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THE REGIONAL DIMENSION

Participation of the private sector in the industrialization of Africa

Report by the Director-General

Reports on the implementation of measures contained in General Conference resolutionGC.8/Res.5.

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Introduction

1. In resolution GC.8/Res.5 the General Conference reiterated the crucial role that industrialization must play in the transformation of the African economies and in efforts to eradicate poverty, and expressed its conviction that in the process of global economic liberalization, the private sector must assume a driving role in the industrial development of African States.

2. In that context, the General Conference commended the efforts already undertaken by the African countries to improve the capacities of their private sectors, and stressed the need for them to continue these efforts with a view to creating a favourable climate for direct investment and for the development of the private sector.

3. The Conference observed, however, that Africa's share in world trade had decreased continually from 4 per cent in the early 1980s to 2 per cent by 1996, and that African States account for barely 1.3 per cent of world foreign direct investment flows, while the rate of return on investments is higher in Africa than elsewhere in the world.

4. Against this background, the resolution appealed to all multilateral development institutions to cooperate with the private sector in UNIDO Member States in the implementation of technical assistance as well as in meetings on industrial development issues. It also appealed to all partners in the development of Africa and to the international community to contribute jointly to the restoration of the image of Africa as a continent propitious for investment and sustainable industrial development.

I. THE GROWING ROLE OF THE PRIVATE SECTOR IN PROMOTING ECONOMIC AND INDUSTRIAL DEVELOPMENT

5. As emphasized in resolution GC.8/Res.5, the accelerating processes of globalization and economic liberalization have resulted in a dramatic increase in the contribution of the private sector to development since the early 1990s. This is highlighted by the latest OECD data on total net resource flows from the member countries of the Development Assistance Committee (DAC) and multilateral agencies to aid recipients, which are reproduced below in figure 1. These data show a complete reversal in the source of these financial flows during the past decade. Whereas in 1991 official development assistance (ODA) still accounted for more than 60 per cent of total resource flows, by 1996 the share of these flows had fallen to only about 20 per cent, with private flows accounting for almost 80 per cent of the total. Although the share of private flows fell in the next two years to about 60 per cent due to the effects of the financial crises in Asia and elsewhere, a significant recovery in this share to almost 65 per cent was witnessed in 1999, the last year for which comprehensive data are available.

6. Regionally disaggregated data indicate that this pattern is repeated in the case of Africa, with private capital flows having risen from a negative (out)flow of some \$0.4 billion in 1991 to a positive (in)flow of approximately \$4.2 billion in 1999. During the same period, ODA flows declined from \$17.7 billion to \$12 billion. While the total capital inflows thus remained broadly constant, or even showed a slight slippage, this was due entirely to the decline in ODA, which was at least partially offset by a substantial rise in private flows.

Foreign direct investment

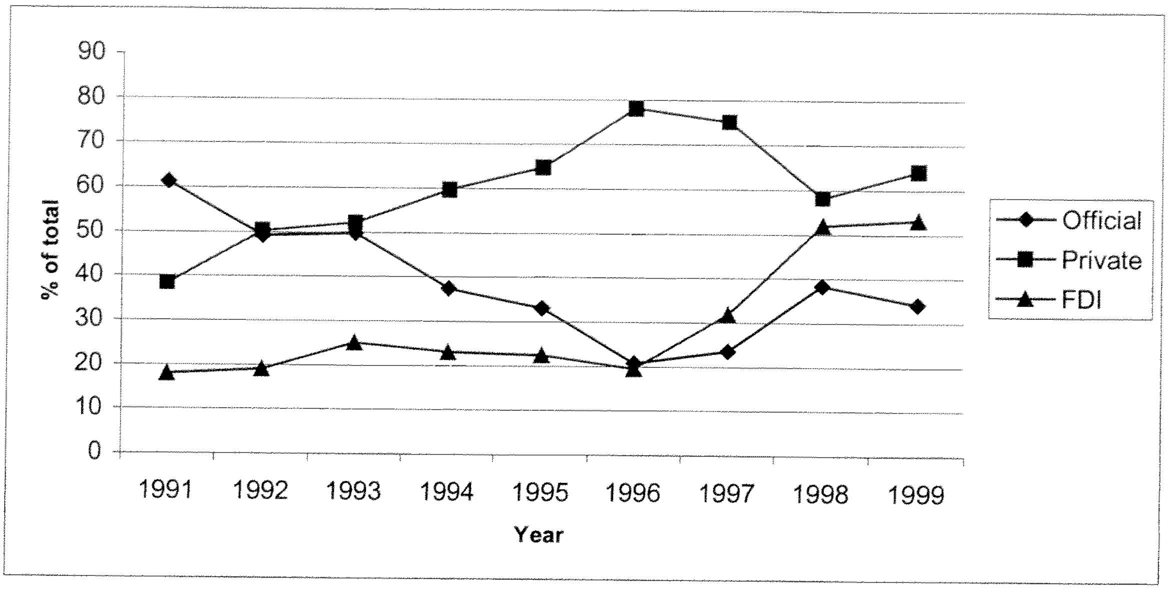
7. Figure 1 shows further that foreign direct investment (FDI) has come to play an increasingly prominent role in international resource flows to developing countries. From less than 20 per cent in 1991, the share of FDI in the total had risen to well above 50 per cent by 1999. Since 1997 the value of FDI has, in fact, exceeded the value of ODA.

8. The growing importance of FDI is also underlined by data compiled by UNCTAD, which are presented in figure 2 below. These show that the total value of FDI flows surged from \$158.9 billion to \$865.5 billion between 1991 and 1999. While the vast bulk of these resources flowed into developed countries, the value flowing into developing countries nevertheless increased almost fivefold during the same period, from \$41.7 billion to \$207.6 billion.

9. As pointed out in resolution GC.8/Res.5, the share of FDI flows being channelled into Africa is minuscule, and amounted to a mere 1.2 per cent of the world total in 1999. These overall figures do not tell the whole story, however. To obtain a more balanced view of the contribution of FDI flows to economic development in Africa, it is necessary to take a closer look at recent trends in the volume and direction of these flows, and at the share of FDI in such variables as gross capital formation and gross domestic product.

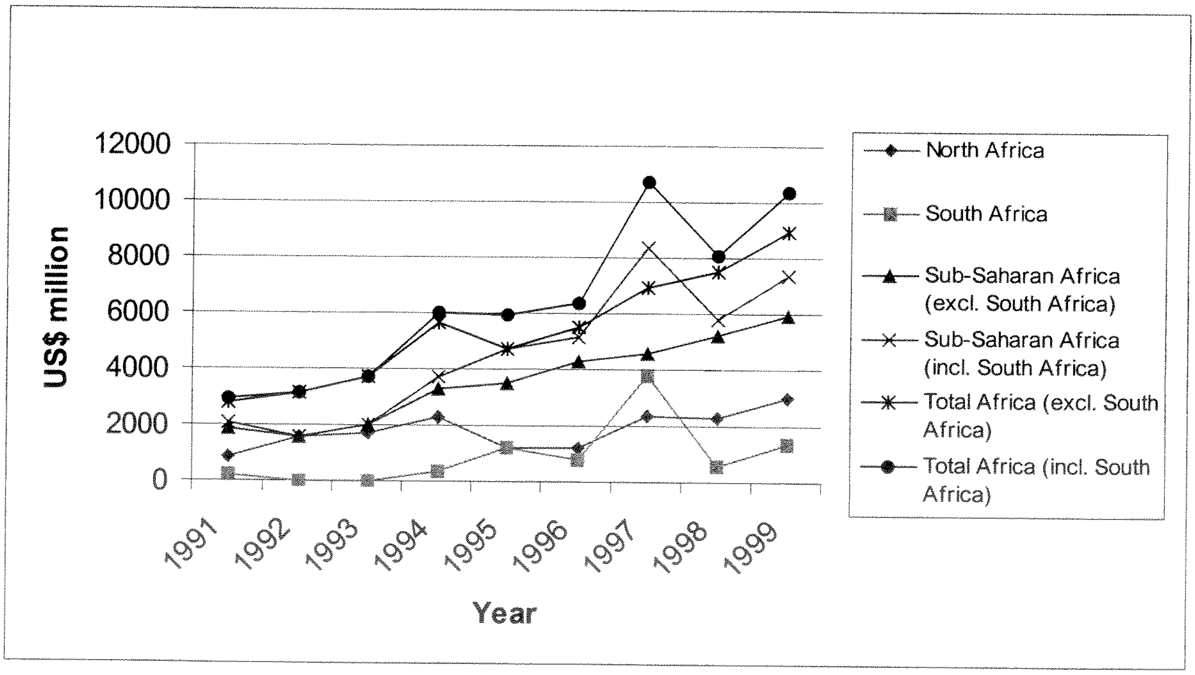
10. The volume of FDI flowing into Africa, excluding South Africa, for example, showed a steady increase of 325 per cent from \$2.8 billion in 1991 to \$8.9 billion in 1999. Including South Africa, these flows recorded an increase of almost 350 per cent from just under \$3 billion to \$10.3 billion. A further regional breakdown of these data indicates that the flows to North Africa increased by some 340 per cent from \$0.9 billion to almost \$3 billion, while the flows to Sub-Saharan Africa rose by almost 200 per cent from \$1.9 billion to slightly less than \$6 billion (excluding South Africa) or by about 350 per cent from \$2.1 billion to \$7.3 billion (including South Africa).

Figure 1. Net resource flows to aid recipients



Source: OECD, downloaded from: http://webnet1.oecd.org/oecd/pages/home/displaygeneral/0,3380,EN-statistics-notheme-2-no-1--0---2,00.html

Figure 2: FDI inflows into Africa



Source: UNCTAD, *World Investment Report 1997* and *World Investment Report 2000.*

11. Though falling behind the overall rate of increase recorded in developing countries as a whole, the rates of increase in FDI flows to Africa during the past decade are nevertheless impressive, even allowing for the fact that they are measured from a comparatively low base. An analysis of the available data thus shows that FDI flows to all African countries rose by an annual average of almost 21 per cent between 1991 and 1999.

12. A further comparative analysis of the contribution of foreign investment to economic development is presented in figure 3. This shows that the share of FDI inflows in overall investment has followed a broadly rising trend in Africa as in all developing countries during 1991-1998, although the aggregate data for both the developing countries as a whole and for Africa reveal some significant sub-regional discrepancies. In the case of Africa, the contribution of FDI to gross fixed capital formation has remained relatively low and erratic from year to year in North Africa, whereas in sub-Saharan Africa (excluding South Africa) it has risen steadily from an average of some 7 per cent in the early 1990s to approximately 14 per cent by 1996-1998. These rates are significantly higher than the corresponding figures for all developing countries, which rose from an average of about 5.5 per cent to 10.5 per cent during that period.

13. Similarly, the share of inward FDI stocks in GDP is relatively large in Africa. As shown in figure 4, the share for the continent as a whole is broadly in line with the average for all developing countries, while the share for sub-Saharan Africa, excluding South Africa, significantly exceeds this average.

14. The data presented above show that Africa has retained a relatively strong interest for foreign investors in overall terms. A breakdown of the FDI flows into Africa by country of origin shows further that although France, the United Kingdom and the United States remained the most important sources, other countries such as Germany and the Netherlands have been gaining in importance over time. This is reflected in the gradual decline in the combined share of the "big three" from 77 per cent in 1984-1988 to some 65 per cent of the total in 1994-1998.

15. In the absence of precise documentation on the sectoral distribution of FDI flows into Africa, all the available evidence suggests that the extraction of natural resources remains the main activity of FDI, especially of that originating from the United States and France. Manufacturing industry nevertheless continues to attract significant flows, especially from Germany, the Netherlands and Switzerland. Inflows from the United Kingdom went mainly into the service industries.

Domestic private investment

16. Although no comparable international statistics are available on the performance of domestic private investment, the International Finance Corporation has published a set of data for selected developing countries distinguishing between total private (domestic and foreign) investment flows on the one hand, and public investment on the other. These data show that the share of private investment in total investment rose steadily in both South Asia and the Latin American and Caribbean region in the 1990s, but fell in East Asia in the latter half of the decade as a result of the Asian crisis. It has been rising in sub-Saharan Africa since the mid-1990s, after falling in the preceding years. In overall terms, however, the share of private investment in total investment is shown by these data to have been more than ten percentage points lower in sub-Saharan Africa than in the other developing regions in 1998.

Inter-country variations

17. The aggregated data presented above conceal a number of inter-country differences, however, reflecting the vast diversity of Africa. Thus, FDI inflows to the 10 most important recipient countries (Angola, Côte d'Ivoire, Egypt, Gabon, Morocco, Mozambique, Nigeria, South Africa, Sudan and Tunisia) amounted to almost 83 per cent of total inflows to the continent as a whole in 1999. The remaining 17 per cent were shared between no less than 41 countries, 14 of which received inflows of $10 million each or less in that year, and a further 11 of which received between $11 million and $50 million.

18. Overall, the empirical evidence presented above shows that while the general picture regarding the role and interest of the private sector in the industrial and economic development of Africa is not as dreary as is sometimes painted, it nevertheless contains a large number of bleak patches. As emphasized in resolution GC.8/Res.5, there is thus an urgent need for many African countries to continue their efforts to create a favourable climate for direct investment and for the development of the private sector.

II. STIMULATING PRIVATE SECTOR PARTICIPATION IN DEVELOPMENT

19. The defining characteristic of entrepreneurship is the ability to identify lucrative business opportunities and, through judicious investment and risk-taking, to develop these opportunities into productive and profitable commercial ventures. While such business opportunities exist in all countries, and usually in a wide variety of sectors and at widely divergent scales of

Figure 3. Share of FDI in gross fixed capital formation

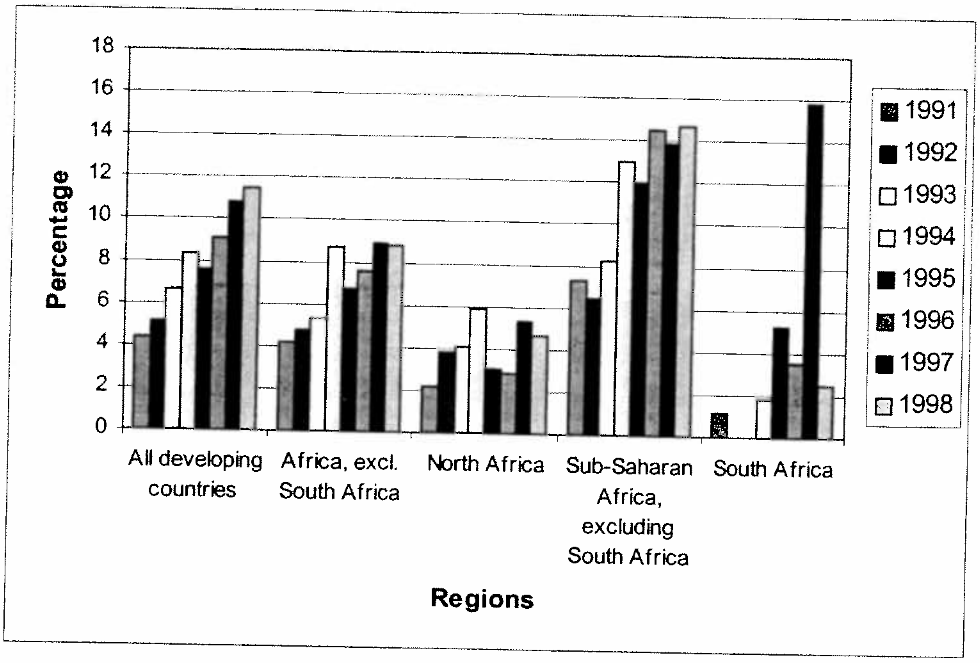
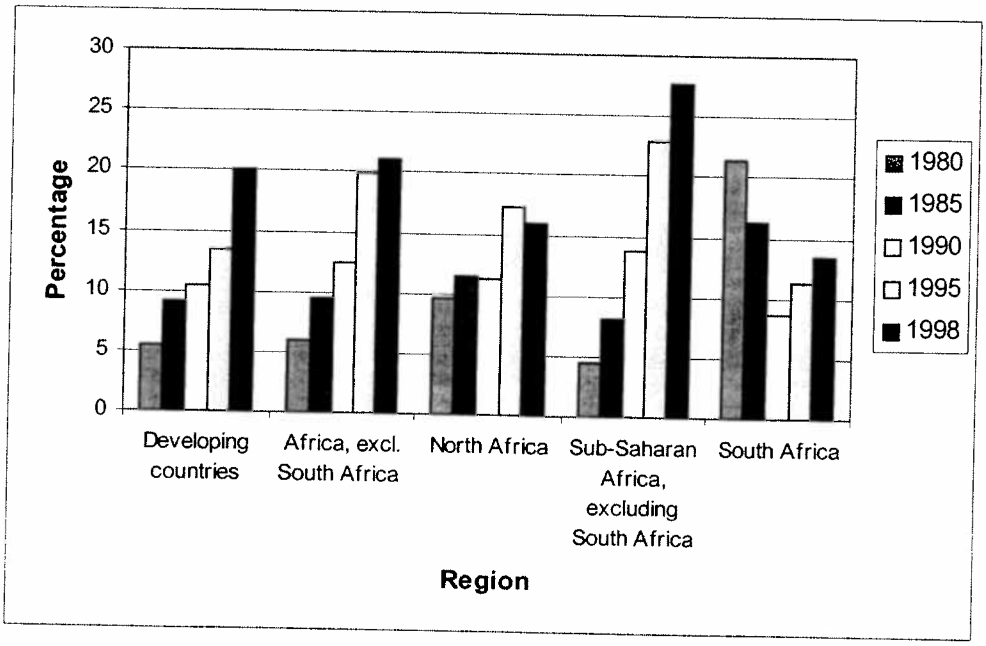
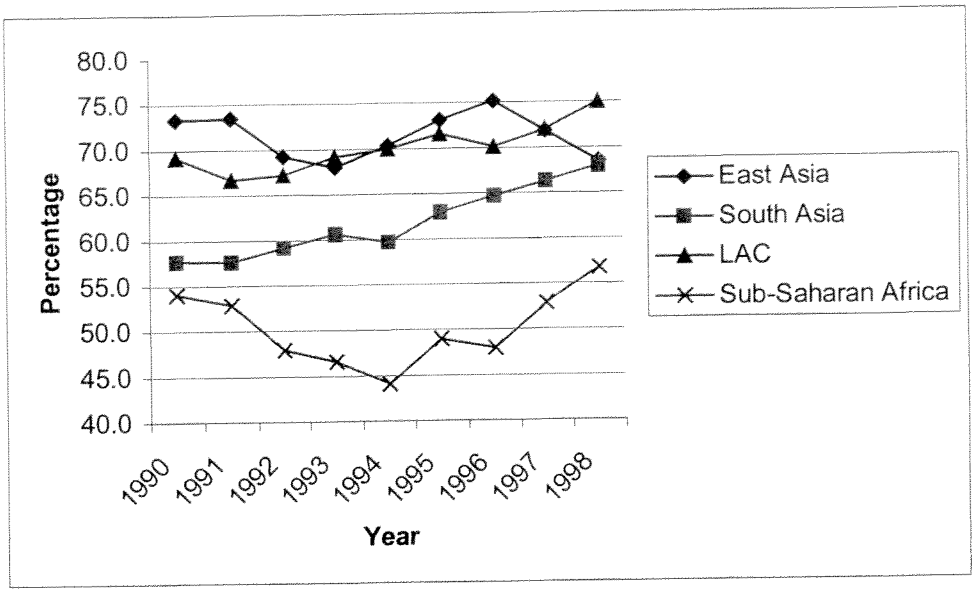


Figure 4: FDI stocks as share of GDP



Source: UNCTAD, *World Investment Report 1997* and *World Investment Report 2000*.

Figure 5. Share of private investment in total investment



Source: Bouton, Lawrence, & Sumlinski, Mariusz A., *Trends in Private Investment in Developing Countries—Statistics for 1970-1998*, International Finance Corporation, Discussion Paper No. 41, Washington, June 2000.

production, the extent to which entrepreneurs will be able to take full advantage of them will depend to a considerable extent on a variety of external factors. These comprise a wide range of governance issues, such as the integrity of the political system, the effectiveness of the policy and regulatory framework, and the security of property rights. They also include the availability of appropriate institutional and financial support mechanisms, such as access to business development and micro-finance services. Finally, they include the adequate availability of the necessary physical infrastructure, such as transport, communications and utilities, as well as social infrastructure, such as education and health services. In short, the ability of the private sector to participate effectively in the economy and make the desired contribution to the development process will depend on the availability of what has come to be known as a "conducive" or "enabling" business environment.

Inter-country variations

20. The need to provide the private sector with a conducive business environment in accordance with the criteria summarized above has been increasingly recognized during the past 10 to 15 years, and has prompted decision makers throughout the world to make conscious efforts to establish business-friendly operating environments in their countries. This is as true for decision makers in African countries as elsewhere, and the past decade has seen the introduction of wide-ranging political and economic reforms in many African countries intended to achieve this aim. The steps taken in this connection have included democratization measures aimed at improving the stability and effectiveness of the prevailing political systems, as well as macroeconomic reforms aimed at enhancing economic stability and providing investors with increased levels of assurance regarding their investments. These general measures have in most cases been supplemented by specific and direct policies to stimulate a greater level of economic participation by the private sector, such as the introduction of privatization programmes and the liberalization of regulatory controls on the activities of private entrepreneurs. The combination of these measures has played a major role in attracting the increased levels of foreign and domestic private investment during the past decade highlighted by the empirical evidence presented above.

21. Despite these broadly favourable trends, the framework within which entrepreneurs are required to operate continues to vary substantially from one country to another, both in Africa and elsewhere. Political instability, sometimes escalating to dangerous levels of violence or even civil war, remains prevalent in many countries and deters foreign investors as well as stultifying domestic entrepreneurship. Similarly, the macroeconomic policy framework often remains inadequate and, coupled with an unfavourable regulatory environment and weak enforcement mechanisms, serves to undermine the efforts of entrepreneurs to exploit the available business opportunities. Moreover, these difficulties are exacerbated by the unavailability of suitable institutional support structures and financial services, and by the absence of the required physical and social infrastructure, as described above.

22. Though clearly not the only determinants of the inter-country variations in investment performance and

private sector participation noted above, these differences in the business environment almost certainly account for a substantial proportion of these variations. Even in countries where objective constraints such as low income levels and small market size may inhibit the development of the private sector, it remains axiomatic that, other things being equal, an improvement in the business environment will stimulate a more rapid growth of private investment, both foreign and domestic, and a corresponding acceleration in the process of private sector development.

III. SUPPORT SERVICES PROVIDED BY MULTILATERAL DEVELOPMENT ORGANIZATIONS

23. While the creation of a conducive environment for the development of the private sector in Africa must depend primarily on domestic efforts by African policy-makers themselves, the multilateral development organizations can play an important supportive role in helping to achieve this objective. In line with their expertise and responsibilities, they are making increasingly active contributions towards supporting national efforts to improve the business environment through both technical cooperation and financial assistance. The activities supported by these agencies cover a broad range of programmes from policy advice at the macro level to institutional capacity-building at the meso-level and enterprise-based activities at the micro-level. In addition, the worldwide links of the multilateral agencies give them a unique ability to identify promising investment opportunities and assess the investment climate in developing countries. They are therefore in a strong position to disseminate impartial and accurate information about the business environment in these countries to the private sector, and thereby to correct any misconceptions that may arise, e.g. through biased media coverage.

24. Examples of macro-level support measures include programmes sponsored by UNDP to improve national governance frameworks, and those promoted by the IMF to encourage macroeconomic structural adjustment measures. Further downstream, the World Bank Group and several United Nations organizations have developed focused programmes to provide capacity-building support for private-sector development at the institutional level, with some programmes reaching even further down to the enterprise level. The following paragraphs will review some of the more relevant of these programmes for Africa.

Policy advice

25. Responding to the challenge posed by the United Nations Millennium Summit to cut poverty in half by 2015, UNDP has formulated a strategy that seeks to address the many causes of poverty. The implicit underlying objective of this strategy is to create increased economic opportunities for private entrepreneurs, who are seen as the main driving force of sustainable human development. The strategy therefore focuses on helping to overcome the diversity of constraints hampering the establishment and maintenance of suitable operating environments for private business. In this context, UNDP has also recognized the risks posed by socio-political factors to the emergence and growth of a vibrant private sector, and its strategy consequently pays particular attention to such issues as democratic governance, crisis prevention and recovery, and HIV/AIDS. Within the framework of its democratic governance programme, UNDP has developed specific initiatives to promote decentralized governance, accountability and transparency, all of which constitute significant elements of a conducive business environment for private sector development.

26. The IMF has a long history of promoting structural reforms aimed at overcoming market distortions which frequently undermine the ability of entrepreneurs to take full advantage of existing economic opportunities. Many countries in Africa and elsewhere have drawn on its Structural Adjustment Facilities (SAFs) and Enhanced Structural Adjustment Facilities (ESAFs) launched in the mid-1980s. While ostensibly associated with the IMF's macroeconomic programmes in such areas as fiscal policy, the financial sector and the foreign exchange and trade system, the measures undertaken within the framework of the structural adjustment programmes have also sought to improve the general business environment. A growing focus on public enterprise reform and privatization since the early 1990s has also enhanced the investment opportunities for private entrepreneurs.

27. Since November 1999 the SAF/ESAF has been replaced by the Poverty Reduction and Growth Facility (PRGF), reflecting a broadening of the IMF's concessional lending objectives to include an explicit focus on poverty reduction in the framework of a growth-oriented strategy. This facility is intended to be linked to the social and sectoral programmes formulated within the framework of a comprehensive national Poverty Strategy Reduction Paper (PRSP) to be prepared by national stakeholders, including representatives of civil society and the private sector, with the support of the World Bank and IMF. While the IMF's lending under the PRGF will continue to focus on the macroeconomic programmes that fall within its primary responsibility, the Fund has also stated that it plans to take into account the micro-economic considerations of the PRSP, as well as such governance issues as the improved management of public resources, greater transparency, increased accountability and active public scrutiny. This should greatly facilitate the creation and maintenance of an enabling business environment in which the private sector will have improved prospects for growth. Of the 77 low-income member countries of the IMF eligible for PRGF assistance, 36 are in Africa.

28. The World Bank Group has also launched several major initiatives to promote private sector development, both on a global level in general and in Africa in particular. The scope of these initiatives has ranged from work on the governance environment and institution-building to the provision of infrastructure and social services to enable people to respond to economic opportunity. The Group is thus currently in the process of formulating a comprehensive Private Sector Development Strategy document for presentation to its Executive Directors in December 2001. The purpose of that document is to set out how developing country Governments can benefit from private initiative to pursue socially useful goals through sound policy and institutions. In this context, the document seeks to answer the questions how the private sector can best complement the public sector in achieving the overarching goal of poverty reduction, and how international organizations like the World Bank Group can facilitate sound policies and institutions in developing countries.

29. Within the World Bank Group, the International Finance Corporation (IFC) plays an especially active role in promoting growth through private sector development. The Corporation also notes that it places a special emphasis on Sub-Saharan Africa because of its enormous development needs. The IFC therefore seeks to help increase the quantity and quality of private investment in the region, to support the mobilization of foreign capital, and to help create an appropriate regulatory and policy environment for private sector activities.

30. Jointly with the World Bank, the IFC provides developing countries with the Foreign Investment Advisory Service (FIAS), which offers policy advice in matters related to investment promotion. Since its establishment in 1985, FIAS has undertaken more than 100 projects in Africa, with more than 30 having been under implementation in the past two years alone. This therefore represents a valuable policy-level service for African countries seeking to strengthen their investment climate and attract foreign direct investment.

31. Similar services are also provided by UNCTAD within its Policy Framework for Attracting Foreign Investment Programme (FORINVEST). The agency also provides assistance to developing country Governments in their negotiations with foreign investors, and transnational corporations (TNCs) in particular, through its Negotiating International Business Arrangements Programme (TRANSACT). In addition, UNCTAD offers policy advice to Governments in the field of enterprise reform and privatization.

Institutional capacity-building

32. An important initiative at the institutional level has been launched by IFC in the form of an information network called the Africa Business Network (ABN), which aims to meet the information needs of investors in general, and SMEs in particular. The network brings together information on resources available from IFC, its partners and other sources that can help to increase the quantity and quality of private investment in Africa. The variety of information available from the network ranges from general business and economic information on 34 countries of Sub-Saharan Africa to specific "how to" information on formulating a business plan, and starting, financing and managing a business.

33. Other significant support institutions established by IFC, often in partnership with other bilateral and multilateral development organizations such as the Canadian International Development Agency (CIDA), UNDP and the African Development Bank (AFDB), are the Africa Project Development Facility (APDF), the African Enterprise Fund (AEF) and the Enterprise Support Services for Africa (ESSA).

34. Another agency of the World Bank Group which plays a valuable institution-building role is the Multilateral Investment Guarantee Agency (MIGA). In addition to its core role of providing investment guarantees, this agency offers technical assistance to national investment promotion agencies. Together with a number of other multilateral agencies and organizations, including FIAS, the OECD, UNCTAD and UNIDO, MIGA has also sponsored the establishment of the World Association of Investment Promotion Agencies (WAIPA). This body was established in 1995 in order to provide national investment promotion agencies with a forum to promote cooperation, share experiences, and strengthen information systems, as well as assisting them in gaining access to technical assistance and providing policy advice to their Governments. By 2001 the membership of this association had risen to 116 national agencies, including 32 from Africa.

35. Several notable efforts have also been undertaken by UNDP at the institutional level. One of these has involved the partial funding of the establishment of the African Management Services Company (AMSCO) in the mid-1990s. This firm is headquartered in Amsterdam, with regional offices in Nairobi, Harare and Accra. It provides qualified managerial and technical staff to privately-owned African companies as well as management training services to these companies. Another effort launched by UNDP to help improve the institutional framework for private sector development is its broad-based initiative to promote the spread of information and communications technologies to developing countries. The activities undertaken in this context have included the steady expansion of the Sustainable Development Networking Programme first initiated in 1989, and launching of the Digital Opportunity Initiative at the Okinawa Summit in July 2000 in a public-private partnership with Accenture and

the Markle Foundation. The former, which encompasses 28 countries in sub-Saharan Africa and five in North Africa, aims to help bridge the "digital divide" by launching and supporting local Internet sites and building national capacities and knowledge resources. The latter, which examined national ICT strategies in several countries around the world including South Africa and the United Republic of Tanzania, led to the formulation a strategic framework for action to enable developing countries to reap the benefits of the networked economy and an information society.

Enterprise-level activities

36. The United Nations system and several other multilateral development agencies have also initiated programmes with direct linkages to private enterprises, both as partners in the promotion of sustainable development and as target beneficiaries. The most outstanding of these is the Global Compact with the business community proposed by the United Nations Secretary-General, Mr. Kofi Annan, to "reconcile the creative forces of private entrepreneurship with the needs of the disadvantaged and the requirements of the future generations". This Compact calls for world business leaders to support a set of nine principles covering human rights, labour standards and the environment both in their individual corporate practices and by supporting appropriate public policies. Though not linked directly to development-related activities in Africa, this initiative by the Secretary-General has provided a framework for many United Nations agencies, including UNIDO, to enter into development-oriented partnerships with private business, in Africa and elsewhere.

37. In 2000, UNCTAD launched a programme to analyse development-oriented linkages between TNCs and SMEs, and has hosted several workshops and seminars on this topic. The goal of this programme is to assess the degree to which TNCs can play a more pronounced developmental role in their relationships with their SME suppliers and vendors in developing countries, and to help these SMEs to enhance their competitiveness and upgrade their products and processes so that they may insert themselves successfully into global value chains. Papers on this subject were presented by representatives of several African countries at the last expert meeting on this topic held in Geneva in November 2000. While acknowledging that SMEs in some regions, including Africa, may function in environments that are not favourable to entrepreneurship and often do not have the support services they require to be partnership-ready, this expert meeting proposed a number of specific measures that could be taken by Governments, international organizations and TNCs to help in overcoming these constraints.

38. An important contribution at the enterprise level is also being made by MIGA. This agency seeks to encourage private foreign investment in developing countries not only through the provision of investment insurance against non-commercial risks, but also by undertaking a variety of specific investment-promotion activities. These include research and the dissemination of information on investment opportunities in developing countries.

Awareness creation of business opportunities in Africa

39. Considerable efforts are being made by the multilateral development agencies within the United Nations system and beyond to generate awareness within the international business community of the opportunities for profitable operations in Africa. For example, IFC has recently published a report entitled "Building the private sector in Africa—To reduce poverty and improve people's lives", which opens with the observation that:

> "As Africa enters the new millennium, it is poised to provide more economic opportunities for its citizens through sustained growth led by the private sector and to alleviate the poverty that has long plagued the region. Sweeping changes in economic policies under way in the 1990s have begun to create a more stable and attractive environment for private investment ... Economic reforms have virtually transformed the region from what it was in the 1980s. They have strengthened macroeconomic management, liberalized domestic markets and trade, privatized state-owned enterprises, eased restrictions on private investment (including foreign investment), and freed up financial markets."

40. Similarly, other agencies have also published, often jointly, a number of studies in the recent past indicating the political and economic changes that need to be introduced to improve the business environment in Africa, and highlighting those that have already taken place in a number of countries. An important example of such a study is the book *Can Africa Claim the 21st Century?*, issued in April 2000 by AFDB, the African Economic Research Consortium, ECA, the Global Coalition for Africa and the World Bank. While acknowledging the enormous developmental challenges still facing the continent, this study exudes an essentially optimistic message and presents a comprehensive road map of issues that need to be addressed by African countries in their attempts to improve the business environment in order to stimulate increased private sector participation for the achievement of their developmental goals.

41. A similarly positive message is also being delivered by many multilateral agencies in their regular

publications. The *African Development Report 2000* issued by AFDB notes, for example, that while the structural constraints that severely limit the development of human capabilities and overall sustainable human development remain formidable, and that while much therefore still needs to be done, these concerns must be balanced with the promise based on recent positive changes in the region. It points out in this connection that:

> "Africa is ending the century and entering the new one in a better position than five years ago. Politically, and broadly speaking, African countries have become more participatory and democratic as the role of civil society strengthens. Economically, the policy environment has improved and economic growth is more broad-based. Governments have relaxed their stranglehold on the economy and allowed greater liberalization. Private initiatives, propelled by market-based considerations, increasingly dominate decision-making."

42. There are also some grounds for optimism that this message is getting through to the business community. A clear example of how the favourable reporting by multilateral development agencies is being picked up by business information firms in the private sector and relayed to potential investors is given by an article on FDI published by the Economist Intelligence Unit in the June 2000 issue of its *Regional Overview for Africa*. Referring to two reports published by UNCTAD, this article reiterates the points that it is important to take a "differentiated" view of Africa and that the rates of return on FDI in 1991-1997 were the highest in the world, at around 29 per cent per year. The gradual but steady growth in FDI flows to Africa shown by the empirical data presented above also provides clear evidence that such awareness creation efforts are having an effect and investors are increasingly recognizing the improved business opportunities offered by many African countries.

IV. THE CONTRIBUTION OF UNIDO[1]

43. In view of its mandate to support sustainable industrial development in developing countries and economies in transition, and in view of the growing recognition throughout the world that industry should largely remain the preserve of the private sector, UNIDO is particularly well placed to promote the participation of the private sector in Africa's development. In fact, it would not be an exaggeration to claim that almost all of the services offered by UNIDO are aimed specifically at strengthening the developmental role of the private sector in the Organization's client countries. These services include both global forum and technical cooperation activities, with the former being aimed at identifying and disseminating information, knowledge and best practices on industrial development issues, and the latter involving specific support services to enhance the capacities and capabilities of private entrepreneurs in establishing and operating efficient and competitive manufacturing industries. In providing its technical cooperation services, moreover, UNIDO operates at all three of the levels of intervention mentioned above—policy, institutional and enterprise.

44. In the context of its global forum activities, UNIDO signed a cooperation agreement for a two-year research programme with the Centre for the Study of African Economies (CSAE) of the University of Oxford in October 1999. The proposed research activities, which cover such areas as understanding the micro-economics of African industry, collecting primary firm-level data, and training African civil servants and UNIDO staff, are intended to provide the basis for the strengthening of government capacities to formulate and implement appropriate policies in support of private industry.

45. In addition, UNIDO has published several important documents covering industrial development issues in Africa, which are intended both as sources of policy advice to African decision makers and as vehicles to correct the misconceptions and generalizations about Africa prevailing in the countries where the bulk of the world's investment flows originate. These include *The Globalization of Industry—Implications for Developing Countries Beyond 2000* published in December 1996, which contains a special chapter on Africa, *African Industry 2000—The Challenge of Going Global* published in 1999, and *Building Productive Capacity for Poverty Alleviation in Least Developed Countries—The Role of Industry* published in 2001. These documents have received wide publicity and will have helped both to influence the decision-making process in Africa and the perceptions of the African situation among foreign investors.

46. Another important global forum activity initiated by UNIDO in the recent past was a regional workshop on the dynamics and implications of establishing public-private sector consultative mechanisms in Africa, held in 1999 at Dakar. The proceedings, and a related paper entitled "Public-private partnerships for economic development and competitiveness, with special reference to the African experience", were published.

47. The establishment of an African mechanism for private-public sector dialogue constitutes an important component of the Alliance Plan of Action, adopted in May 1997 at Accra in the context of the Alliance for Africa's Industrialization. This Plan envisages the

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[1] A more comprehensive review of the role and activities of UNIDO in supporting private sector development in Africa is given in Kennedy, Richard M., and Hobohm, Sarwar, "Capacity Building for Private Sector Development in Africa", Working Paper No. 3, PSD Technical Working Papers Series, UNIDO, 1999.

establishment of national platforms for public-private sector dialogue, and the Steering Committee of the Alliance has recommended that each member should select a private sector representative to participate in the Committee's activities on a permanent basis. Progress with the establishment of these public-private sector consultative mechanisms has been varied, and UNIDO is actively working with participant countries in the physical implementation of Industrial Partnership Councils for the promotion of public-private sector cooperation.

48. Issues related to the development of the private sector have also been covered extensively in a series of technical working papers prepared by UNIDO on the basis of the Organization's technical cooperation activities in this field. Two of the titles issued in this series relate specifically to Africa: "Capacity building for private sector development in Africa", and "Financing of private enterprise development in Africa".

49. UNIDO also gives a high priority to Africa in its technical cooperation activities, with 20 of the 41 integrated programmes approved to date being devoted to Africa.[2] These programmes have a total budget of some $135 million, representing almost 60 per cent of the combined budgets of all of UNIDO's integrated programmes. They span a wide range of activities, including policy advice, the development of statistical services and information networks, the provision of technical support in quality-related issues, assistance in investment and technology promotion, environment- and energy-related projects, the promotion of entrepreneurship development, and support for the upgrading of agro-industries.

50. All of the integrated programmes for Africa place a high priority on enhancing the developmental role of the private sector, reflecting the objectives of industrial restructuring, economic liberalization, private-sector led economic growth and investment promotion set by the Governments of most of the countries concerned. Consequently, the integrated programmes for Africa are focused, almost without exception, on increasing the efficiency and competitiveness of private sector enterprises in the beneficiary countries, the vast majority of which operate on a small or medium scale. These programmes thus almost invariably feature such activities as private sector and/or entrepreneurship development, and the promotion of micro, small and medium enterprises. Many also provide for policy support in such areas as industrial deregulation and restructuring, promoting competitiveness, and encouraging investment. Institutional support measures, such as the creation and/or strengthening of appropriate business support services, industrial information networks, and facilities to meet quality, standardization and metrology requirements, are also included in many of the integrated programmes formulated for Africa.

51. Through its evolving partnership programme with the international business community, UNIDO also seeks to attract the cooperation of private sector firms in its technical cooperation activities. While the pilot project of this innovative and still relatively new programme was implemented in India, it is now being extended to a global scale. In the case of Africa, a project is currently under way to tap the expertise of a leading Indian firm in the production of two- and three-wheeled scooters to support private-sector production of similar vehicles in Nigeria.

52. In addition, UNIDO is currently exploring the possibility of establishing strategic alliances with private equity funds in Africa as a means of improving the financial and technical support services for SMEs in Africa. Consultations have been held with Capital Alliance Nigeria, as a result of which UNIDO is now in the process of concluding a cooperation agreement with African Capital Alliance (ACA) and with the Lagos Business School. This will provide for a partnership in the implementation of a new Nigerian SSI initiative, through which commercial banks are required to set aside 10 per cent of their pre-tax profits for equity investments in SSIs. In a related development, UNIDO is exploring the possibility of entering into a partnership with the Small Enterprise Assistance Fund (SEAF), which is regarded as the most important donor-supported private equity fund for SMEs in developing countries. SEAF is particularly interested in collaborating with UNIDO in the establishment of a regional fund for West Africa, and the preparation of a cooperation agreement has been agreed upon.

53. The worldwide network of UNIDO Investment and Technology Promotion Offices (ITPOs) makes a major contribution in assisting industrial enterprises in developing countries to gain access to foreign capital, technology, managerial skills, marketing and equipment. The operations of these offices fall under the auspices of the UNIDO investment and technology promotion programme, which is private sector led and focuses on forging business partnerships. One of the activities undertaken in the context of this programme is the holding of investment forums, which have resulted in numerous business partnerships between African enterprises and international firms. The programme has also facilitated an increased level of South-South cooperation, with many business linkages having been promoted between African enterprises and enterprises in China, India and Malaysia. Within the framework of the Tokyo International Conference on African

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[2] These programmes cover the following countries: Algeria, Burkina Faso, Côte d'Ivoire, Egypt, Eritrea, Ethiopia, Ghana, Guinea, Madagascar, Mali, Morocco, Mozambique, Nigeria, Rwanda, Senegal, Sudan, Tunisia, Uganda and the United Republic of Tanzania. In addition, a regional programme to promote agro-industrial development in West Africa has also been approved.

Development (TICAD), UNIDO has entered into a partnership with the United Nations Office of the Special Coordinator for Africa and the Least Developed Countries (OSCAL) to promote private sector development.

V. CONCLUSIONS

54. The empirical evidence provided in this document has confirmed the point made in resolution GC.8/Res.5 that the private sector is assuming an increasing predominance as the driver of industrial and economic development, in Africa as in the other regions of the world. This evidence has also shown that while the overall trends with regard to the private sector's contribution to development in Africa are encouraging, considerable inter-country differences remain. In order to broaden the scope for private-sector participation, policy-makers in Africa as elsewhere need to offer private entrepreneurs a conducive business environment providing good governance, appropriate institutional and financial support mechanisms, and adequate physical and social infrastructure. While the primary responsibility for providing this enabling environment must rest with national Governments, multilateral development agencies can, and do, play a significant supportive role in line with their specific mandates and capacities. Similarly, these agencies can, and do, also play an important part in helping to correct popular misconceptions about conditions in particular countries or regions, which may have a negative impact on investment interest in these regions.

55. UNIDO, as the specialized agency of the United Nations system concerned with promoting sustainable industrial development, plays a particularly important role in this connection. It provides a wide range of technical cooperation services to African countries, almost all of which are aimed at supporting the growth and development of efficient and competitive private enterprises, mainly of a small and medium scale. In addition, it also helps to promote the private sector's participation in developmental activities through its global forum function, both by providing African decision makers with the information and knowledge that they need to create a favourable framework for business in line with international best practices, and by disseminating accurate and impartial information on the prevailing business climate. Through its evolving partnership programme with private business, finally, the Organization is also seeking to attract the direct participation of the international business community in its developmental activities.

VI. ACTION REQUIRED OF THE CONFERENCE

56. The Conference may wish to take note of the information provided in the present document.

Abbreviations

ABN	African Business Network
AEF	African Enterprise Fund
AFDB	African Development Bank
AIDS	acquired immunodeficiency syndrome
AMSCO	African Management Services Company (UNDP)
APDF	Africa Project Development Facility
CIDA	Canadian International Development Agency
CSAE	Centre for the Study of African Economies (University of Oxford)
DAC	Development Assistance Committee
ECA	United Nations Economic Commission for Africa
ESAF	Enhanced Structural Adjustment Facility (IMF)
ESSA	Enterprise Support Services for Africa
FDI	foreign direct investment
FIAS	Foreign Investment Advisory Service (IFC)
FORINVEST	Policy Framework for Attracting Foreign Investment Programme (UNCTAD)
GDP	gross domestic product
HIV	human immunodeficiency virus
ICT	information and communications technology
IFC	International Finance Corporation
IMF	International Monetary Fund
ITPO	Investment and Technology Promotion Office
LAC	Latin America and the Caribbean
MIGA	Multilateral Investment Guarantee Agency (World Bank Group)
ODA	official development assistance
OECD	Organisation for Economic Cooperation and Development
OSCAL	United Nations Office of the Special Coordinator for Africa and the Least Developed Countries
PRGF	Poverty Reduction and Growth Facility (IMF)
PRSP	Poverty Strategy Reduction Paper (IMF)
SAF	Structural Adjustment Facility (IMF)
SEAF	Small Enterprise Assistance Fund
SMEs	small and medium enterprises
SSI	small-scale industry
TICAD	Tokyo International Conference on African Development
TNC	transnational corporation
TRANSACT	Negotiating International Business Arrangements Programme (UNCTAD)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
WAIPA	World Association of Investment Promotion Agencies