;
- To promote the development of other sectors of the Nigerian economy through the commercial supply of modern telecommunications services, within the framework of this Decree;
- To establish technical standards and promote the development of Nigeria's telecommunications capabilities, industries and skills;
- To ensure that the Nigerian public have growing access to telecommunications facilities.

Source : Decree No.75 of 24th November, 1992 establishing the Nigerian Communications Commission.

Box 2: Functions of the Tanzanian Communications Commission (TCC)

- To ensure the provision of good and sufficient telecommunication services throughout Tanzania (universal service);
- To ensure rates for provision of services are consistent with efficiency, continuous service and financial viability of operators;
- To exercise licensing and regulatory functions in respect of telecommunications and postal systems and services including the establishment of standards and codes relatinf to equipment attached to telecommunications and radio communication system;
- To promote competition in providing telecommunication services;
- To regulate telecommunications tariff rates with a view to eliminate unfair business practices among operators;
- To further advancement of technology;
- To represent Tanzania in international organizations in telecommunication matters;
- To advise the Government on all telecommunication matters and on matters pertaining to the Commission.

Source: The Tanzania Communications Commission Act No. 18 of 21st December, 1993.

It should be noted, however, that figures on the numbers of public enterprises in African countries vary considerably because of differences in coverage (whether the number include those that government have majority or minority shares); definitions (whether PEs are financial or non-financial); and in the tiers of government ownership (central versus regional/state). Public enterprise ownership is exercised, in many countries, at the central as well as the, regional (provincial, state, or even municipal) levels.

Second, the picture that emerges from a review of Table 2 is of an increasing differentiation among African countries in the pace of privatization. This is in turn reflected in the diversity of perspectives on privatization among African leaders. The spectrum of views range from robust and active commitment to privatization, to cautious support and, then, selective privatization. Countries with robust and active commitment have broad public support for privatization but also that they had opened virtually all sectors of the economy to private sector participation, including sectors like power, telecommunications, and other utilities over which governments usually maintained a tight control (Economic Commission for Africa, 1996). This trend would appear to support the view that the creation of arms length regulatory framework is most likely to occur in countries that have robust and active commitment to privatization.

The third caveat which derives from the growing differentiation in the speed and scope of privatization among African countries is that to achieve fairly consistent results, it would be important to match countries that display comparable patterns, for example, those privatizing SOEs in similar sectors or allowing private sector participation in same sectors. This is the only way to assess whether progress in regulatory reforms in particular sectors are occurring evenly or not. This paper initially set out to examine regulatory reforms in three infrastructural areas, namely, water, electricity and telecommunications. These three sectors are critical to the functioning of the economy, common to all countries and essential to good living . It was quickly realized that regulatory reforms have advanced furthest in telecommunications sector which has witnessed more rapid progress towards increased private sector participation (see table 5).

Fourth, the classification of countries on the basis of the progress in economic reforms is based on improvements in macro-economic policies, as indicated in the World Bank 1994 study, inspite of the shortcomings that it may have. This approach has the merit of basing classification on a previous work rather than constructing one afresh. In any case, there is much recognition in the development community that the ranking on economic reforms provided by World Bank and IMF are known to influence both policy-based and sectoral lendings by other donors.

Fifth, typically, the key functions of a regulatory agency are to ensure that the regulated industry provides quality service, supply goods at reasonable prices, promote fair competition and protect consumers from unfair conduct. See Boxes 1 and 2 for a sample of objectives of two regulatory agencies in African countries. These two illustrative samples reflect the recognition that in the modern era, the role of the regulator is not just to ensure that a monopoly acts in the public interest, but also to foster growth, technical innovation, efficiency and user responsiveness (Fowler and Pisciotta, 1993:117-119).

Table 2: Number of PEs and Privatization Transactions in Selected Sub-Saharan African Countries

Country	[a]Year	[b]Number of PEs	[c]Cumulative Total Number of Privatization Transactions by 1995♦
Benin	1982	60	46
Botswana	1978	9	1
Burundi	1984	51	15
Cameroon	1980	50	37
Comoros	1982	10	4
Congo	1982	75*	9
Côte 'Ivoire	1978	147	32
Ethiopia	1984	180	0
Ghana	1984	130	96
Guinea	1980	181	115
Kenya	1982	176	109
Lesotho	1978	8	8
Liberia	1980	22*	0
Madagascar	1979	136	59
Malawi	1977	101	35
Mali	1984	52	48
Mauritania	1983	112	31
Niger	1984	54	30
Nigeria	1981	107	81
Rwanda	1981	38	n/k
Senegal	1983	188	35
Sierra Leone	1984	26	9
Somalia	1979	44	0
Sudan	1984	138*	26
Swaziland	1978	10	0
Tanzania	1981	400	80
Togo	1984	73	24
Uganda	1985	130	34
Zaire	1981	138	2
Zambia	1980	114	75
Total		2959	1041

Note: *Excludes financial enterprises:
n/k Not known
♦ The number of privatizations for the year 1995 itself are incomplete for many countries and will be updated before the report indicated below is published.

Source: Data on a & b come from Nellis (1986) and c from Campbell White, O. and Bhatia, Anita (Forthcoming 1997): - see appendix I for detailed data.

Sixth, a key concept in the discussion of the evolution of regulatory reforms in response to privatization is regulatory lag. This takes two main forms: failure to enact legislation to create a regulatory framework before privatization of SOEs in a natural monopoly industry or, more generally, a failure to revise a regulatory framework in response to changes, say, in technology or social policy. The former is applicable to this discussion. This lag tends to arise from the distinction that policy makers often make between ex-ante prerequisites for privatizing an enterprise (bringing an SOE for sale in the market place) and ex-post facto prerequisites for post-privatization (dealing with the consequences of privatization). Although regulatory reform can, indeed, wait until a privatization deal has been completed, there is always the real risk that, unless the elements of a regulatory framework are embedded in the early phase of the privatization process, the new owners of the regulated, private monopoly could lobby to weaken the regulatory regime in their favour.

We now turn to examining the four propositions of the paper, based on existing preliminary evidence.

Proposition I: *The need to create regulatory framework to support privatization will be best appreciated in countries which have made more progress in economic reforms.*

Deregulatory reforms in the areas of money, trade, fiscal policy and exchange rate have a common objective with privatization and the regulatory reforms linked to it: they contribute to increasing economic efficiency. It is reasonable to expect that countries pursuing sound macro-economic policies would also implement privatization both as a means for improving economic efficiency and for private sector development. In turn, such countries would be expected to readily establish regulatory framework(s) in response to privatization.

The World Bank 1994 study classified six countries as having recorded significant improvements in macroeconomic policies in the 1987-91 compared to the 1981-86 period. The countries are Burkina Faso, The Gambia, Ghana, Nigeria, Tanzania and Zimbabwe. Using the regulatory reforms in the telecommunications sector, as a point of reference, only three countries, namely, Ghana, Tanzania and Nigeria, which were in the category of countries with a good economic reform record in the World Bank 1994 study, are among the ten countries that have established regulatory framework for that sector. Nigeria enacted its regulatory law for the telecommunications sector in 1992, and in October 1996 granted licenses to nine private telecommunications companies to compete with Nigerian Telecommunications Limited (NITEL) - the state-owned commercialized enterprise. Tanzania enacted the legislation establishing the Tanzania Communications Commission - the telecoms regulator - in 1993 at the same time that it was setting up the Tanzania Telecommunications Company Limited as a commercialized SOE, and Ghana enacted its legislation in 1996.

But Ghana provides an illustration of regulatory lag in telecommunications reforms. It passed the National Communications Act in the last week of October, 1996 and signed into law in December 1996. Before then, it had opened the cellular segment of the telecommunications sector to private operators, giving authorization (not licenses since the regulatory legislation had not been adopted) to three cellular companies which respectively began operations as follows: Mobitel, 1992; CellTel, 1994; and Scancom, 1996. Yet, this regulatory lag may be evidence of Ghana's commitment to rapid liberalisation of the telecommuincations sector. Following the passage of the National Communications Act, the three existing cellular phones together with the Ghana Telecom (the state company) and a new private operator were to be given licenses to operate in the cellular market. Ghana is also set to license a second telecommunications operator which will provide basic telephone services. In addition, 30 per cent stake in Ghana's Telecoms is to be sold to a single core investor while the government will hold the remaining 70 per cent stake in trust for the public - to be sold gradually through public offering on the Ghana stock exchange.

If Mauritius, which was described in the 1994 study as having graduated from adjustment in the mid-1980s (World Bank 1994a:36) is added, this brings to four the number of countries with good economic reform record which have established regulatory framework in the telecommunications sector. Of the remaining six countries that have established regulatory authorities for telecommunications (see table 4) one (Senegal) was classified as showing small improvement in macro- economic policy and three (Cote d'Ivoire, Mozambique and Zambia) were classified as having fallen behind in macro-economic performance.

Asset divestiture privatization in electricity has virtually not occurred among the good performers in the 1994 study. Indeed, at present, only in a handful of countries, such as Côte d'Ivoire and Senegal, have governments allowed the private sector to operate electricity power on Build-Operate-Own (BOO) or Build-Operate-Transfer (BOT) basis (ECA, 1996), although a few others have announced plans to do the same (Table 5).

Several countries have announced plans to privatize their telecommunications enterprises. Uganda has announced its intention to license a second telecommunications operator (Muleme, 1996). Cote d'Ivoire has sold huge shares of its telecommunications to foreign telecommunications operator — FranceTelecom.SA. In addition, Senegal Zambia and Zimbabwe have announced plans to sell their telecommunication enterprises (Kerf and Smith 1996:18).

On the basis of this admittedly limited evidence, there is not much difference between countries with good economic reform record and those without when it comes to establishing regulatory framework for privatized enterprises. However, two main reasons may be advanced to explain this situation. First, the period covered by the 1994 study was not marked by any significant progress in privatization. Second, though some countries, for example, Cote d'Ivoire were not in the best-performance category at the time of the study, it has since shown a favourable attitude towards privatization. Such a policy stance spurs the need to set up arms-length regulatory arrangements. If progress in economic reform makes no difference in terms of the regulatory processes and/or institutions initiated, perhaps ideological orientation of the past will provide some explanation.

Proposition II: *Countries with a market economy tradition will show more appreciation for establishing a regulatory framework to support privatization of SOEs.*

This proposition is predicated on the premise that a country with market-economy tradition will also have a robust experience in market regulation and, hence, show a better appreciation of the need to regulate newly privatized enterprises. To see which countries have a tradition of running their economies on free-market principles, we rely on a major study (Young, 1982) which, using the 1960s and 1970s as a frame of reference, grouped African countries under three headings, namely, Afro-Marxists, Popular Socialists, and African Capitalists. The purpose of that study was to examine the link between ideology and economic management.

Our interest in that classification is that it acknowledged that a few African countries operated capitalist or market-oriented economies before the reforms of the 1980s. In that study five countries were classified as Afro-capitalists, namely Cote-d'Ivoire, Kenya, Malawi, Zaire and Nigeria. Afro- marxists were Angola, Benin, Congo, Ethiopia, Madagascar, Mozambique and Somalia. In the Popular Socialist group were Algeria, Egypt, Ghana, Guinea, Mali and Tanzania.

At first glance, one would expect that countries with a free- enterprise tradition would have fewer public enterprises, or lead the way in privatization and, therefore, likely to create the necessary regulatory institutional environment for privatized SOEs. As Table 2 indicates, however, all five countries in the market-economy category had SOEs portfolios as big as, if not bigger than, the Afro-Marxists and Popular Socialists. Their SOE sector was larger than all Popular Socialists except Tanzania.

Of the five countries in the market-economy category, only Nigeria and Cote d'Ivoire have initiated arms-length regulatory plans in respect of their telecommunications sector. Mozambique and Tanzania, which have established regulatory framework for their telecommunications sector, belonged to the African-marxist and popular-socialist categories respectively. Indeed, as can be seen in Table 3, countries with different ideological histories are applying various innovative methods in reforming their telecommunications sector.

There is another way in which past ideology could influence the establishment of regulatory framework, namely, in the privileges accorded commercialized SOEs and the degree of autonomy granted to the regulatory agencies. In countries where the habit or orientation of tight state control lingers in economic policy making, the government would be expected to confer a lot of advantages on the newly commercialized state -owned enterprises. Tanzania, for example, has given indefinite exclusivity period to the SOE in telecommunications and allowed few operators for basic and fixed telephone services than, say, Nigeria (see Table 3).

Interestingly, the regulatory arrangements installed in both Tanzania and Nigeria in respect of the telecommunications sector would appear to place the regulatory agencies in the two countries under the control of the minister of communications, particularly, on such issues as the budget and the appointment of some key officials of the agencies. This represents a deviation from the ideal construct of autonomous regulatory agency.

The conclusion to be drawn from the emerging pattern is that there is an ambiguous link between ideological orientation of African countries and many aspects of economic management. This is possibly attributable to the fact that post-independence African governments, regardless of ideology, intervened extensively in their economies. Comparable interventions breed similar results — one of which is that the regulation of SOEs, having long been a preserve of government, does not appear to to be moving towards the autonomous, arms-lengths regulatory model associated with the era of liberalization.

Table 3: Some special features of telecommunications regulatory reforms in selected African countries

Country	Exclusivity period for main provider(s) of basic and fixed telephone services	No. of licensed operators in cellular phones	No. of service providers of basic telephoning and other services
Cote d'Ivoire	7 years	3	1(PTZ)
Ghana	5 years	5	2♦
Nigeria	4 years°	1*	10**
Tanzania	Indefinite√	4	1

Note: *= Before licensing in October, 1996 of nine private network companies to offer various telecommunications services, there was only one cellular phone company.

**= Includes NITEL, the state-owned telecommunications company. The nine private companies are negotiating an interconnectivity agreement with NITEL.

m = In 1992, NITEL, the Technical Committee on Privatization and Commercialization and the Federal Government of Nigeria signed a four year performance contract with NITEL with which key performance targets included against NITEL's achievements could be assessed. The Nigerian Communications Commission (NCC) granted licenses to nine private operators in October 1996, after the first batch of approval given to private operators in early 1994 was not successful.

÷ = Private providers are, however, allowed to set up local services in rural areas by connecting into national network of Tanzania Telephone Company Limited (TTCL). ZANTEL Ltd (Zanzibar) has been licensed to compete with TTCL in provision of basic services in Zanzibar and the islands.

PTZ=Government approved the sale of 51% stake of CI-Telecom, the State-owned telecommunications enterprise to France Telecom (FTE.SA) on January 22, 1997.

♦= Government has licensed a second national operator(ACG telesystems).

Source: Compiled by the author from various sources.

Proposition III. *Regulatory frameworks are likely to be the norm in industry/firms in monopoly market structure.*

As indicated earlier, there is considerable consensus that privatization of public infrastructural enterprises with natural or artificial monopoly characteristics need effective public regulation. Preliminary evidence indicates that the African countries that have commercialised some of their public utilities, the telecommunications sector, for example, have established regulatory frameworks, see tables 4 and 5.

Table 4: Growth of Regulatory Authorities in Telecommunications Sector in Africa

- Already established
  - Cote d'Ivoire (Agence de Télécommunications de Côte d'Ivoire)
  - Mauritiues (Telecommunication Authority)
  - Mozambique (Inst. Nacional de Com. de Moçambique)
  - Namibia (Namibia Communications Commission)
  - Nigeria (Nigeria Communications Commission)
  - Senegal (Direction de la Réglementation)
  - Tanzania (Tanzania Communications Commission)
  - Zambia (Communication Authority)
  - Ghana (National Communications Authority)*
  - South Africa (South African Telecom Regulatory Authority)√

NOTE: Legislations establishing the Ghana communications authority were passed in last week of October, 1996; and first week of November 1996

Source: Taylor, Shola (1996): 'The Changing Telecommunications Environment in Africa: Opportunities for Private Sector Participation'. Paper presented to the International Conference in Reviving Private Investment in Africa, in Accra, Ghana, 24-27 July 1996.

Here the evidence matches the theoretical model in that there is recognition among policy makers that as the scope of privatization widens to include the key public infrastructural enterprises, regulation must be undertaken. Conversely, regulatory structures have yet to emerge in countries where privatization have not extended to SOEs in the public utilities sectors. Yet, the fact that regulatory structures are emerging in the context of commercialisation deserves further explanation.

Proposition IV: *Regulatory Structures are likely to emerge in the context of asset divestiture rather than non-asset divestiture privatization*

The conceptual premise for this proposition seems obvious: if the state is not completely divesting a public enterprise there may be no compelling reason to create an arms-length regulatory framework. However, the preliminary evidence points in the other direction, namely, that African governments have established arms-length regulatory arrangements in non-asset divestiture contexts. This signals that such governments do not intend to treat their commercialized enterprises differently from asset divestiture privatization, when it comes to regulatory controls. This should not be surprising since commercialization exposes SOEs to the discipline of the market place, unaided by government subsidies, transfers and bank credit on easy terms. Virtually all the countries that have created regulatory authorities for their telecommunications sector have done so in the context of non-asset divestiture (commercialization) rather than asset divestiture (privatization).

This would tend to suggest that African governments intend to grant a high degree of operating autonomy to their commercialized enterprises, and hence the need to regulate them as 'virtual' privatized enterprises. This preliminary evidence, while it represents a departure from the model for regulation for state-owned enterprises, is nonetheless similar to what had occurred in regulatory reforms in Britain in the 1980. Bishop & Thompson (1993:2) have observed that while regulatory reforms were popularly associated with privatization, these reforms have also included important changes to the regulation of enterprises which have remained in public ownership. But there is another explanation for the emergence of arms-length regulatory frameworks in various African countries: they have been created in response to increased private sector participation, for example, in the telecommunications sectors. This can be gleaned from a review of table 5.

Table 5: Status of State-ownership and privatization of infrastructure enterprises in selected countries

Country	Water♦	Electricity	Telecommunications
Benin	SOE	SOE	SOE
Burkina Faso	SOE	SOE	SOE
Cote d'Ivoire	L	PP	PTZ
Ghana	SOE	PP*	PP.COM
Kenya	SOE	COM	PP*.COM
Malawi	SOE	SOE	COM
Mozambique	PP	PP.COM	COM
Nigeria	SOE	PP*.COMP	P.COM
Sierra Leone	SOE	SOE	COM
South Africa	SOE(L)	PP.SOE	PP.SOE
Tanzania	SOE	COM	COM
Togo	SOE	SOE	SOE
Uganda	SOE	PP*	PP*.COM(RF)
Zambia	JVF	PP	PP.COM

Note:
SOE = Still operated as State-owned enterprise;
PP = Private participation allowed;
PP* = Private participation announced or contemplated;
PP.COM= Private participation and commercialized SOE operating alongside;
RF = New regulatory framework under preparation;
L = Sector managed on lease arrangement; JVF= Joint Venture with foreign firm.
♦ = Most water systems are managed at municipal or provincial levels.

Source: Survey conducted by the author with Heads/Representatives of Privatization Agencies from these countries at the 2nd Conference of the African Privatization Network, held in Accra, Ghana from 4-6 November, 1996. Information on Cote D'Ivoire which was not at the meeting was obtained on water, electricity and telecommunications sectors respectively from Kerf and Smith (1996:19) ECA, (1996) and Amevor (1996).

IV. CONCLUSION

A few concluding observations can be made from the preliminary evidence in establishing regulatory frameworks in Africa in response to the privatization of SOEs. Fragmented though the evidence might be, there is growing recognition among various African governments for regulatory reforms to support their privatization efforts. Yet the pace of these reforms will remain uneven both within sectors in a country, and among countries. This is because some countries will continue holding some of the key public infrastructure enterprises as partially commercialized, rather than fully commercialize or privatize them. On the other hand, where governments have allowed or committed themselves to private sector participation in such infrastructural sectors as electric power, it would not be long before market regulation will emerge. A major conclusion, then, is that regulatory reform has been slow essentially because as Kerf and Smith (1986:18) and Sadder (1993:9) have shown, the scope of privatization has been narrow, with the majority of sales occurring in the agricultural and service sectors.

Because some of the commercialized or newly privatized firms are bound to become major players in their national economies — measured by their market share in the specific industry — the standard regulatory measures for monopolies will quickly prove inadequate. Inevitably, anti-trust legislation will be required, if other firms are to have an opportunity to enter, or thrive in, specific industries. Yet, considerable care and caution must be exercised in devising anti-trust laws so as not to stifle the growth of vibrant private enterprises.

New in the act but fast in learning, regulatory agencies in African countries are applying some well-tested best practices to foster competition in the regulated industries. This is a promising trend exemplified in the granting of licenses to private electric power companies to operate in several countries and in the leasing arrangements for managing water systems in others. There is also a trend towards horizontal unbundling - separating activities by service category or geographic location in the telecommunications sector in several African countries. For example, private cellular companies have been licensed to operate in Cote d'Ivoire, Ghana, Malawi, Namibia, Nigeria, South Africa, Tanzania and Zaire.

Tanzania provides a good example of horizontal unbundling based on geographic location, for cellular services. The Tanzania Communications Commission - the regulator of the telecommunications sector - has divided the country into four zones and allowed service providers in each. Millicom (Tanzania) Ltd - whose operating name is Mobitel - is licensed to provide service in Dar es Salaam and Zanzibar. TRI Telecommunications Tanzania (Ltd) is to provide the coastal (Dar es Salaam) and Northern Zones. Tanzania Telecommunications Company Ltd - the main operator in basic telephone services - is to provide services in Northern, Central and Southern Highland Zones. And MIC Tanzania - part of Millicom International Cellular SA - is providing mobile cellular telecommunication services in the coastal area of the country (Okello, 1996).

Another key observation is that the industry-specific model of regulation seems to be taking hold in Africa judging from the trend in the telecommunications sectors. This presents a challenge in that building and sustaining regulatory capacity requires a lot of financial resources and technical expertise. For this reason, African countries should give consideration to creating regulatory agencies on sectoral or cross-sectoral lines rather than industry-specific lines. Among the advantages of this approach are opportunities to share regulatory resources across sectors, facilitate learning across sectors, reduced vulnerability to industry "capture" and reduced risk of inconsistent approach to common issues (Kerf and Smith 1996:43).

As African governments cede the role of owner and operator of public enterprises and focus on the regulatory role, they must evince considerable scope for creative adjustments in their new role. One particular adjustment that they might consider is to move away from setting up industry-specific to sectoral or cross-sectoral regulatory bodies. But even this suggestion must be tempered with the recognition of inter-country differences in the scope of regulatory work required in each industry. Where the size of an economy is relatively large and the number of operators in a particular industry or sector are many, industry or sector-specific regulatory authority should be preferred to cross-sectoral agencies. In other words, formulating and implementing regulatory reform agenda requires constant innovation in response to changing needs and to individual country and sector contexts.

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1. The terms regulatory framework, regulatory regime and regulatory structure are used interchangeably in this article.

2. For evidence, see World Bank, 1995, Bureaucrats in Business: The Economics and Politics of Government Ownership, New York, Oxford University Press.

3. Governments, of course, describe other enterprises as strategic because of their dominant role in the economy, measured for example, by the share of GDP, public revenue, and foreign exchange earnings. This is true of the National Petroleum Corporation (NNPC) in Nigeria, the Copper Mines in Zambia, Debswana Diamond Company of Botswana, and the Ashanti Goldfields Company of Ghana.

4. For a discussion of shortcomings of that report, see Mosely and Weeks (1994), Lone (1994), and West Africa (1994).

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POLICY MANAGEMENT IN GHANA: THE CASE OF THE VALUE–ADDED TAX PRIV ATE

Joseph R.A. Ayee

INTRODUCTION

A sound policy management framework has been regarded as very essential to development. This point has been re-echoed by Toulmin and Chandradhat (1967:133) who noted that if other prerequisites are present to a sufficient degree, and if policy management is generally good, then there will be developmental progress. If, however, other prerequisites are present but policy management is poor, there will be less progress and perhaps none at all.

Also as argued by Grindle (1980:1-12) the poor performance of most public policies, programmes and projects in developing countries is due to their poor management. Indeed, poor policy management is not only an endemic source of trouble for, but a major serious obstacle to, effective and social development.

It is thus clear that no matter how good a policy may be on paper, it is of little use unless it is adequately implemented. This is where Ghana has largely failed. In Ghana, policies and programmes have a very poor implementation record. Despite this, successive Ghanaian governments have not lost their faith in the policy formulation process. This paper discusses the factors that contributed to the poor management or implementation of a policy, the Value-Added Tax (VAT). First, the paper examines the reasons behind the introduction of VAT. Second, it discusses the administration of VAT, with reference to the role of VAT Services and Board. Third, the paper analyses the factors that contributed to the poor management of VAT, culminating in its withdrawal by the government. Fourth, it offers lessons on the prerequisites for, and constraints on, effective policy management.

VAT: RATIONALE FOR INTRODUCTION

One of the simplest ways of imposing a tax is to levy it on expenditure, that is, to impose it on things which people buy. The most important way of dealing with expenditure across the board is a general turnover tax on total sales. The turnover tax that is levied in Europe and some African countries is the Value-Added Tax (VAT, whose introduction has been credited with bringing about the most important change in taxation in the twentieth century. VAT solves a number of administrative and policy problems that bedeviled sales tax and excise duty, both, like VAT, direct taxes. It does this by replacing a whole family of taxes on products with one uniform tax. Poland, for example, replaced more than 2,000 different sales taxes with one, when, after the fall of the communist government , it adopted a western-style VAT (Bahl and Linn, 1992:12-39). Vat has the following advantages:

(i) it avoids cascading taxes, and therefore avoids distortions and over-taxation. It also does so because it taxes only the value added by the person being taxed. The typical sales tax imposed on manufacturers, wholesalers, and retailers frequently causes distortions, partly because it cascades, that is, it represents a tax on another tax;
(ii) it is transparent, since one can see what tax is being applied;
(iii) it introduces an innovative self-policing feature when documentation is simple and understood by the taxpayer; and
(iv)it increases the effectiveness of tax collection and reduces revenue losses by minimizing the incidence of tax avoidance, evasion and plain fraud.

The greatest disadvantage of VAT is that as an indirect tax it is regressive. It may lead to increases in prices of consumer goods and services. In other words, VAT is an indirect tax on the domestic consumer of goods and services - whether these are produced locally or imported into the country. It is collected at all levels of production and distribution. Ability to pay is not taken into consideration. Both the rich and the poor will pay the same VAT if they were to purchase the same quantity of an item. Exemptions are said to cushion off the harsh effects of VAT. But how does exemption work? If an item is exempt from VAT, it means that whoever is selling it must not levy VAT on it. However, VAT on any input of the exempt item sticks, for example, VAT on vehicle spare parts will stick as cost and reflect in transport charges even though transportation might have been exempt from the tax. In addition, those supplies (goods and services that are outside the scope of VAT because of the threshold also attract VAT. VAT sticks on such supplies also as cost. All things being equal, those below the threshold should sell their goods at cheaper prices, but this is not always the case. The supplier sometimes takes advantage of the exemptions in the VAT system to charge VAT-inclusive prices and thus reap additional profit. It is clear then that in widening the tax base VAT extracts more money from the consuming public than would otherwise have been possible (Goode, 1984: 19-30; and Musgrave and Musgrave, 1980:14-17).

It is against this background that the introduction of Ghana's VAT system should be viewed. Since 1965 Ghana had operated basically five forms of taxes, namely, Sales Tax, Hotels and Restaurants Customers Tax, Advertisement Tax, Betting Tax and Entertainment Tax. Of these, Sales Tax is the most important because of its coverage and use. Sales Tax is charged on all locally manufactured or produced goods, as well as goods imported into the country unless the goods are exempt. The Tax is, however, limited in scope, in that it does not cover wholesale and retail trade as well as services. Apart from this, all the taxes are unable to meet the projected revenue targets of successive governments. All governments in Ghana had recorded massive shortfalls in revenue. The introduction of the Value Added Tax (VAT) in Ghana in March 1995 therefore, was meant to: (a) replace the existing taxes, namely, Sales Tax, Hotels and Restaurants Customers Tax, Advertisement Tax, Betting Tax and Entertainment Tax, with one common tax; (b) widen the scope of the tax net; and (c) broaden the tax base and the and, by so doing, increase government revenue.

VAT, as noted earlier, is a tax on the final consumption of goods and services in the domestic market but it is collected at all stages of production and distribution. It is also an indirect tax, like the other five forms of taxes that it was meant to replace. They key aspect of VAT is that a registered person making sales of taxable goods or services must account for tax on all his/her sales, and get credit for the tax paid on his/her purchases of business inputs.

The first official hint of the introduction of VAT in Ghana was dropped on the floor of the Ghanaian parliament by the Minister of Finance in July 1993. A VAT Technical Committee, an Oversight Committee, and a VAT implementation agency were established. The Minister's statement gave an assurance that the VAT system would not be rushed. This must be so because even though VAT promised to be a simple and neutral tax system, its implementation needed very careful planning, particularly in an environment such as Ghana where the level of general literacy, tax literacy, taxpayer identification and record-keeping are quite low.

Debate on the VAT Bill started in Parliament on November 11, 1994 with very interesting but somewhat disturbing views being expressed by Members of Parliament (MPs) who supported the introduction of the VAT as well as those who opposed it. Opening the debate the Minority Leader, who opposed the introduction of VAT, derisively termed VAT "Very Augmented Trouble" and cautioned that the government would be inviting big trouble if VAT was introduced. The MP for Mfantseman West, who supported the Bill, noted that VAT would reduce the craze for foreign goods and thus lead to capital formation towards education, housing and health sectors. In contrast, the MP for Klowor called for alternative solutions to the country's tax problems rather than the introduction of VAT. He cautioned that:

If some of us do not return to Parliament in 1996, then you must know that the electorate have shown concern for betraying them by introducing this system.1

Despite the criticisms of the VAT Bill, the National Democratic Congress-dominated Parliament (the NDC had 189 MPs out of a total of 200) passed the VAT Act, 1994 (Act 486) on December 1, 1994, after the original bill had been amended on November 23 by Parliament for the system to start on March 1, instead of 1 January. The Act was supported by Value Added Tax Regulations, Legislative Instrument (LI) 1598 of 1995.

FEATURES OF THE VAT ACT, 1994

The main features of the VAT Act are as follows:

(i) The minister for Finance was given the power to publish in the Gazette the percentage or rate of the taxable supply or import. After the passage of the Bill, the Minister fixed the percentage at 17.5 per cent. The Memorandum to the Bill was silent on the policy objective of this provision and ignored it significance, thus leading the unwary into assuming very erroneously that Parliament, by passing the Act, had given the Minister of Finance the authority from time to time to prescribe the amount of VAT payable. This is without a doubt an unconstitutional view. For the Minister to impose tax under the VAT system, his authority must be derived from Article 174(1) of the 1992 Ghanaian Constitution which stipulates that "No taxation shall be imposed otherwise than by or under the authority of an act of Parliament". Parliament, therefore, should have fixed the VAT rate and not the Minister by a circuitous interpretative process founded on Article 174(2) which states that "where an Act, enacted in accordance with clause (1) of this article, confers power on any person or authority to waive or vary a tax imposed by that Act, the exercise of the power of waiver or variation, in favour of any person or authority, shall be subject to the prior approval of Parliament by resolution".

(ii) Any business or trade with an annual turnover of 25 million cedis (10,000 pounds sterling) is required to register with, and operate within the system. Again, others, with turnovers less than the stipulated amount but willing to register could do so by applying to the Commissioner of the VAT Service. Such registered businesses and traders shall supply taxable goods and/or services charging VAT at the specified rate of 17.5 per cent.

(iii) Persons or businesses that qualify to register but fail to do so commit an offence which according to Section 6 of Legislative Instrument (L1) 1598 makes them liable on conviction to a fine not exceeding 2 million cedis (800 pounds) or imprisonment for a term not exceeding one year or both.

(iv) Operators of the VAT are required by law to file monthly returns at the VAT office. This means that they are to account for the VAT they have paid and what they have collected from their customers on behalf of the government. After the returns are filed, refunds will be made either by the operator to government or vice versa.

(v) The accounting period is one month and the returns are supposed to be made, at the VAT office nearest the operator, not later than the last day of the following month. Those who violate this regulation shall pay an interest of 10 per cent above the prevailing lending bank rate. The same applies to the refund of tax to any operator by the VAT Service.

(vi) Schedule One of Act 486 lists 18 items and services which are exempt under VAT. These include all live animals produced in Ghana and those imported for breeding purposes, animal products, including edible meat; local agricultural and aquatic food products in their raw state; and agricultural inputs including chemicals (fertilizers included) and fishing equipment. Other exempt items and services are domestic water and electricity, medical supplies (pharmaceutical products), education, transportation, including the transportation of goods, crude oil, diesel, kerosene, liquefied petroleum gas and residual fuel oil.2

INSTITUTIONAL FRAMEWORK FOR VAT IMPLEMENTATION

For the administration and management of the value-added tax, a separate institution known as the Value Added Tax Service (VATS) was established in 1994. The VATS was also responsible for the collection of and accounting for all taxes, penalties and interest payable. The VATS was independent of existing revenue collecting agencies, like the Customs, Excise and Preventive Service (CEPS) and the Internal Revenue Service (IRS). The head of the VATS is the Commissioner who was to be appointed by the President on the advice of the VATS Board and in consultation with the Public Services Commission. He was to be assisted by Deputy Commissioners, also appointed like the Commissioner.

Policy direction was to be provided by the VATS Board, whose members were to be appointed by the President acting in consultation with the Council of State. The Board comprised nine members, including a representative of the Minister of Finance. The Board generally was to control the management of the VATS on matters of policy and also ensure the effective, efficient and optimum collection of all taxes, penalties and interest due to the State. The responsibilities of the Board were restricted to VAT administration. The Board was therefore in a better position to make regulations for the administration of VAT. This system of insulating the Minister of Finance from actual administration would seem to be modelled on the United Kingdom VAT system. Lessons of experience certainly informed the enactment of constitutional provisions (particularly, Chapter 14 of the Constitution) concerning the insulation of the governing bodies of statutory agencies from direct Executive (or ministerial) control, while ensuring that these agencies remain subject to law and public accountability.

The establishment of the VATS seemed not to be economical. This is because the arrangement for the administration of VAT was such that the Customs Service was to collect VAT on imports at the entry points while the VATS was to collect VAT internally. Cost of collection of VAT became very high, about 26 pence per pound as against United Kingdom's one penny per pound. A lot of money would have been saved if a specialized department of VAT was attached to one of the existing revenue agencies. Specialization is not achieved solely through the creation of entirely new organizations

IMPLEMENTATION OF VAT

VAT became operational in Ghana on 1 March 1995. Barely a month after its introduction, prices of goods and services shot up. The Ghana Private Road and Transport Union (GPRTU) also increased lorry fares by 10 per cent because according to the Union VAT had increased the prices of spare parts. Calls for the abolition of VAT began to mount. Importers, manufacturers, wholesalers, retailers and consumers all cried for its abolition. Organized labour joined the chorus, with the Civil Servants Association and the Trades Union Congress (TUC) taking their members to the streets to register their protest against the introduction of VAT. On April 6, 1995, the President expressed concern about the implementation of VAT. The Vice President in his May Day address on 1 May 1995 called for a withdrawal of VAT. Prompted by the President's concern and the increasing public outcry, cabinet decided to review certain portions of the system to enable corrective measures to be adopted.

While the expected corrective measures were awaited, the Alliance for Change (AFC), an opposition pressure group formed to counteract VAT, organized a massive demonstration on May 11, 1995. The demonstration was christened "Kume Preko" which literally means "kill me instantly". Given the government's pledge to review the VAT policy, one would have expected public outrage to subside until the promised changes materialised and were found wanting in any specific respects. However, things did not work out as expected. The escalation of the protests could be attributed to a number of factors. One major explanation is the then Minister of Finance's nation-wide Radio and TV broadcast of May, 7, and the other is the mutual distrust between the government and the opposition. The Minister's broadcast did not, according to observers, achieve any positive results apart from stirring a volatile public satisfied with nothing short of a categorical and "positive" response to their demand for the abrogation of the VAT act. Regrettably, the minister "angered the public" with his rhetoric, creating the impression that the government was, at best, stalling, at worst, insensitive. Considering the existing mistrust between the government and the opposition, it was not surprising that the AFC organized a mammoth demonstration that led to the death of four people, who were allegedly shot by the Association of Committees for the Defence of the Revolution (ACDRs), a pro-government body.

In the wake of mounting public dissatisfaction and discontent, the Minister of Finance presented a VAT (Amendment (No. 2) Bill to Parliament on May 19. According to the Memorandum to the Bill, the government undertook to review the VAT Act "in the light of public concern and perceptions about the working of the Value added Tax". Accordingly, the 17.5 per cent of tax chargeable was amended to a new rate of 15 per cent. Other provisions of the Act were also amended "for ease of implementation, in particular, the exemption of retail trade".3 According to the Minister, the downward revision of the rate of tax

> "will have consequential effect on the expenditures for which appropriation has already been made by Parliament. It will therefore be necessary, and the government proposes, to revert to the House either to effect corresponding changes in the Appropriation Act passed by Parliament by subsequent amendment of the Act, or propose new revenue measures".4

The amendments were cosmetic as they failed to address the issue of the rising prices of consumer items. Faced with mounting and growing public discontent, the government decided to withdraw the VAT in June 1995, after only three months of its implementation. Why was VAT withdrawn? The next section attempts to answer this question.

FACTORS THAT CONTRIBUTED TO THE WITHDRAWAL OF VAT

The factors that contributed to the withdrawal of VAT in Ghana can be traced to the policy management domain. First, the launching of the VAT programme was wrongly timed. It was introduced barely two months after the reading of the 1995 budget, which had already increased prices of every item, ranging from transport to food. The budget for that year increased the prices of petroleum products by 20 per cent. And as it is usually the case in Ghana, any hike in petroleum prices has a corresponding devastating effect on the prices of every item. Ghanaians had not recovered from the shock of the January budget when VAT was inaugurated. The new tax further threatened to erode what was already one of the lowest pay levels in Africa.

A second factor that contributed to the withdrawal of VAT is the inadequate public education programme mounted by the VAT Service. The VAT Service gave assurance to the public that VAT would not increase the prices of goods and services. It did not therefore prepare the minds of the public for such increases. Even the Deputy Minister of Finance while briefing the press on the introduction of the VAT in Ghana (on 2 August 1994) was emphatic about the fact that VAT was not going to lead to price escalation. To him:

> "the level of anticipated price increases under VAT is often exaggerated ... the single positive rate of VAT is not expected to exceed the standard rate of the sales tax (i.e., 15 per cent). It is even expected that a lot of multiple taxation could be avoided under VAT as a result of businesses taking credit ... to say that the VAT is regressive just because it is an indirect tax is to stretch absurdity".5

Contrary to this assurance, however, the introduction of VAT on March 1, 1995 brought with it sharp increases in the prices of goods and services. This situation caused a lot of public anxiety. What was more disturbing is the fact that goods which were supposed to be exempt under the VAT Act, particularly, food items, had their prices increased. This unfortunate situation stemmed from the fact that public education of the VAT was inadequate when one considers the period between the "education" and the implementation of the programme. The issue of price increases was certainly not well explained by the VAT officials during their campaigns. Again for the VAT Service to convey an impression that consumer prices would remain stable under VAT, was highly regrettable.

Depending on the circumstances and peculiarities of each country, basic planning for the VAT system may take not less than 18 months. It was difficult to follow the logic and sequence of the VAT pre-launching activities in Ghana. For one thing, the passage of the Bill should have come after public education. Besides, the involvement of the public should have ideally begun with an "issues" paper which should have been widely publicized with a view to inviting comments and reactions. This was not done. The next stage of public involvement would be when the Draft Bill was ready. A publication dealing with the scope and coverage of the tax should have been widely disseminated to enable the public digest the implications of the new tax regime, and debate its role in the economy. This did not take place. Consultative meetings with trade associations and professional groups should have been organized nationwide. In addition, posters, radio and television discussions, advertisements, catchy jingles, public lectures and symposia might have proved useful as public education and enligthenment tools -i.e., before the Bill was laid before

Parliament. Even the little public education programme mounted was ineffective because it was dominated by an excessive use of technical terms, such as input tax, output tax, cascading tax, etc. - terms which confused rather than "educate" the taxpayer. In short, the public was not psychologically prepared to accept the VAT and the consequent price hike.

Thirdly, VAT was withdrawn because of institutional problems, namely:

(a) Goods which were exempt under sales tax were subject to VAT: people complained that some items which were exempt from tax under sales tax were being taxed under VAT. For instance, "gari" a locally processed staple food from cassava, was exempt under sales tax but was not under VAT;
(b) Goods which enjoy exemption under the Ghana Investment Promotion Act, 1994 (Act 478) were subject to VAT under the VAT Act (Act 486) and;
(c) Situations arose where imported goods were exempt from VAT while some inputs of similar goods manufactured in Ghana were subject to VAT. For example, imported drugs which were considered essential were exempted from VAT while drugs manufactured locally were not. Meanwhile, the list of "essential" drugs were not supplied by the Ministry of Health. What therefore happened was that the public was at the mercy of pharmacists, who increased the prices of drugs, whether essential or not.

Fourthly, VAT was withdrawn because of the following basic problems:

(a) difficulties in the calculation of the amount of VAT, even using electronic calculators;
(b) sundry record-keeping and accounting weaknesses, particularly in small-scale enterprises;
(c) difficulties in understanding how the VAT system works, resulting in wrong implementation, such as charging VAT on VAT;
(d) constraints which deferment of tax refunds place on the taxpayer's working capital. This was severe on the taxpayers who paid tax on factor inputs but had to wait for about three months to get their goods processed and sold before charging tax to offset the tax paid on their purchases; and

(e) The mode of displaying prices of goods and services was a problem. Traders and businessmen were confused as to whether or not the prices should include the basic cost plus VAT.

CONCLUSION

This paper on the poor management of the introduction of VAT in Ghana reinforces the view by Grindle and Thomas (1991:135) that the "outcome of reforms is largely determined by societal reaction to efforts to change existing conditions among groups and interests that are most affected by the reforms". The introduction of VAT resulted in changes that have a direct impact on broad sectors of the society or on politically important groups in the Ghanaian society. Moreover, the impact of the change was directly and immedicately felt by a significant number of people. Consequently, public reaction was strong. Moreover, the stakes involved in pursuing VAT was very high and threatened the stability of the regime. The government was thus forced to withdraw the enactment. The introduction of VAT also brought sharp divisions within the government of Rawlings' National Democratic Congress. This largely accounted for the resignation of the Minister of Finance five months later.

The study conveys four lessons. First, the introduction of VAT is a dispersion of costs. Since the cost or burden of the VAT has a direct impact on the public or on politically important groups in the Ghanaian society, opposition emerged during implementation. VAT reversed a previous policy on taxation (sales tax) and resulted in price increases. The costs were borne by a large segment of the population and were generally met with considerable protest and demonstrations. Thus, a policy or programme, like VAT that has elements of dispersion of costs, is likely to produce reactions from the public that are overtly political (Hogwood and Gunn 1984:67-84).

Second, while VAT had some benefits, knowledge of these benefits remained with the government rather than being shared with the general public. Although it imposed broadly dispersed costs directly on the population, VAT also generated direct benefits that were not widely understood or valued by the same Ghanaian population. Thus, the benefits of VAT include broadening the tax base, and generation of increased revenue. This goes to prove the assertion that "concentrated benefits generally do not create a countervailing force to offset the public opposition the dispersed costs have generated" (Grindle and Thomas, 1991:136).

Thirdly, the successful implementation of the VAT depends on extensive public participation and education. However, it was difficult to mobilize large numbers of people to collaborate in VAT, especially when the proposed change did not offer them clear benefits. Policy changes that do not involve the public or a wide range of participants may be easier to implement, but they do not have the advantage of generating broad acceptance in society and providing a check on governmental actions. The VAT, on the other hand, needed the acquiescence of the public, which the government ignored or underestimated.

Fourthly, the life-span of VAT's implementation in Ghana was short. Grindle and Thomas (1991:14-22) postulate that the length of time needed to implement a reform also has an important influence on the reaction generated to it. If the full impact of the change is immediately visible - as the introduction of VAT led to increases in prices of goods and services - the reaction is likely to be stronger and more public. Thus, the effect of the introduction of the VAT was easily apparent to most Ghanaians. Within days, the results were very clear in market places, that is, in terms of rising prices.

A tax reform such as the VAT created strong public reactions that were played out primarily in the public arena. It brought about the mobilization of existing pressure groups, such as the Trades Union Congress, the Civil Servants Association and encouraged the formation of new ones, like the Alliance For Change AFC, to oppose VAT. These groups exerted pressure on the NDC government and other public officials to withdraw VAT. More important perhaps than these dramatic reactions is that the VAT gave impetus to longer-term organized opposition to the government in Ghana. The AFC, drawing its strength from unemployed youth and other opposition forces, for instance, has since become a strong critic of the government. Indeed, the shooting of demonstrators during the protests organized by the AFC created legitimacy problems for the government and, for once, the government panicked. It was forced in the face of mounting discontent to withdraw the VAT. As grindle and Thomas (1991; Pressman and Wildavsky, 1984) pointed out, the sustainability of a reform like the VAT, is called into question if strong public reactions emerge during its implementation.

In short, the major lesson that this paper tries to put across is that however difficult and politically risky it is to decide to introduce a reform initiative, like the VAT, the process of managing or implementing and sustaining that decision is likely to be fraught with even greater difficulty and risk.

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THE IMPACT OF THE URUGUAY ROUND AGREEMENTS ON AFRICAN ECONOMIES: NEED FOR POLICY AND PROGRAMME ADJUSTMENT IN THE INDUSTRIAL SECTOR PRIV ATE

Melkrist Hailu

INTRODUCTION

Conflicting views have been put forward on whether, and how far, any country or group of countries can be said to have lost as a result of the Uruguay Round. Preliminary studies (UNCTAD and GATT, 1994) assert that, in the long run, all countries stand to gain from trade liberalization. For the immediate future, however, it is clear that the developing countries, (including the least developed and developing countries of Africa) will face additional difficulties due to the erosion of the preferential margins they enjoyed, particularly under the Lome Convention. Other possible developments are the expected increase in the cost of imported technology and in the price of imported food stuffs, and the much higher level of both legal and procedural obligations that African countries have to assume.

In implementing the Uruguay Round, African countries face a dual challenge. On the one hand, they need to strengthen their institutional and human capacities to be able to manage the complex sets of agreements while, on the other, they need to maximize the opportunities offered by the various provisions of the Uruguay Round.

The conditions currently prevailing in Africa suggest that the region is too weak and underdeveloped to avail itself fully of the new trading opportunities. Therefore, in measuring the impact of the Round, African countries have to look beyond the short-run and concentrate on how to realize the long-term benefits. As a region with the largest concentration of LDCs in the world, it needs to transform its production and trade structures in order to face the challenges of liberalization, and be prepared to operate in a highly competitive international environment.

While intensifying the use of the existing preferences and seeking to deepen them where there is scope to do so, domestic efforts will nevertheless have to be geared towards improving the long-term international competitiveness of African countries' exports. A cluster of policy measures could be adopted focusing on a number of priority areas: services, and infrastructure development to support production and trade; technological and managerial capacity building to enhance productivity and product quality; diversification of high value-added production through processing of raw materials; improvement of investment conditions and the strengthening of regional and sub-regional markets. In this regard, the industrial sector emerges as one of the priority areas where African countries should focus to face the challenges of the Round. Thus as argued in this article, consideration of major policy and programmatic changes in the process of industrialization is critical to the success of efforts aimed at preparing African countries for the shocks emanating from the adoption of the Round.

I. IMPLICATIONS OF THE URUGUAY ROUND FOR THE INDUSTRIAL SECTOR

Many of the benefits expected from industrialization in Africa have in the past decade failed to materialize (World Bank, 1989: 137). Impressive manufacturing growth rates were achieved for several years after independence, but the foreign exchange costs were staggering, sometimes outweighing the receipts. Industrialization is still hampered by rising debt burdens, the weakness and inefficiency of trade and financial institutions, and the paucity of trained personnel.

In the mid-1990s, Africa's industrial sector neither recorded any substantial industrial growth, nor experimented with any significant structural change. The average regional annual growth was only 0.6 per cent since 1990, and the share of manufacturing in GDP averaged only about 11 per cent in the 1990s (UNIDO, 1995: 33-35). In general, the industrial sector in the region is very weak, contributing only about 1-2 percent to the world industrial output and even that small contribution comes mainly from only 12 out of the 53 African countries (UNIDO, 1995: 33-35).

The structure of industrialization and trade in Africa reveals the fundamental weakness of sub-Saharan economies, and it is this structural weakness that Africa carries into the new global trading system. When the provisions of the Uruguay Round having implications for the industrial sector are closely examined, the weakness is likely to come light.

The market access provisions will, in particular, lead to the erosion of preferences formerly enjoyed by African exports in some overseas markets. That means African countries are likely to suffer trade losses in the short- to medium-term. Trade losses imply reduced export revenue which again translate into reduced foreign exchange earnings that could have otherwise been ploughed back into the industrial sector. The situation gets even worse in food-strapped African countries which will be obliged to spend more foreign exchange on the importation of food. Even though the adverse consequences of these agreements will be higher in the African countries with food deficits, the relatively industrialized countries in the region will, as a result of declining export revenue, be forced to operate at a much lower level than was possible before the ratification of the Uruguay Agreement.

The Agreement's special provisions on textiles and clothing and the accompanying MFA (Multi Fibre Agreement) liberalization programme represent a positive beginning, but are unlikely to benefit African industry in the short- to medium-term. Trade weighted tariff averages will remain substantially high on textiles and clothing which are the manufactured products currently of vital interest to a number of African countries (UNCTAD 1994; and GATT, 1994). Moreover, the Agreement might have negative impacts on investment flows in the textiles and clothing sectors.

Over time, the market access provisions may have the effect of fostering the industrial discipline necessary for global competitiveness. By withdrawing the protection which domestic manufacturers enjoyed, import liberalization will not only penalize inefficient producers but encourage diversification to areas in which local industrial manufacturing concerns feel they can excel through the application of internationally competitive production processes and techniques.

There can be little doubt that many countries in Sub-Saharan Africa, as elsewhere, have raised their protection of local industry to excessive levels, and that in practice, protection failed in its objective of fostering the growth of "infant" industries to maturity. The protectionist regimes encouraged inefficient resource allocation and afforded the "protected" industry an opportunity to corner the domestic market and raise prices. Above all, protection created windfall profits for those with privileged access to import licences. For the most part, protection created a pattern of industrialization which, besides being inefficient, was highly import-dependent, and prone to encouraging foreign exchange leakages. It was a pattern of industrialization which promoted little or no links with the remaining parts of the domestic economy, and whose contributions to "growth" and "development" are highly doubtful (World Bank, 1990: 67).

Thus far, we have looked at the Uruguay Round from the neo-liberal point of view. However, the liberalization thesis has not gone unchallenged. Its critics point out that the thesis stands only if the argument is about market exchange. It (the liberalization view-point) breaks down when the production equation is, as it should in the African context, introduced (Amsden, 1997: 469). For instance, critics of the neo-liberal position contend that liberalization of imports undermines economic growth by:

(a) crowding out imports of raw materials and capital goods in favour of consumer and luxury goods;
(b) widening trade deficits and undermining macroeconomic stability; and
(c) promoting the de-industrialization of African countries, and, through dumping of cheap goods, targetting and destroying the capacity of domestic manufactures to compete.

As noted by Amsden (1997:469-478), economic liberalism's exclusion of the production angle in international trade explains its contempt for the role of government in assisting domestic industry to grow. To quote her:

> "Microeconomic questions about how firms are formed, how technologies are acquired, how industries emerge, develop or die, and what role governments play in the process occupy an infinitesimally small place compared with macro- economic questions about fiscal prudence and foreign trade."

Criticisms of trade liberalization in (like those voiced by Amsden) have been heard in Sub-Saharan Africa for the past several years. However, testing the hypotheses on which they are based has proved difficult. Efforts at proving that protection pays, and that liberalization hurts, the economy have been undermined by conceptual, methodological and empirical constraints. Nonetheless, recent studies have utilized improved analytical methods, measurement techniques and data to test the validity of the protectionist arguments. Although these studies may not resolve the controversy in any definitive manner, they could enhance our understanding of the conflicting positions on trade liberalization in Africa.

A recent study (World Bank, 1990) which modelled the relationship between imports and exports in SSA finds that providing greater freedom to import improves the chances to expand exports in the most efficient manner. Unlike Amsden (1997:471) who presents empirical evidence pointing to the salutary effect of government assistance on manufacturing output and manufacturing output per worker in East Asian "tigers", the World Bank study shows that protection in SSA inhibits the progress of African countries in achieving greater export diversification. According to the study, the disruptive effects of import liberalization (particularly, trade deficits and macroeconomic instability) are certainly not inevitable nor inextricably linked to liberalization. In most cases such effects arise because import liberalization is not accompanied by complementary and off-setting macroeconomic policies. It is thus a question of balancing one measure (liberalization) with another (which pre-empts the undesirable side-effects of the unlimited access which foreign products have to the domestic market).

Still the fear is frequently expressed that liberal flow of imports would crowd out domestic manufactured products and lead to the de-industrialization of Africa. Different studies indicate that in the short-run, it is possible to minimize the disruptive effects on existing manufacturing firms and attain price competitiveness through currency devaluation. While this interim measure (exchange rate depreciation) may lead to the closure of non-viable firms the chances are good that new ones will open (World Bank, 1990). The unanswered question is how long it takes for the new firms to emerge. Experience shows that it takes quite a while for new industries to raise capital, launch their products, and acquire the product "brand name recognition" that is so essential to global competitiveness. The factors determining investment are complex and extend to non-economic considerations such as political stability, policy credibility, and availability of skilled human resources.

Overall, when the effect of import liberalization is considered in the light of the experience with structural adjustment programmes being implemented in many African countries, the assertions that import liberalization leads to de-industrialization would appear to warrant critical examination. So far, it is difficult to adduce evidence pointing to direct causal links between the implementation of the liberalization aspects of SAPs and factory closures (World Bank, 1993).

Within the context of the Uruguay Round Agreements, African countries should seriously consider ways of minimizing the effects of import liberalization and at the same time benefitting from its positive aspects. One option which needs to be further explored is that of foreign investment, to which we shall return later.

II. RECURRING ISSUES IN LIBERALIZATION

There is no doubt that the Round has not made adequate provision for measures that could minimize the effects of liberalization on smaller economies. Except for the Agreement on the Balance of Payments, others only accommodate preferential treatment for a limited transition period. For example, developing and least developed countries have been given a moratorium of five years and eight years respectively, to grant subsidies to industry using local raw materials. This is meant to cope with foreign exchange difficulties. Total exemption of developing countries from prohibition of local content subsidies would have been a forward-looking and mutually supportive development consideration.

The agreements on the new areas of trade also pose serious problems for African industry. The uneven access to technological capacities and the gradual erosion of competitiveness in the traditional area of production of a number of developing countries made intellectual property a key element in comparative advantage. In particular, differences in the level of protection of intellectual property rights were leading to increasing tensions, and the universal protection of such rights became a major issue (UNCTAD, 1994: 233). The Agreement on Trade Related Aspects of Intellectual Property Rights limits the ability of African industry to acquire technology at a reasonable cost. The rising cost of technology acquisition will further reduce Africa's chances to develop its industrial capacity. The Agreement would appear to handicap domestic manufacturers while allowing foreign owners of technology and capital to take the lead in African industrialization and in controlling African economies.

It should also be noted that besides the technology factor, African industrialization faces other difficulties, particularly, shortage of managerial and technological skills, weak and deteriorating infrastructure, and relatively under-developed capital markets. In addition, government attitudes to private initiative and capital accumulation tend, at best to be unhelpful, at worst, hostile.

Suspicion of private enterprise dates back to the colonial era when capital and political power were concentrated in foreign hands. It is this suspicion which lingers and make some governments reluctant to adopt economic deregulation measures. On top of all this, policy makers in Africa have a sceptical view of the benefits derivable from foreign direct investment. The conventional view has been that multi-national corporations invest in Africa primarily to exploit the natural resources of African economies and to maximize monopoly profits.

Evidence from other developing countries suggests that the fear of external capture of the domestic economy is not well founded. In fact, contrary to its sponger image, foreign direct investment should become an attractive source of capital to Sub Saharan Africa (World Bank, 1993). The main obstacle to growth in the region is, afterall, shortage of foreign exchange, a situation which could easily be remedied by foreign investment. The long-term benefits of FDI lie in the transfer of technology, the development of managerial skills, and enhancement of the chances of local industry of foreign market penetration.

Even though the added cost of technology transfer and acquisition intensifies the problem of industrial development in Africa, it needs not be considered separately from other constraints of industrialization. Indeed, the high cost of technology acquisition and transfer could serve as an inducement or impetus to the development of indigenous technology in Africa. For this to happen - for indigenous technological capacity to be triggered by foreign investment - it will be advisable to put in place appropriate strategies and an enabling environment for technology development (Balogun, 1994).

The new area of agreement which requires market presence and national treatment is the General Agreement on Trade in Services. According to a clause under the agreement, neither "establishment" nor "national treatment" are rights, but can be the subject of qualified concessions exchanged on a reciprocal basis with respect to specific sectors or subsectors within the framework of the schedules of commitments. The main difference between trade in goods and in services is the requirement of factor mobility and therefore FDI. In most cases imported services are intermediate inputs for the production of domestic goods and other services. The liberalization of trade in services could provide the required service inputs for the industrialization of Africa which has been constrained by an acute shortage of finance and resources. The development of the financial sector and of the related institutional infrastructure, for example, could provide a sound basis for industrial development. The only worry for African countries in this regard would be the involvement of FDI. African countries should consider the costs and benefits of FDI, and determine to what extent they are willing to open up their producer service sector.

III. POLICY AND PROGRAMMATIC ADJUSTMENT IN THE INDUSTRIAL SECTOR

The way forward is to map out a strategy of industrialization which takes cognizance of the miscellaneous operational constraints and optimize the potential benefits. At this juncture, it is necessary to stress that no single industrial strategy will fit the diverse conditions in African countries. There are, however, a few suggestions as to how to overcome the obstacles raised by the new global trading pattern and to enjoy the benefits therefrom. The approach that African countries should adopt is two-fold.

One is to make a conscious effort to explore export opportunities in the industry and manufacturing sector. Future efforts should be towards the development of export capability and international competitiveness in areas of comparative advantage.

Related to the first approach is another which capitalises on Africa's natural endowments in the food and agriculture sector. More than at any other time, investment in agro-industrial projects should confer immense benefits, particularly in terms of the forward and backward linkages that such a measure is likely to foster. Africa's experience in fact demonstrates that industrialization cannot succeed when the policies that promote it conflict with the development of agriculture and the export of agricultural products (Donald, 1993: 52-78). Thus the objective of industrial policies and programmes must be towards bringing about a qualitative change in African industry - the type that builds the capacities to process, and add value to, agricultural products, and, by so doing, strengthens industry's linkages with the economy as a whole.

Enhancing Capacity for Global Competitiveness

The trade structure of African countries basically reflects the categories of goods that the countries are currently capable of producing for international markets. These include tropical agricultural products, natural resource-based products (fishery, forest products, minerals and metals), leather and leather products, textiles and clothing. A preliminary study conducted by UNCTAD, indicates that general post-Uruguay Round trade weighted tariff averages will remain substantially high on agricultural products, textiles and clothing, and leather and footwear, which are currently among the most active sectors of the African economies (UNCTAD, 1994). The liberalization of the MFA for example, will be carried out within a period of ten years, and it is likely that those products which are severely restricted and are of most interest to developing exporting countries would be left until the end of the process. Therefore, the tariff rates will be high in the short- to medium term. However, the effects on these sectors will be different. Given the relatively small share of textiles and clothing, and leather and leather products in total African exports, it is reasonable to assume that the new trading opportunities will not accrue to African countries unless substantial improvements in quality and productivity enable these countries to become internationally competitive.

Agro-industrial Development and Processing

Therefore, the emphasis should shift towards the promotion of exports in selected fields, particularly agro-industries and increased processing of natural resources where African countries continue to have significant factor advantages.

A study by the African Development Bank in fact underscores the considerable potential in primary product processing in various sub-Sahara African countries (African Denelopment Bank, 1991: 121-225). For instance, Burkina Faso, Central African Republic, Cote d'Ivoire, Mali and Sudan are major exporters of raw cotton, but they are minor exporters of cotton yarn and textiles, while Chad exports such processed products in substantial quantities. Ethiopia, Kenya, Mali, and Niger export a significant amount of undressed hides and skins, but a relatively small quantity of leather and leather goods. Rough woods are major export products for Cameroon, Central African Republic, Cote d'Ivoire and Liberia, but few export processed forest products. Many Sub-Saharan African countries are also major exporters of minerals with little further processing. They include the two main copper producers, Zaire and Zambia, the two iron ore producers Liberia and Mauritania, two main tin ore producers, Namibia and Zaire, as well as Gabon for manganese ore and Botswana for diamonds.

Even though, the selection of processing industries should take cognizance of the technological and operational realities prevailing in each country, there seems to be ample scope for the export of light manufactured goods from

Africa. It is indeed possible to supplement the traditional exports with the manufacture and exportation of goods requiring less sophisticated technology. Given the growing external debt burdens and the volatile nature of the primary commodities export market, sub-Saharan countries have no choice but to expand export volumes in traditional commodity markets, and work towards increasing export value in the light manufacturing sector. This is the minimum prerequisite for improving export earnings, and for accelerating the pace of industrialization.

Strengthening Agro-industrial Linkages

Agriculture will remain the key economic sector for most of the countries in the region for at least the rest of the 1990's (Meier and Steel, 1993: 332-471). It will continue to be a major source of employment, and of foreign exchange. Improved agricultural incentives can stimulate industrial development by providing the resources and raw materials needed by the later. Besides, rising agricultural incomes will stimulate demand for industrial manufacturing products - textiles, metal fabrication, building materials, and light consumer goods - that could be produced relatively efficiently in most African economies. Efficient industries generate their own momentum, as they open export possibilities and widen the market for intermediate goods. Such a stimulus, together with rising productivity, can provide the basis for sustained industrial growth. It will also multiply intersectoral links, promote self-reliance, and generate domestic savings for new productive investments.

The development of a strong agro-industrial linkage would give the food-importing African countries the resources and therefore the strength to face the hardship resulting from the reduction or elimination of agricultural subsidies in the industrialised countries.

IV. CONCLUSIONS

Virtually all countries in the region have embarked on the process of liberalizing their policy regimes, usually as part of the World Bank/IMF structural adjustment programmes. Positive results are being achieved, albeit more slowly than was expected when the first policy reforms were initiated (World Bank, 1993: 32-48). On top of the demands which structural adjustment programmes place on African economies, the Uruguay Round imposes certain obligations and confers a number of benefits. In implementing the provisions of the Round with implications for industry, each country needs to re-examine its strengths and weaknesses, decide where it fits into the dynamics of global manufacturing, and enlist the support of foreign private investors and of the international aid institutions for its industrial development strategy.

In the final analysis, the success of the strategy will depend to a large extent on whether an enabling environment is provided for private enterprise growth. The salient features of such an environment are the adoption of macro-economic policies in support of industrial manufacturing activities, the reform of the regulatory environment, the fostering of investor-friendly attitudes among the ranks of career officials implementing government policies and applying the regulations, the development of linkages between industry and agriculture, and between large firms and small- as well as medium-scale enterprises, the provision of technical, advisory services alongside infrastructure facilities, the provision of incentives, and, above all, the development of human and institutional capacity.

Since the production structures of African economies are not developed and flexible enough to adapt speedily to the new international trading environment, in the short term, the Uruguay Round agreements will have a negative impact on African countries.

In addition to the losses that these countries will experience due to the market access conditions, an immediate challenge faces African countries in adapting their trade laws and regulations to conform to the more onerous obligations that extend to areas not covered by multilateral trade rules and disciplines of the past. African countries should look for possibilities of countering the adverse effects of the Uruguay Round agreements within the short transition period. One possibility could be the reactivation of the provisions of relevant conventions, like that of the Lome Convention, to allow compensatory measures for losses attributable to trade liberalization. Another possibility could be requesting the international community at large to provide assistance to African countries beyond those included in the Final Act of the Uruguay Round.

African countries should, however, look beyond the short- term, so as to counter the adverse effects of trade liberalization as well as to avail themselves of the potential benefits. Therefore, much of the development effort of African countries should focus on the reform of their production structures, processes and techniques. Africa's production structures should be modernized with a view to enhancing productivity and global competitiveness.

For industrial adjustment to reach its potential in raising productivity, stimulating growth, and diversifying the economy, it is necessary to remove policy distortions, encourage the use of local factor inputs, restore fiscal and monetary stability, stimulate greater domestic and international competitiveness, increase the incentive for industrial exports, reduce the extreme variations in protection among industries, and ensure a high degree of transparency in the administration of taxation laws and in the enforcement of regulations.

While Africa bears the primary responsibility for improving its overall economic environment, the international community as a whole, should play a no less important role by providing the necessary assistance to make the efforts a success. In particular African countries require assistance and support in the areas of finance, infrastructure, institution building and human resource development.

In order to minimize the short term adverse effects of the Round, and at the same time to prepare for the long run development endeavour, each African country should carry out an assessment of the impact of the Round on its economy. This will give each individual country a concrete justification for approaching the international community for assistance.

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BOOK REVIEW

South Centre, *Liberalization and Globalization: Drawing Conclusions for Development,* **Geneva, 1996, 92pp.**

The South Centre (based in Geneva, under the chairmanship of Mwalimu Julius Nyerere) was established to provide to countries of the South detailed analyses and information about topical issues in a manner which could help them to be more effective in articulating their views and in arguing their case in the world policy arena. The Centre helps South countries to work out collective positions in North-South negotiations by submitting recommendations on critical developmental issues.

This publication of the South Centre was prepared in the lead-up to UNCTAD IX Conference which took place in Midrand, South Africa in May 1996. The background against which it was prepared was one in which developing countries were being urged by various multilateral institutions to adopt policies of rapid economic liberalization in the interest of economic growth and efficiency. This publication presents an analysis which questions the wisdom of unbriddled and rapid liberalization - which is defined as elimination of restrictions in trade, investment and capital flows between (or among) countries. It is argued in this publication that: (a) a diminished role of the state and unfettered role for the market do not constitute a universal recipe for achieving faster economic growth, and resolving social problems or dealing with many contemporary challenges such as, for instance, environmental problems; (b) There are long-standing unresolved issues on the international agenda which cannot be resolved by purely market approaches and which require international development cooperation. It questions the assumptions underlying current conventional wisdom that liberalization will lead to improved economic performance and prospects. According to this study the 'euphoria' among analysts and policy-makers highlights only the positive aspects of liberalization, and turns a blind eye to overwhelming evidence of its ineffectiveness as a developmental option.

The policies of liberalization and globalization, market ascendancy and diminished role of the state are commended by the multilateral institutions for developing countries. It is claimed that such policies have proved highly successful in East Asian economies (including post-1945 Japan) and China in the post-Mao Tse Tung period. This study eloquently refutes this claim. The experience of Japan and South Korea, according to the study, shows that these countries have adopted policies during their period of industrialization and fast economic growth which are quite the opposite of those recommended by the multilateral financial organizations. For example, in the relevant periods, the two countries have implemented widespread import controls, discouraged foreign investment and followed a vigorous state-directed industrial policy. Yet they have achieved extensive structural transformation and raised the standards of living of their peoples to European levels. Instead of close and unfettered integration with the world economy, these countries only integrated to the extent and in directions in which it was beneficial for them to do so, pursuing what has been termed 'strategic integration'. With regard to the spectacular performance of China, the study observes that although there has been large-scale introduction of markets into China, these markets are far from being either flexible or competitive.

The essential conclusion of this publication is that for developing countries, the best policy with respect to liberalization and globalization is not to seek rapid and close integration but rather to articulate policies of selective integration or what has been called 'strategic integration'. The developing countries need to understand that not all foreign direct investment (FDI) is equally beneficial. Historical and empirical evidence suggest that is not so much the quantity of foreign investment which counts but the nature of the investment and the sorts of linkages that are made with the local economy.

This publication finally argues, that, in the post-cold war economic environment, the need for collective action by the south to meet the evolving challenges is greater than ever. No individual developing country on its own can expect to influence the new rules of the evolving world economic order. Collectively, however, developing countries have some chance of doing so. The analysis presented in this publication with regard to the implications of liberalization and globalization for the third world countries need serious consideration. So also is the plea for a united stand of the third world countries and south-south cooperation in the liberalized global economy of the future.

The publication should be of interest not only to development economists and policy makers, but also to public administration practitioners and students.

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Jibrin Ibrahim (ed.) **E***xpanding Democractic Space in Nigeria,*
CODESRIA National Studies Series, Dakar, 1997, 268pp.

The Council for the Development of Social Science Research in Africa (CODESRIA) is noted for its sponsorship of social science research of direct relevance to the African continent. It disseminates the research results through the Working Papers Series, the Monograph Series, and the Book Series.

Expanding Democractic Space in Nigeria is the Council's latest output under the Book Series, and promises to be one of the highly acclaimed contributions to the study of social (or specifically, political) science in Africa over the next few years. Edited by Jibrin Ibrahim, the book features articles written by leading political and social scientists on Nigeria's trying, and by most accounts, bungled, experience in democratisation.

The book is divided into four parts. Part One focuses on the theoretical and empirical issues. Part Two assesses the democratisation claims of the military against actual performance. Part Three examines the role of civil society actors and institutions in expanding Nigeria's democratic space under what would appear to be impossible conditions. The fourth part of the book tackles the difficult questions of human and citizen rights, the rights of ethnic minorities, and the rule of law.

The central question of course is whether Nigeria's democratic space is expanding or contracting. While one contributor after the other laments the steady reduction of democratic space, particularly in the last ten years, the conclusion from each analysis is that all is not yet lost.

Ibrahims's brilliant introduction in Part One distills the essence of the book. It prepares the reader's mind for things to come, and flags issues which are germane to the contemporary democratisation debate. It also captures Nigeria's political history - including the history of ethnic confrontations. Of particular interest is the conceptual framework outlined by Ibrahim. He begins by rejecting Richard Joseph's (1987) tripolar model which portrays Nigerian politics as essentially a conflict centred around three major ethnic groups - the Hausa, Ibo, and Yoruba. This, according to Ibrahim, is a gross over-simplification. Understanding the dynamics of politics and of the struggle for democratisation in Nigeria requires that the analyst explore a "tri-tendential" rather than a tripolar, angle. By tri-tendential, Ibrahim means the tendency of politics (and presumably, of politicians) to take (a) the form identified by Richard Joseph, i.e., the tripolar form (b) the bi-polar/"two-party" form and finally, (c) the multipolar/multi-ethnic form.

Bjorn Beckman (in the second chapter) pushes the conceptual frontier further by describing political space as one occupied by virile interest groups, i.e., non-governmental bodies, voluntary development organizations, and civil society institutions. In much the same way as De Tocqueville sees a connection between democracy and the "art of associating together", Beckman is of the view that in assessing the long-term chances of democracy, the analyst needs to observe the "actual social forces at work in society" rather than allow him/herself to be swayed by the antics and the propaganda of the dominant power groups.

The third, fourth, and fifth chapters provide empirical information on the military's democratisation efforts (or is it pretences?). Using the Babangida administration as a case study, the various authors share Beckman's cynical view of the military answer to the democratic question. Abubakar Momoh for one does not think highly of Babangida's constantly changing "transition" programmes. Neither does the editor of the book, Jibrin Ibrahim. Even the feminist agenda pursued by the military has been dismissed as contributing little to the advancement of the Nigerian women, and possibly less to the expansion of the country's democratic space. Amina Mama coins the term "femocracy" to depict a situation in which a few women cashed in on the strategic governmental positions held by their husbands to extend their own power bases and push their personal agendas - while in the same breath proclaiming their devotion to the cause of women in general.

The role of civil society in expanding the democratic space is taken up in the third part of the book. In the sixth chapter, for instance, Y.Z. Ya'u examines the constraints facing the mass media in covering the struggle for democracy, while in the seventh chapter, Kole Ahmed Shettima focuses on the role of students and youth associations, and in the eighth, Attahiru Jega concentrates on the role of intellectuals and academics. Adebayo Olukoshi's analysis of the role of the Left is interesting. He observes that the Left originally concentrated on economic and social class issues to the neglect of the question of "who governs?" A combination of factors (among them, Mikhail Gorbachev's inauguration of perestroika and glasnost, and the austerity measures which came in the wake of Structural Adjustment Programmes) forced the Left to shift their attention to governance and political issues. Issa Aremu builds on Olukoshi's analysis by assessing the role of trade unions in the democratisation process.

The fourth and final part of the book focuses on the values which have inspired those struggling to expand Nigeria's democratic space. Thus Femi Falana, a renowned civil rights advocate, turns his attention (in chapter eleven) on the prospects for, and obstacles to, the advancement of civil and human rights, and the rule of law. Abdul Raufu Mustapha traces the relationship between democratisation and ethnicity, and presents a case study of Zango Kataf, a community in which ethnic issues seem to overshadow those of democratisation.

Annexed to the book are two documents. The first is the report of the conference at which the various papers were presented - i.e., the CODESRIA National Working Group on "Expanding Nigerian Democratic Space" which took place in Lagos between 15 and 17 December 1993. The second is the summary of the Round Table Discussion on Human Rights.

Over all, the book represents a major contribution to the study of governance not only in Nigeria but in Africa. Its critics may argue that it has been overly critical of the military, and that it has credited the civilian political class with qualities it does not really possess - notably, the qualities of leadership, endurance, and prevision. Still, the authors' arguments are clearly stated, and, from this reviewer's point of view, ably defended.

Somehow, a few references seem to have escaped the watchful eyes of the editor as they do not appear under the bibliography. This has, however, not detracted from the value of the book. Besides, each chapter is written in lucid prose style. The book is highly recommended to students of politics and development management, and it is prescribed reading for those agonizing on how to expand Nigeria's democratic space now and in the not-so-distant future.

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