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KAMARCK, Andrew M. – Articles and speeches (1957-1970)

KAMARCK

ECONOMIC POTENTIAL OF SUB-SAHARAN AFRICA

Andrew Kamarck
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The area we are talking about is roughly three times the size of the U.S. with a total population about as large as the U.S. Included in this roughly 170 million people there is, in addition to the native African peoples, the important economic element of a population of European origin of under four million. The bulk of these -- about three million -- are in the Union of South Africa, and of the rest, 250,000 are in Rhodesia, 200,000 in the French territories, 100,000 in the Congo, 100,000 in the Portuguese territories, and 60,000 in East Africa. There is also an Asian population of around 700,000 on the East Coast.

We don't really know how rapidly the African population is growing. Birth rates among the Africans are high -- probably 40 to 50 per 1,000, but death rates are also high -- around 25 to 30 per 1,000. The rate of population growth over most of the continent is probably 1 or 1½% per annum or no higher than the U.S. In the Congo the rate of growth is supposed to be over 2%; in the Federation of Rhodesia and Nyasaland it has already reached 2½%. As far as we know, no African country has yet reached the 3% per annum rate that some under-developed countries are suffering from. Just to raise the very low income of the already existing population is hard enough; as the rate of population growth speeds up -- as it probably will -- to make any progress at all in raising the standard of living is going to be most difficult.

Africa is still largely an undeveloped continent. Aside from the Union of South Africa, the economic map shows a scatter of small islands of modern production, great distances apart, in a sea of a relatively stagnant subsistence economy. These islands of development are generally strung out like beads along the main railways.

North of the Union, the per capita GNP is at best little more than $100 equivalent ($120 in Ghana) and in most of the territories it is well under. In the Union the average is around $400; for the Africans it again is probably just somewhat over $100.

The money economies in these countries are all dependent, or export-import, economies. They are primarily dependent on the export of a very large proportion of their output to the industrialized countries of Western Europe and the U.S. Rhodesia and the Congo each export well over half of their GNP; Ghana just under half; the Union, the most self-sufficient, exports over a quarter of her GNP.

The economic development that has occurred in modern times, as de Kiewet has pointed out, can be regarded as the result of two migrations. The first is the migration of European traders, officials, and settlers into Africa together with their skills, investments, equipment and governmental organizations. The second is the migration of the African tribesmen out of their subsistence economy into the new money economy created by European enterprise.

And, the corollary of this statement is that those territories have developed the most that have received the greatest migration of trained European people and capital. It is not entirely a coincidence that the two African countries that maintained their independence have been the slowest in economic development. Liberia is far behind Ghana. A comparison of Ethiopia and French West Africa shows the following: while French West Africa's population is only somewhat greater (about 15 million for Ethiopia and Eritrea, 18 million for French West Africa), the foreign trade turnover of French West Africa is six times greater than Ethiopia's ($700 million to $130 million), the total governmental budget is about seven times greater ($370 million to $50 million), and the annual public investment in about 16 times greater ($100 million to $6 million).

With political power in most of the continent rapidly passing into the hands of the Africans, before they can fill all the roles the Europeans played, economic growth in the future will depend a great deal on how receptive the new states are to European (or American) enterprise and capital and to the use of trained non-African personnel. Much will also depend on the willingness and ingenuity of the European and American governments in working out arrangements with the new African states to provide effective financial help and personnel. This problem has already arisen in Ghana and my impression is that it by no means has been solved. In those states where there are sizeable communities of European settlers, with the growth of African political demands, much will depend on whether the races work out a satisfactory accommodation or the economy suffers from protracted conflict between them. I cannot help feeling that in these areas some difficulties are inevitable and they are bound to hurt the growth of the economies as has already happened in Kenya.

The modern development of most of Africa was at first largely undertaken by private companies who were given large concessions of land to govern and exploit. It is really remarkable how successful they were in getting money out of private investors for the building of railways and other investment in opening up the territories -- perhaps it is because there were fewer economists then. Sooner or later governments had to take over the main responsibility for fostering economic development. But even so, development in many territories still depends on one or two large corporations. In Northern Rhodesia, the money economy is little more than the sum of the Anglo-American Corporation and Rhodesian Selection Trust, and its growth primarily depends on their decisions and plans. In the Congo, the Societe General and Unilever interests are still very important; in Liberia, the Firestone interests and the Liberian Mining Company. The future of French Africa will depend a great deal on whether the large projects that are now being studied by a few large concerns are carried out.

The post war period has been one of unprecedented economic growth in Africa. In the Rhodesias, real GNP has grown at a cumulative rate of about 10% per year, probably the world's record for an underdeveloped country during this period; the Congo has grown at around 7%; the Union of South Africa at 4 to 5%. The figures for other territories are less accurate. West Africa generally and East Africa have also grown probably somewhat more rapidly than population. (One French estimate gives a figure of around 6% per year for French West Africa, Cameroons and French Equatorial Africa.)

This rapid economic growth has come about from a coincidence of several factors, some of which are disappearing or have disappeared. The first of these factors has been an inflow of an enormous amount of capital -- almost all from Europe. This capital has come in under many forms -- loans, direct investments and grants or near grants.

As in the past, the largest amount of capital went to the Union -- a total of over $2 billion. (The Bank, also, lent more to the Union, $160 million, than to any other part of Africa.) In the peak year, 1947, the net import of capital was equal to 60% of total gross domestic investment. This inflow has tapered off -- for various reasons -- and last year, 1956, for the first time in South African history there was a net capital outflow. In the meantime, South African savings have increased so that even with no capital inflow gross investment is running at 23-24% of GNP. On this basis, one could say that the Union's economy had succeded in taking off and should be able to maintain self-sustaining growth without further capital inflow. However, there is a real question whether the Union's savings will be as productive as the capital that came in from outside which was more enterprising and went in to more productive investment.

The rest of the continent must still depend on capital from outside for growth. But Rhodesia and the Congo have developed enough so that, together with their own savings, that is to say mostly the savings of the European settlers and corporations, they can attract private capital necessary to achieve growth more rapid than growth of population <u>without</u> any special governmental grants or other special help by European countries or the U.S. (The Bank has lent $122 million to Rhodesia, $40 million to the Congo directly, plus $30 million indirectly, and we are now considering another loan.) But it is doubtful if the remaining territories can stand on their own feet.

In contrast to the prevalent thinking up to World War II, when in principle colonies were supposed to stand on their own feet and be financially self-sufficient entities, both the French and British Governments now recognize the need to give special help to the colonies to aid their development. The Portuguese Government changed less in this regard except to aid in the settlement of Portuguese settlers and as a result development in the Portuguese territories has been slow. It is almost completely certain that without special help the economy of the French territories will not grow sufficiently fast to keep up with or surpass the rate of increase in population.

In the French African territories, the French Government is providing practically all of the investment to provide the basic services -- railways, ports, roads, electric power -- all the infrastructure needed for growth. She undertook, under the postwar plans, to pay one-half the expenditure on economic development and two-thirds of the expenditure on social development. In practice, the territories have financed the remainder by borrowing from the Caisse Centrale -- that is, the French Government -- at very favorable terms. Through the end of 1955, the equivalent of at least \$700 million was thus provided in grants and \$400 million equivalent in "soft loans". In addition, the French budget finances directly the air, weather and some other services in the territories and pays the salaries of certain officials. At times, France also subsidizes the current budget of some of the territories. The IBRD has made one loan, guaranteed by France, of \$7½ million to the railways in West Africa.

The public investment financed by France has probably been at least two-thirds of the total investment in the territories. Unlike the situation in most of the rest of Africa, this massive French investment in public services has for most of the postwar period provided capacity sufficient or even in excess of what the commodity-producing sectors of the economy needed. It is quite clear that the economic growth of the French African territories will still depend on what the French Government decides to make available to them for investment plus what it is able to secure for them from the European Common Market arrangements.

The aid given by the British Government to its colonies has been less but there has been much more private investment, the colonies have been able to do more for themselves, and have been allowed and helped to borrow in London and elsewhere -- including the IBRD. Even so, under the Colonial Development and Welfare Act, the United Kingdom gave some \$220 million equivalent to the African colonies as of 1956.

This has been supplemented by some \$140 million of investments by the Colonial Development Corporation in various projects in Colonial Africa. The C.D. & W. grants total around a quarter of the public investment in the British African colonies -- a not unimportant fraction. In the less populated colonies, like Gambia, British Somaliland, the

High Commission territories in Southern Africa -- as in the French territories -- the grants from the metropole one can say practically are the public investment programs. Certainly in these latter areas economic growth for some years will depend directly on continuance of the British Government's grants to finance the necessary public investment.

In the other colonies, aside from the Rhodesias but including Nyasaland, the amount of help given by the U.K. Government will continue to be important, if not so decisive. In this regard, in two countries, Ghana now and Nigeria presumably when it becomes independent in three years, a big problem has arisen. As the colonies become independent they are no longer eligible for C.D. & W. grants or for new investments by the C.D.C. The very fact of a colony's becoming independent, therefore, cuts off an important part of the flow of capital to it. Furthermore, since the U.K.'s membership in the IBRD covers the colonies, the British Government has guaranteed all the loans -- four in all, totalling $146 million -- made by the Bank to the colonies. But, as a colony becomes independent and joins the Bank on its own right, its credit no longer can lean on the creditworthiness of the U.K.

This whole problem is of particular significance, now, because Ghana and Nigeria were able during the postwar period to finance most of their public investment by siphoning off some of the windfall gains of their citizens from the extraordinarily high prices of their products. This possibility has now vanished or is disappearing at the same time as some of the other sources of capital have dried up.

During a considerable part of the postwar, prices for African commodities were high; in the main, due to the fact that world capacity to produce them had lagged during the depression and the war and suddenly was found to be inadequate with world full employment after World War II. In Ghana, for example, where cocoa is the principal export, the money value of exports increased over seven times over prewar, the real value, i.e. what they would buy, about two and one-half times, and the volume only 15%. As a result, Ghana was able to set aside about $350 million for development for her 1951/52-1956/57 development plan of which less than 2% came from C.D. & W. grants and no external borrowing or other external assistance was needed.

But now with cocoa, her main export, having fallen from a high of 58 cents a pound in 1954 to the current level of 30-32 cents a pound, Ghana is beginning to have difficulty financing its current budget; much less is she able to set sufficient funds aside to finance new investment. She still has reserves built up from the "fat" years but they would last perhaps no more than three years at last year's rate of investment.

Similar developments are affecting other African countries. First in the agricultural commodities and then in the minerals -- where it took longer to bring new capacity into production -- prices have eased off or stabilized while the prices of the industrial commodities the African countries buy have continued to increase.

The drop in their own savings has coincided with a shortage of funds in the metropolitan countries available for lending to them. While other sources of capital may be able to take up part of the slack, they cannot hope to provide as much as these areas were able to secure from their own savings and the metropolitan territory in the past. The result almost certainly is going to be some slowdown in economic growth, at least in the British and Belgian colonies.

In brief, what I have just been saying is that during most of the postwar period, roughly speaking, the supply of capital was not a real deterrent to a satisfactory rate of growth but that it is now or may become so.

I have also been talking as though the investment that counts is the investment in equipment. I have applied to Africa the same conventions we use for a developed society. But I think we must recognize that this is not the whole story. In the development of Africa, investment in human beings, what we may classify as "current governmental expenditures" on health, on education, on training African housewives, may be as important or more important than investment in roads or docks. Only with effective investment of this type will the transition of the Africans from a static subsistence society to a modern dynamic economy be carried out.

Having said this, I must also say that I am not able to make any assessment as to the progress being made in this investment. Perhaps Professor Patterson's new Council of Foreign Relations Study Group on Human Factors in Economic Development will develop some method by which we can do so in the future.

Now, I would like to run briefly over some of the prospects for growth by sectors.

Industrialization in Africa is just in its first stages. The Union -- again the exception -- is already an industrial economy. Manufacturing provides one-fourth of GNP; almost as much as agriculture and mining together. But in spite of their growth, the industries in the Union are still very much in the first phase of industrialization -- mainly making products for the consumer in the home market.

In Rhodesia and the Congo, manufacturing is around 10% of GNP. The Congo produces 55% of its textile consumption, 100% of its soap, about 100% of its beers, etc. In the rest of the continent manufacturing is even less important.

The possibility of growth over the longer term in this sector should be greater than in almost any other. It is in large part dependent, though, on the growth of the incomes of Africans to provide a large enough home market. This is also true of the white settler colonies: last year in Rhodesia, over 50% of the increase in domestic sales was sales to Africans. In the Congo, wages and salaries received by Africans now total more than the sum received by Europeans. In view of the dominance of the export sector in the African economies this means that the decisive influence in building a home market for a long time to come will be African incomes in the export industries.

The other line of progress in manfuacturing is increasing the degree of processing of the export products. Both lines are being pursued and we should see continuous growth in manufacturing -- and probably as in the recent past in Southern and Central Africa -- at a more rapid rate than the rest of the economy.

In considering the prospect of growth in agriculture, I want to remind you briefly of a few points (which were well brought out in Douglas Lee's Council of Foreign Relations book on Climate and Economic Development in the Tropics):

1) Most of the area is within the tropics. This is mitigated by the high plateau and mountains in central and eastern Africa but the tropical or sub-tropical environment is the dominant one.

2) Tropical soils are poor, thin soils and if abused soon disappear. Prior to the coming of the Europeans, disease, war and famine kept the population small enough so the soil could be preserved by "shifting cultivation" -- a system that left exhausted soil to rest fallow for a large number of years. With the growth of population, and in some countries the withdrawal of large areas for European use, shifting cultivation is becoming less and less possible and a new method of farming needs to be developed. But much still has to be discovered how to use the soils. Not enough is yet known, for example, to be sure what kind of fertilizer should be used or how it can be used or what is the most effective way to cultivate.

3) The tropical climate is suitable for rapid reproduction, growth and survival while the shortage of specific nutrients in the soil favors the development of a large variety of living forms in any one area with a relatively few individuals of any one species. This is the reason why lumbering in the tropics is difficult: there may be only one or two trees per acre that are worth cutting.

But if man attempts to grow a concentration of one plant or tree, there is a very good chance that there is already present, or will soon appear, an enemy which will thrive and rapidly multiply by attacking the plant. It is this fact of the tropics that was one of the reasons for the failure of the British $100 million groundnut scheme in East Africa and the C.D.C. poultry scheme in Gambia, the repeated failure in cotton growing in Rhodesia, and the difficulties of the French West African Richard Toll scheme where tiny birds which act like locusts have been eating almost half of the crop of rice.

This means that to be successful, it is necessary to take slow steps in the initiation and testing of any new agricultural project and, then, be ready with research to wage a constant war to beat off new diseases, insects or other parasites.

The Sabi Scheme in Southern Rhodesia is perhaps a good example of how to do it. The Sabi Valley in Southern Rhodesia is sparsely settled and the government is determined to secure its development but it is also conscious of the lessons learned from the groundnut failure. The government began in 1947 with a survey by a firm of consultants. Then in 1950 they secured an American expert, Dr. Converse, to conduct a series of experiments in land clearing, irrigation, drainage, and the growing of various crops. After about five years of experiments, he has moved to the pilot-stage and will continue this until around 1965. At that time, enough will be known to make it possible for rapid large-scale development of the Valley to begin.

4) Raising the output of Africans in agriculture is inhibited by the fact that they mostly still live in a communal tribal society -- with no individual rights of ownership to the land, no incentive to improve it, and the counter incentive operating that the greater a man's income the more people he is expected to support. Progress here depends on changes in institutions and attitudes, which is always a slow and difficult process. The most thorough-going attempt to reorganize African agriculture and establish a basis for more rapid growth is being made in Southern Rhodesia which is in the middle of a program to change land tenure from a tribal to individual basis and to establish a permanent African farming community that will not be dependent on the men going away for long periods to the cities and mines to get a living. The Congo has a somewhat similar program, the paysannat, which sometime in the 1960's should begin to make a perceptible difference in agricultural output. In the other areas -- Kikuyuland in Kenya, Uganda and West Africa -- there also seems to be some evolution in this direction.

The net result of all of the points that I have mentioned is that while all the territories are trying to secure an increase in African agricultural output and should have some success, I do not see that any very rapid progress is likely for a long time. One crop exception that I would make is in the case of coffee, whose output is growing rapidly -- doubled in the last seven years -- in all the countries where conditions are suitable and it has been introduced -- the Ivory Coast, the Congo, East Africa. On the other side, in some areas like Somaliland, it is difficult to see any economic possibility for a major improvement in the living conditions of the people except by moving them out.

I should point out, however, that agricultural production for export in most of southern, central and eastern Africa is mostly from European owned farms or plantations -- this is true of wool from the Union, most of the tobacco and tea from the Rhodesias and Nyasaland, sisal from Tanganyika, coffee and vegetable oils from the Congo. In general, output here can and does rise more rapidly. In the Congo, for example, the output of European farms has been increasing steadily by 11% per year while African farm production has been increasing at 4% per year. The latter rate is probably more favorable than that in almost any other African country.

The search for and the mining of minerals provided the stimulus and the finance for the opening up and development of Southern and Central Africa. For the immediate future minerals will probably continue to be a main stimulus to development. Diamonds, gold and copper were the main attractions and still remain important. Diamonds and gold provide over one-third of South Africa's and Sierra Leone's export earnings, and either or both are important for Rhodesia, Ghana, Congo and Tanganyika. Copper provides almost two-thirds of Rhodesia's export earnings, a quarter of the Congo's and is beginning to be significant for Uganda.

As the U.S. and Europe outgrow or exhaust their natural resources base, more of the minerals of Africa become of economic interest. And, as this happens and more effort is put into looking for them, Africa is a big enough continent that the chances are good some deposits will be found -- which may or may not be economically exploitable as yet. Manganese, asbestos, chrome, bauxite, uranium and iron ore are some of the most important African minerals that have become of interest. New projects for exploitation of the last three, the latest newcomers, are getting most attention now.

Export of bauxite began from the Gold Coast during the war and large deposits have been found. Export is still fairly small pending a final decision on the proposed Volta scheme. There has been a rapid growth of bauxite exports from French Guinea to around one-half million tons. There are several new alumina and aluminum projects and proposals being considered in French territory.

In iron ore, since the war there is a large export from Liberia and from French Guinea and projects are being considered in other parts of French Africa.

Uranium has been a significant export from the Congo since the war and in the last few years has become an important export, running at just under $100 million equivalent, from the Union of South Africa. The Union is now the third largest producer in the western world. Active search for uranium is now going on elsewhere, particularly in the Rhodesias.

There are large deposits of coal in South Africa and Rhodesia. South Africa had a small export which has been interrupted for years by transport shortages and Rhodesia has just begun a slight export. Transport costs are still too high, however, to make it possible for this coal to compete in the European market. Oil also is not yet a runner, the French strike in the Sahara being outside of our area, the Petrofina development in Angola and the few other discoveries are so far small.

Water power has, however, suddenly become of great interest for the future and is a good example of the out-running of the natural resources base of Europe and America. For centuries, Africa was a coast line and not a continent, in part because rivers tumbling over the plateau near the coast of Africa could not be used as highways into the interior as were the American rivers. These rapids and falls give Africa a greater hydro-power potential than any other continent. Now, with most of the sites where cheap electricity can be produced already utilized in North America and Europe, what was a handicap for Africa has become an asset.

In the Belgian Congo, the new Le Marinel station in the Katanga with 248,000 kw capacity is equal to the largest in Europe. Electricity from it is being used by the mines in the Katanga and some is exported. The copper belt in Northern Rhodesia is using this power to supplement its own pending the completion of the Kariba scheme in Rhodesia, which the Bank is helping to finance. If all goes according to schedule the first Kariba power should be produced in 1960. Its ultimate output should be about equal to the total output of Austria -- which has the same size of population -- in 1954 -- or ten times that of present day Pakistan which has ten times the population of Rhodesia.

The Owen Falls dam at the outlet from Lake Victoria, with an ultimate capacity of 150,000 kw, is already producing power for Uganda and Kenya.

One way to export electricity is to make aluminum which is, economically speaking, practically crystallized electricity. In the French Cameroons, a new plant at Edea produced the first aluminum in Africa this year. It is to produce 45,000 tons a year when it reaches full operation in 1959 -- this is just under a third of the production in France. The proposed Volta project in Ghana belongs to this category. This would involve damming the Volta to secure 600,000 kw of power, of which the bulk would be used to produce about 200,000 tons of aluminum a year from the bauxite deposits in the country. This project seems to be at least temporarily stalemated but may become a reality some time. As I mentioned, there are several other projects being studied in French Africa.

The biggest power project of all, Inga, on the Congo River is under study but it may take years before anything can or will be done. Inga would use part of the energy wasted in the 150 miles of rapids as the Congo river tumbles through the mountains to the sea. At the proposed site, the potential has been initially calculated at around 25 million kw. This could produce about as much power as all of Western Europe now consumes and at a cost a mere fraction of that of the average of Western Europe. Even more than the big problem of raising the capital to invest in this, the problem is who would consume the power.

I am not going to attempt to offer any summary conclusions at the end -- other than to say that I realize that I have attempted to cram the whole of sub-Saharan Africa within a single framework of generalizations and I am very conscious of the fact that there are various arms and legs protruding at different spots.

Perhaps Inga is a good note for me to finish on -- like the rest of Africa it entices the imagination but on closer examination you see that the magnitude of the opportunity is matched by the magnitude of the problems to be solved.

THE PROBLEMS AND PROSPECTS OF SUB-SAHARA AFRICA: A FRENCH POINT OF VIEW

Pierre Moussa
French Ministry of Overseas Territories

In Africa South of the Sahara, France has responsibilities in all the following countries:

Senegal, Mauritania, French Guinea, Ivory Coast, Upper Volta, Dahomey, Sudan and Niger; together these eight territories form French West Africa;
Gabon, Middle Congo, Ubangi-Shari and Chad, which make up French Equatorial Africa;
Madagascar and the Comoro Islands;
French Somaliland.

These countries are what we call "Overseas Territories"; there are other French Overseas Territories in the Pacific and Atlantic Oceans, which are, however, not within the scope of our subject today.

In addition, quite apart from the Overseas Territories of Africa South of the Sahara, France has special responsibilities toward the Self-Governing Republic of Togoland and the State of the Cameroons under Trusteeship.

All the overseas countries that I have just mentioned have, in the course of the twelve years since the end of the second World War, undergone rapid progress toward self-government and higher standards of living.

* * * * * *

Yet, the development of democratic institutions in the African territories of France did not start after the last war. Even before the war, a number of colonies elected representatives to the French Parliament. Furthermore, the local governors were assisted by Consultative Councils. But it may be said that the two major steps toward democratization were taken after the war and within ten years of each other.

First, the 1944-1946 period. The major event was the history-making conference known as the "Brazzaville Conference" held in 1944 wnich, under the leadership of General de Gaulle and a number of high-ranking officials -- notably the late Governor General Felix Eboué, a Negro -- laid down the principles for a new French policy in Africa.

The Princeton University Conference
"Emerging Sub-Sahara Africa" - Privately Printed for Mbrs of Conf.
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THE PRINCETON UNIVERSITY CONFERENCE

EMERGING SUB-SAHARA AFRICA

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the Conference

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"If we could first know where we are, and whither we are tending, we could then better judge what to do, and how to do it."

Abraham Lincoln

The Princeton University Conference, a program for the exchange of ideas, is designed to provide wider opportunities for members of the Princeton Faculty to meet with representatives of member organizations to consider questions in areas of mutual interest. Princeton's primary objective is to improve access to basic ideas, whatever their source, and to stimulate communication between the interdependent elements of society.

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INTRODUCTION

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Twenty-five years ago "Sub-Sahara Africa" would have had little meaning, even as a geographical expression. Such concepts as existed vaguely described a Dark Continent -- a strange and savage land that entered academia through violent episodes of European diplomacy, as case studies of the worst aspect of imperialism, and as mandated areas arising from the aftermath of World War I.

But beginning with the 1930's, and strongly implemented over the decade following World War II, territorial disputes and economic rivalries were modified and subdued by deep-seated transitions within Africa itself. The causes were a combination of elementary nationalism, an indigenous and often violent leadership, and competitive opportunities arising from the hot, warm and cold wars of the East and the West. For the first time in its experience, academia had a continental phenomenon developing before its eyes -- eleven million square miles of territory and a hundred and fifty million people emerging with tidal force from a bush society toward a vague and undefined cultural expression of its own.

This development has brought great economic opportunities. It has emphasized new concepts of communal and state relations. It has required transitional programs to smooth the old imperialism into new and strange forms of autonomy; and it has produced another factor of national security that is still a matter for definition.

To discuss the nature of this momentous turn in African affairs, its impact on the West, and the ways and means by which it may be guided, was the purpose of the Princeton University Conference on Emerging Sub-Sahara Africa. If there was one word that could express the over-all tone of the papers and discussions, it might well be "understanding" --

> Let us judge Africa on how far it has come, rather than on how far it has yet to go;
>
> Let us not be too quick to take sporadic instances of disturbance as evidence of failure and permanent regression;
>
> Let us remember that failure to make these incredibly difficult adjustments, can often be more fairly charged to the dominant cultures of the West, rather than to those struggling masses this culture is attempting to serve.

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Andrew Kamarck
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The economic development that has occurred in modern times, as de Kiewet has pointed out, can be regarded as the result of two migrations. The first is the migration of European traders, officials, and settlers into Africa together with their skills, investments, equipment and governmental organizations. The second is the migration of the African tribesmen out of their subsistence economy into the new money economy created by European enterprise.

And, the corollary of this statement is that those territories have developed the most that have received the greatest migration of trained European people and capital. It is not entirely a coincidence that the two African countries that maintained their independence have been the slowest in economic development. Liberia is far behind Ghana. A comparison of Ethiopia and French West Africa shows the following: while French West Africa's population is only somewhat greater (about 15 million for Ethiopia and Eritrea, 18 million for French West Africa), the foreign trade turnover of French West Africa is six times greater than Ethiopia's ($700 million to $130 million), the total governmental budget is about seven times greater ($370 million to $50 million), and the annual public investment in about 16 times greater ($100 million to $6 million).

With political power in most of the continent rapidly passing into the hands of the Africans, before they can fill all the roles the Europeans played, economic growth in the future will depend a great deal on how receptive the new states are to European (or American) enterprise and capital and to the use of trained non-African personnel. Much will also depend on the willingness and ingenuity of the European and American governments in working out arrangements with the new African states to provide effective financial help and personnel. This problem has already arisen in Ghana and my impression is that it by no means has been solved. In those states where there are sizeable communities of European settlers, with the growth of African political demands, much will depend on whether the races work out a satisfactory accommodation or the economy suffers from protracted conflict between them. I cannot help feeling that in these areas some difficulties are inevitable and they are bound to hurt the growth of the economies as has already happened in Kenya.

The modern development of most of Africa was at first largely undertaken by private companies who were given large concessions of land to govern and exploit. It is really remarkable how successful they were in getting money out of private investors for the building of railways and other investment in opening up the territories -- perhaps it is because there were fewer economists then. Sooner or later governments had to take over the main responsibility for fostering economic development. But even so, development in many territories still depends on one or two large corporations. In Northern Rhodesia, the money economy is little more than the sum of the Anglo-American Corporation and Rhodesian Selection Trust, and its growth primarily depends on their decisions and plans. In the Congo, the Societe General and Unilever interests are still very important; in Liberia, the Firestone interests and the Liberian Mining Company. The future of French Africa will depend a great

deal on whether the large projects that are now being studied by a few large concerns are carried out.

The post war period has been one of unprecedented economic growth in Africa. In the Rhodesias, real GNP has grown at a cumulative rate of about 10% per year, probably the world's record for an underdeveloped country during this period; the Congo has grown at around 7%; the Union of South Africa at 4 to 5%. The figures for other territories are less accurate. West Africa generally and East Africa have also grown probably somewhat more rapidly than population. (One French estimate gives a figure of around 6% per year for French West Africa, Cameroons and French Equatorial Africa.)

This rapid economic growth has come about from a coincidence of several factors, some of which are disappearing or have disappeared. The first of these factors has been an inflow of an enormous amount of capital -- almost all from Europe. This capital has come in under many forms -- loans, direct investments and grants or near grants.

As in the past, the largest amount of capital went to the Union -- a total of over $2 billion. (The Bank, also, lent more to the Union, $160 million, than to any other part of Africa.) In the peak year, 1947, the net import of capital was equal to 60% of total gross domestic investment. This inflow has tapered off -- for various reasons -- and last year, 1956, for the first time in South African history there was a net capital outflow. In the meantime, South African savings have increased so that even with no capital inflow gross investment is running at 23-24% of GNP. On this basis, one could say that the Union's economy had succeded in taking off and should be able to maintain self-sustaining growth without further capital inflow. However, there is a real question whether the Union's savings will be as productive as the capital that came in from outside which was more enterprising and went in to more productive investment.

The rest of the continent must still depend on capital from outside for growth. But Rhodesia and the Congo have developed enough so that, together with their own savings, that is to say mostly the savings of the European settlers and corporations, they can attract private capital necessary to achieve growth more rapid than growth of population <u>without</u> any special governmental grants or other special help by European countries or the U.S. (The Bank has lent $122 million to Rhodesia, $40 million to the Congo directly, plus $30 million indirectly, and we are now considering another loan.) But it is doubtful if the remaining territories can stand on their own feet.

In contrast to the prevalent thinking up to World War II, when in principle colonies were supposed to stand on their own feet and be financially self-sufficient entities, both the French and British Governments now recognize the need to give special help to the colonies to aid their development. The Portuguese Government changed less in this regard except to aid in the settlement of Portuguese settlers and as a result development in the Portuguese territories has been slow. It is almost completely certain that without special help the economy of the French territories will not grow sufficiently fast to keep up with or surpass the rate of increase in population.

In the French African territories, the French Government is providing practically all of the investment to provide the basic services -- railways, ports, roads, electric power -- all the infrastructure needed for growth. She undertook, under the postwar plans, to pay one-half the expenditure on economic development and two-thirds of the expenditure on social development. In practice, the territories have financed the remainder by borrowing from the Caisse Centrale -- that is, the French Government -- at very favorable terms. Through the end of 1955, the equivalent of at least $700 million was thus provided in grants and $400 million equivalent in "soft loans". In addition, the French budget finances directly the air, weather and some other services in the territories and pays the salaries of certain officials. At times, France also subsidizes the current budget of some of the territories. The IBRD has made one loan, guaranteed by France, of $7½ million to the railways in West Africa.

The public investment financed by France has probably been at least two-thirds of the total investment in the territories. Unlike the situation in most of the rest of Africa, this massive French investment in public services has for most of the postwar period provided capacity sufficient or even in excess of what the commodity-producing sectors of the economy needed. It is quite clear that the economic growth of the French African territories will still depend on what the French Government decides to make available to them for investment plus what it is able to secure for them from the European Common Market arrangements.

The aid given by the British Government to its colonies has been less but there has been much more private investment, the colonies have been able to do more for themselves, and have been allowed and helped to borrow in London and elsewhere -- including the IBRD. Even so, under the Colonial Development and Welfare Act, the United Kingdom gave some $220 million equivalent to the African colonies as of 1956.

This has been supplemented by some $140 million of investments by the Colonial Development Corporation in various projects in Colonial Africa. The C.D. & W. grants total around a quarter of the public investment in the British African colonies -- a not unimportant fraction. In the less populated colonies, like Gambia, British Somaliland, the

High Commission territories in Southern Africa -- as in the French territories -- the grants from the metropole one can say practically are the public investment programs. Certainly in these latter areas economic growth for some years will depend directly on continuance of the British Government's grants to finance the necessary public investment.

In the other colonies, aside from the Rhodesias but including Nyasaland, the amount of help given by the U.K. Government will continue to be important, if not so decisive. In this regard, in two countries, Ghana now and Nigeria presumably when it becomes independent in three years, a big problem has arisen. As the colonies become independent they are no longer eligible for C.D. & W. grants or for new investments by the C.D.C. The very fact of a colony's becoming independent, therefore, cuts off an important part of the flow of capital to it. Furthermore, since the U.K.'s membership in the IBRD covers the colonies, the British Government has guaranteed all the loans -- four in all, totalling $146 million -- made by the Bank to the colonies. But, as a colony becomes independent and joins the Bank on its own right, its credit no longer can lean on the creditworthiness of the U.K.

This whole problem is of particular significance, now, because Ghana and Nigeria were able during the postwar period to finance most of their public investment by siphoning off some of the windfall gains of their citizens from the extraordinarily high prices of their products. This possibility has now vanished or is disappearing at the same time as some of the other sources of capital have dried up.

During a considerable part of the postwar, prices for African commodities were high; in the main, due to the fact that world capacity to produce them had lagged during the depression and the war and suddenly was found to be inadequate with world full employment after World War II. In Ghana, for example, where cocoa is the principal export, the money value of exports increased over seven times over prewar, the real value, i.e. what they would buy, about two and one-half times, and the volume only 15%. As a result, Ghana was able to set aside about $350 million for development for her 1951/52-1956/57 development plan of which less than 2% came from C.D. & W. grants and no external borrowing or other external assistance was needed.

But now with cocoa, her main export, having fallen from a high of 58 cents a pound in 1954 to the current level of 30-32 cents a pound, Ghana is beginning to have difficulty financing its current budget; much less is she able to set sufficient funds aside to finance new investment. She still has reserves built up from the "fat" years but they would last perhaps no more than three years at last year's rate of investment.

Similar developments are affecting other African countries. First in the agricultural commodities and then in the minerals -- where it took longer to bring new capacity into production -- prices have eased off or stabilized while the prices of the industrial commodities the African countries buy have continued to increase.

The drop in their own savings has coincided with a shortage of funds in the metropolitan countries available for lending to them. While other sources of capital may be able to take up part of the slack, they cannot hope to provide as much as these areas were able to secure from their own savings and the metropolitan territory in the past. The result almost certainly is going to be some slowdown in economic growth, at least in the British and Belgian colonies.

In brief, what I have just been saying is that during most of the postwar period, roughly speaking, the supply of capital was not a real deterrent to a satisfactory rate of growth but that it is now or may become so.

I have also been talking as though the investment that counts is the investment in equipment. I have applied to Africa the same conventions we use for a developed society. But I think we must recognize that this is not the whole story. In the development of Africa, investment in human beings, what we may classify as "current governmental expenditures" on health, on education, on training African housewives, may be as important or more important than investment in roads or docks. Only with effective investment of this type will the transition of the Africans from a static subsistence society to a modern dynamic economy be carried out.

Having said this, I must also say that I am not able to make any assessment as to the progress being made in this investment. Perhaps Professor Patterson's new Council of Foreign Relations Study Group on Human Factors in Economic Development will develop some method by which we can do so in the future.

Now, I would like to run briefly over some of the prospects for growth by sectors.

Industrialization in Africa is just in its first stages. The Union -- again the exception -- is already an industrial economy. Manufacturing provides one-fourth of GNP; almost as much as agriculture and mining together. But in spite of their growth, the industries in the Union are still very much in the first phase of industrialization -- mainly making products for the consumer in the home market.

In Rhodesia and the Congo, manufacturing is around 10% of GNP. The Congo produces 55% of its textile consumption, 100% of its soap, about 100% of its beers, etc. In the rest of the continent manufacturing is even less important.

The possibility of growth over the longer term in this sector should be greater than in almost any other. It is in large part dependent, though, on the growth of the incomes of Africans to provide a large enough home market. This is also true of the white settler colonies: last year in Rhodesia, over 50% of the increase in domestic sales was sales to Africans. In the Congo, wages and salaries received by Africans now total more than the sum received by Europeans. In view of the dominance of the export sector in the African economies this means that the decisive influence in building a home market for a long time to come will be African incomes in the export industries.

The other line of progress in manfuacturing is increasing the degree of processing of the export products. Both lines are being pursued and we should see continuous growth in manufacturing -- and probably as in the recent past in Southern and Central Africa -- at a more rapid rate than the rest of the economy.

In considering the prospect of growth in agriculture, I want to remind you briefly of a few points (which were well brought out in Douglas Lee's Council of Foreign Relations book on Climate and Economic Development in the Tropics):

1) Most of the area is within the tropics. This is mitigated by the high plateau and mountains in central and eastern Africa but the tropical or sub-tropical environment is the dominant one.

2) Tropical soils are poor, thin soils and if abused soon disappear. Prior to the coming of the Europeans, disease, war and famine kept the population small enough so the soil could be preserved by "shifting cultivation" -- a system that left exhausted soil to rest fallow for a large number of years. With the growth of population, and in some countries the withdrawal of large areas for European use, shifting cultivation is becoming less and less possible and a new method of farming needs to be developed. But much still has to be discovered how to use the soils. Not enough is yet known, for example, to be sure what kind of fertilizer should be used or how it can be used or what is the most effective way to cultivate.

3) The tropical climate is suitable for rapid reproduction, growth and survival while the shortage of specific nutrients in the soil favors the development of a large variety of living forms in any one area with a relatively few individuals of any one species. This is the reason why lumbering in the tropics is difficult: there may be only one or two trees per acre that are worth cutting.

But if man attempts to grow a concentration of one plant or tree, there is a very good chance that there is already present, or will soon appear, an enemy which will thrive and rapidly multiply by attacking the plant. It is this fact of the tropics that was one of the reasons for the failure of the British $100 million groundnut scheme in East Africa and the C.D.C. poultry scheme in Gambia, the repeated failure in cotton growing in Rhodesia, and the difficulties of the French West African Richard Toll scheme where tiny birds which act like locusts have been eating almost half of the crop of rice.

This means that to be successful, it is necessary to take slow steps in the initiation and testing of any new agricultural project and, then, be ready with research to wage a constant war to beat off new diseases, insects or other parasites.

The Sabi Scheme in Southern Rhodesia is perhaps a good example of how to do it. The Sabi Valley in Southern Rhodesia is sparsely settled and the government is determined to secure its development but it is also conscious of the lessons learned from the groundnut failure. The government began in 1947 with a survey by a firm of consultants. Then in 1950 they secured an American expert, Dr. Converse, to conduct a series of experiments in land clearing, irrigation, drainage, and the growing of various crops. After about five years of experiments, he has moved to the pilot-stage and will continue this until around 1965. At that time, enough will be known to make it possible for rapid large-scale development of the Valley to begin.

4) Raising the output of Africans in agriculture is inhibited by the fact that they mostly still live in a communal tribal society -- with no individual rights of ownership to the land, no incentive to improve it, and the counter incentive operating that the greater a man's income the more people he is expected to support. Progress here depends on changes in institutions and attitudes, which is always a slow and difficult process. The most thorough-going attempt to reorganize African agriculture and establish a basis for more rapid growth is being made in Southern Rhodesia which is in the middle of a program to change land tenure from a tribal to individual basis and to establish a permanent African farming community that will not be dependent on the men going away for long periods to the cities and mines to get a living. The Congo has a somewhat similar program, the paysannat, which sometime in the 1960's should begin to make a perceptible difference in agricultural output. In the other areas -- Kikuyuland in Kenya, Uganda and West Africa -- there also seems to be some evolution in this direction.

The net result of all of the points that I have mentioned is that while all the territories are trying to secure an increase in African agricultural output and should have some success, I do not see that any very rapid progress is likely for a long time. One crop exception that I would make is in the case of coffee, whose output is growing rapidly -- doubled in the last seven years -- in all the countries where conditions are suitable and it has been introduced -- the Ivory Coast, the Congo, East Africa. On the other side, in some areas like Somaliland, it is difficult to see any economic possibility for a major improvement in the living conditions of the people except by moving them out.

I should point out, however, that agricultural production for export in most of southern, central and eastern Africa is mostly from European owned farms or plantations -- this is true of wool from the Union, most of the tobacco and tea from the Rhodesias and Nyasaland, sisal from Tanganyika, coffee and vegetable oils from the Congo. In general, output here can and does rise more rapidly. In the Congo, for example, the output of European farms has been increasing steadily by 11% per year while African farm production has been increasing at 4% per year. The latter rate is probably more favorable than that in almost any other African country.

The search for and the mining of minerals provided the stimulus and the finance for the opening up and development of Southern and Central Africa. For the immediate future minerals will probably continue to be a main stimulus to development. Diamonds, gold and copper were the main attractions and still remain important. Diamonds and gold provide over one-third of South Africa's and Sierra Leone's export earnings, and either or both are important for Rhodesia, Ghana, Congo and Tanganyika. Copper provides almost two-thirds of Rhodesia's export earnings, a quarter of the Congo's and is beginning to be significant for Uganda.

As the U.S. and Europe outgrow or exhaust their natural resources base, more of the minerals of Africa become of economic interest. And, as this happens and more effort is put into looking for them, Africa is a big enough continent that the chances are good some deposits will be found -- which may or may not be economically exploitable as yet. Manganese, asbestos, chrome, bauxite, uranium and iron ore are some of the most important African minerals that have become of interest. New projects for exploitation of the last three, the latest newcomers, are getting most attention now.

Export of bauxite began from the Gold Coast during the war and large deposits have been found. Export is still fairly small pending a final decision on the proposed Volta scheme. There has been a rapid growth of bauxite exports from French Guinea to around one-half million tons. There are several new alumina and aluminum projects and proposals being considered in French territory.

In iron ore, since the war there is a large export from Liberia and from French Guinea and projects are being considered in other parts of French Africa.

Uranium has been a significant export from the Congo since the war and in the last few years has become an important export, running at just under $100 million equivalent, from the Union of South Africa. The Union is now the third largest producer in the western world. Active search for uranium is now going on elsewhere, particularly in the Rhodesias.

There are large deposits of coal in South Africa and Rhodesia. South Africa had a small export which has been interrupted for years by transport shortages and Rhodesia has just begun a slight export. Transport costs are still too high, however, to make it possible for this coal to compete in the European market. Oil also is not yet a runner, the French strike in the Sahara being outside of our area, the Petrofina development in Angola and the few other discoveries are so far small.

Water power has, however, suddenly become of great interest for the future and is a good example of the out-running of the natural resources base of Europe and America. For centuries, Africa was a coast line and not a continent, in part because rivers tumbling over the plateau near the coast of Africa could not be used as highways into the interior as were the American rivers. These rapids and falls give Africa a greater hydro-power potential than any other continent. Now, with most of the sites where cheap electricity can be produced already utilized in North America and Europe, what was a handicap for Africa has become an asset.

In the Belgian Congo, the new Le Marinel station in the Katanga with 248,000 kw capacity is equal to the largest in Europe. Electricity from it is being used by the mines in the Katanga and some is exported. The copper belt in Northern Rhodesia is using this power to supplement its own pending the completion of the Kariba scheme in Rhodesia, which the Bank is helping to finance. If all goes according to schedule the first Kariba power should be produced in 1960. Its ultimate output should be about equal to the total output of Austria -- which has the same size of population -- in 1954 -- or ten times that of present day Pakistan which has ten times the population of Rhodesia.

The Owen Falls dam at the outlet from Lake Victoria, with an ultimate capacity of 150,000 kw, is already producing power for Uganda and Kenya.

One way to export electricity is to make aluminum which is, economically speaking, practically crystallized electricity. In the French Cameroons, a new plant at Edea produced the first aluminum in Africa this year. It is to produce 45,000 tons a year when it reaches full operation in 1959 -- this is just under a third of the production in France. The proposed Volta project in Ghana belongs to this category. This would involve damming the Volta to secure 600,000 kw of power, of which the bulk would be used to produce about 200,000 tons of aluminum a year from the bauxite deposits in the country. This project seems to be at least temporarily stalemated but may become a reality some time. As I mentioned, there are several other projects being studied in French Africa.

The biggest power project of all, Inga, on the Congo River is under study but it may take years before anything can or will be done. Inga would use part of the energy wasted in the 150 miles of rapids as the Congo river tumbles through the mountains to the sea. At the proposed site, the potential has been initially calculated at around 25 million kw. This could produce about as much power as all of Western Europe now consumes and at a cost a mere fraction of that of the average of Western Europe. Even more than the big problem of raising the capital to invest in this, the problem is who would consume the power.

I am not going to attempt to offer any summary conclusions at the end -- other than to say that I realize that I have attempted to cram the whole of sub-Saharan Africa within a single framework of generalizations and I am very conscious of the fact that there are various arms and legs protruding at different spots.

Perhaps Inga is a good note for me to finish on -- like the rest of Africa it entices the imagination but on closer examination you see that the magnitude of the opportunity is matched by the magnitude of the problems to be solved.

THE PROBLEMS AND PROSPECTS OF SUB-SAHARA AFRICA:

A FRENCH POINT OF VIEW

Pierre Moussa
French Ministry of Overseas Territories

In Africa South of the Sahara, France has responsibilities in all the following countries:

Senegal, Mauritania, French Guinea, Ivory Coast, Upper Volta, Dahomey, Sudan and Niger; together these eight territories form French West Africa;
Gabon, Middle Congo, Ubangi-Shari and Chad, which make up French Equatorial Africa;
Madagascar and the Comoro Islands;
French Somaliland.

These countries are what we call "Overseas Territories"; there are other French Overseas Territories in the Pacific and Atlantic Oceans, which are, however, not within the scope of our subject today.

In addition, quite apart from the Overseas Territories of Africa South of the Sahara, France has special responsibilities toward the Self-Governing Republic of Togoland and the State of the Cameroons under Trusteeship.

All the overseas countries that I have just mentioned have, in the course of the twelve years since the end of the second World War, undergone rapid progress toward self-government and higher standards of living.

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Yet, the development of democratic institutions in the African territories of France did not start after the last war. Even before the war, a number of colonies elected representatives to the French Parliament. Furthermore, the local governors were assisted by Consultative Councils. But it may be said that the two major steps toward democratization were taken after the war and within ten years of each other.

First, the 1944-1946 period. The major event was the history-making conference known as the "Brazzaville Conference" held in 1944 which, under the leadership of General de Gaulle and a number of high-ranking officials -- notably the late Governor General Felix Eboué, a Negro -- laid down the principles for a new French policy in Africa.

The French Constitution of 1946, inspired by the conclusions of this conference, organized local assemblies which were no longer merely consultative but possessed effective powers, especially in the budgetary field. Furthermore, the Constitution and related organic laws extended representation in the French Parliament to all the overseas countries and increased the number of their Deputies and Senators.

In 1956-57 a second period opened, the first step of which was the adoption of what we call a "loi-cadre", or basic law, for the Overseas Territories. The "loi-cadre" was followed by a series of decrees implementing the law and providing for new institutions which are now functioning.

The basic contributions of the "loi-cadre" are the following:

First of all, universal suffrage. Before this time, there had been limited suffrage. It is true, however, that qualifications for eligibility to vote were actually so broad that, in French West Africa for instance, all adult males who really wished to do so could vote.

In the second place, a single electoral college was established. This means that the whites and the Negroes of Africa do not vote as separate communities, but constitute one and the same college, a situation which, until then, had existed only in certain territories, Senegal and Togoland.

Thirdly, the powers of the elected assemblies of the territories are greatly increased to the point where they have actual legislative power on the local level.

While the local assemblies that had already been in existence for ten years represented the nucleus of a legislative branch, until the adoption of the "loi-cadre", the governors and the administrations under their authority were the only elements of a local executive. This is the area dealt with by the fourth and most important change introduced by the "loi-cadre": Government Councils. Government Councils are actual cabinets, set up alongside the governors. Each member of a Government Council is, in principle, in charge of a ministerial department and, in each Council, a member is selected as Vice President. Already, the Vice Presidents of the Councils organized in the different Overseas Territories are beginning to play the active role of actual Premiers at the side of the Governors, who represent the general interests of the French Republic.

At about the same time, the Trust Territories of Togoland and the Cameroons became, respectively, the Self-Governing Republic of Togoland and the State of the Cameroons under Trusteeship. Decentralization, as far as those two countries are concerned, has gone even farther than in the Overseas Territories because there you find a Prime Minister in title and a Council of Ministers, along with the representative of the Metropolitan authority, called High Commissioner.

This introduction of a genuine democratic process and the ever-increasing participation of the local populations are illustrated by the very manner in which the new legislation was put into effect. The "loi-cadre" and the tests implementing it were, from the moment of their conception until they were put into final form, the subject of meetings and discussions with the elected representatives of the overseas countries. M. Felix Houphouet-Boigny, a native of the Ivory Coast and a Minister in the Mollet and Bourgès-Maunoury Governments, played a decisive role in originating these texts. Various other African leaders took an important part in the debates in Parliament. Deputy Apithy from Dahomey was the reporter on the bill for one of the most important committees, while the committee of the National Assembly with jurisdiction in such matters was presided over either by its chairman, Monsieur Ninine, a Cameroonian, or in his absence, by its vice chairmen, especially Said Mohammed Cheikh, of the Comoro Islands.

Furthermore, the new institutions were set up in a spirit of liberalism and fairness. The United Nations Mission of Information noted this fact in the specific case of Togoland. The same is true everywhere.

All those who have personal contacts in French Territories are convinced that the elected representatives of the Territories do represent African public opinion.

The "loi-cadre" obviously does not put an end to the evolution of France's institutional relations with her former colonies; the new institutions are flexible enough to be later adapted to new situations. In fact, the Territories themselves and France are aware that this evolution is already taking place, in a spirit of mutual confidence.

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But it stands to reason that political liberties without a rise in the standard of living are merely an empty show. That is why France has made every effort, especially since the end of the war, to promote a rapid rise in the national income of the countries in question, a must in those overseas countries where the population growth is very rapid as a result of modern medical techniques, of lower death rates and a birth rate as high as in Western Europe in the seventeenth century. It is obviously necessary that the rise in national income be commensu-

rate with population growth. But if it should not exceed that growth, standards of living could stagnate. If we do not wish to see a widening of the discrepancy between the personal standard of living in Africa and that in Western Europe, the national income of the African countries should rise by more than 5% and, if possible, by more than 6% per year.

How has France attempted to attain this objective? The old relationship between developed and underdeveloped countries is characterized by:

the rigidity of economic structures;
the sharp fluctuations in the price of raw materials and the uncertainty of finding markets for these raw materials, which constitute the best part of the production of the overseas countries.

For these two handicaps we have endeavored to substitute their direct opposites:

on the one hand, market stabilization and support of prices;
on the other hand, large-scale investments to foster and revitalize economic structures.

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Let us first examine how the marketing of overseas products is being stabilized in French Africa South of the Sahara.

The products of the French Overseas Territories have found a relatively stable market for many years, even for decades, because these Territories are in the franc zone. This is true of all of them with the single exception of French Somaliland, which is attached to the dollar zone. But since it is a territory of relatively limited importance, we can say that practically all the countries in the Franco-African community are part of the franc zone. This does not mean, however, that the Metropolitan French franc is legal tender in those countries; there is a special franc for the African territories known as the C.F.A. franc, and special banks of issue. It enjoys unlimited convertibility into Metropolitan francs at a fixed rate of two Metropolitan francs for one C.F.A. franc. Conversely, unlimited amounts of C.F.A. francs may be converted into Metropolitan francs. Thus, for all practical purposes, the two currencies are actually one and the same.

The advantage of a single currency is that trade has been facilitated between the different countries in the franc area. This is all the more apparent if we consider that, where foreign countries are concerned and because of inadequate reserves of foreign currency, a system of licenses has been necessary. Licenses are granted only on the basis of import programs and commerical agreements.

Metropolitan France, therefore, prefers to purchase products which do not require her to dip into foreign currency reserves and, conversely, the overseas countries buy what they need mainly from Metropolitan France. In this way, two-thirds of the exportable products from overseas countries and Territories are sent to France.

Thus outlets are assured on favorable terms; finding markets is no problem for the products of the overseas countries under discussion except occasionally, especially during years of surplus crops.

In certain cases products are sold at world market prices. This is true for cocoa and, with certain reservations, for cotton. In other cases, on the contrary, selling prices are higher than world prices. This applies to coffee which is protected by a 20% duty when imported from foreign countries, which duty is not levied on coffee produced in the franc zone. In other words, theoretically at least, for coffees of equal quality, the producer in the franc zone is paid 20% above the world price. The general principle within the franc area -- subject to international agreements concerning certain territories -- is, as a matter of fact, that the countries belonging to the franc zone are exempt from customs duties when their products enter any other country within the franc zone. This tariff policy strongly complements the monetary policy we were discussing a few minutes ago.

I might add that in certain cases, particularly with regard to vegetable oils, more complex devices are put into effect; they are based on the principle of organized markets and often ensure prices that are much higher than world prices. This applies to peanuts, which are produced in several territories, especially Senegal.

However, the protection offered by participation in the franc zone is not enough. There are two reasons for this:

an ever-present reason, namely, the extremely sharp fluctuations in world prices;
a new reason, namely, the expansion of African production, which now tends to exceed the demand of Franch consumption, even though this demand is increasing.

As a result, two additional methods have been introduced. In the first place, stabilization funds and national equalization funds have been set up. The stabilization funds are operated as local agencies. In principle, there is one for each territory and for each major product. For example, there is a coffee fund and a cocoa fund for the Ivory Coast;

a coffee fund, a cocoa fund, and a cotton fund for the Cameroons, etc. These funds are administered by tripartite councils on which producers, dealers, and local governments are represented. If prices should rise above a certain ceiling, the funds collect the surplus either in full or in part; conversely, when prices fall below a certain minimum, the funds make payments by either subsidizing the producer or purchasing surplus stocks of the products concerned or by any other suitable method. The National Equalization Fund in Paris has the authority to make loans to these local funds during lean periods, which are repayable during periods of prosperity. This system was introduced in 1954 and 1955, and the Equalization Fund has already loaned to these local funds a total of sixteen million, eight hundred thousand dollars. Of this amount, eight million, seven hundred thousand dollars have been repaid. At present, the Fund has eight million, three hundred thousand dollars available.

In the second place, the fact that African production tends to exceed French consumption, as I pointed out a few minutes ago, is one of the factors that led to the idea of associating the overseas countries with the European Economic Community. This will give them better access to a market which is about three times as large as the French market itself.

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But the problem is not solely that of finding markets for resources that exist in the overseas countries. Production must be increased, it must be diversified and it must be raised from a level of producing basic commodities to the stage of industrial conversion of these commodities. All this requires substantial investments.

The outstanding characteristic of the overseas countries in the franc zone is the essential role played in this regard by investments of Metropolitan French public funds. This is evident, in the first place, from the figures themselves, which give an idea of the size of the investments made from Metropolitan public funds. In recent years, the French taxpayer has invested between two hundred and two hundred fifty million dollars a year in Africa South of the Sahara in the form of either grants, loans, or the buying of public stock. If we consider France's investments as a whole in the underdeveloped countries, including the countries in North Africa and various other countries scattered throughout the world, this figure should be more than doubled. It follows, then, that after the United States, France is the country that devotes the largest amounts of budgetary expenditures to public investment in the underdeveloped countries. France's contributions in this field come to about half the American effort but, if we take into account the relative strength of the economies of the two countries, this represents a sacrifice worthy of mention.

But the essential role played by the investments from Metropolitan public funds is evident not merely in the size of the figures in actual dollars and cents. A very careful study, made quite recently, has clearly pointed out that there has been a remarkably steady ratio between investments from Metropolitan public funds, on the one hand, and total investments -- public or private, Metropolitan, local and foreign -- on the other. This ratio is about 3.2. For every one hundred million dollars spent by the French taxpayer to build roads or ports or sources of energy, or to improve the varieties of seeds or popularize farming methods, an additional two hundred and twenty million dollars are contributed, most of it by the Africans themselves. It appears, therefore, that, during the last twelve years, investments from Metropolitan French public funds have, as you would say, primed the pump.

Almost all these investments from Metropolitan public funds are made through a special "Fund for the Economic and Social Development of the Overseas Territories." The initial letters of the name in French, "Fonds d'Investissement pour le Développement Economique et Social des Territoires d'Outre-Mer" spell the Latin word FIDES, which means faith. This is not just an accidental pun. The prominent influence that FIDES has had, and will no doubt continue to have, on the rapid economic development of Black Africa is due in part to psychological factors, which increase the purely economic effect of the investments. It should be noted at this point that the local populations helped draft the projects that are financed by FIDES. Although about one-fifth of FIDES funds are earmarked for what is known as the "general section" -- that is, projects of general interest -- that are worked out and decided on in Paris, the balance, or about four-fifths, goes to "local sections," earmarked for local projects. These projects are drawn up by the local governments and are voted on by the local representative assemblies.

FIDES has financed an extremely large number of projects in the ten years since it was set up in 1946. A certain evolution in its aims can be observed. In the early years, urgent needs required spending the funds largely on infrastructure -- roads, railroads, port facilities and the like. Later on the emphasis was shifted to financing productive activities. Still more recently, a large part of the funds have been devoted to paying for agricultural experts in order to introduce modern methods of cultivation.

However important the public effort of Metropolitan France may be, it is not sufficient. We are endeavoring, therefore, to supplement it with other contributions that are as large as possible.

First, let me point out that the association of the overseas countries in the European Economic Community includes the promise of a

public investment effort on the part of Europe. An international convention has provided, for the first five years of the life of the European Economic Community, for a contribution from France's five partners amounting to an average of sixty-two and a half million dollars a year for the territories of the franc zone.

On the other hand, private investment in Africa is also rising rapidly. This rise is encouraged by existing natural resources, by certain privileges granted by local governments and a certain amount of assistance from the French Government.

What I am referring to as existing natural resources are a certain number of extremely valuable ore deposits recently discovered, in which private French or foreign capital has quickly shown a great deal of interest. Manganese in Gabon will be mined by a company that is half-American and half-French, with a total investment of about seventy million dollars; iron in Mauritania by a French-English-German-Italian company, with investments totaling one hundred and forty million dollars. Another iron deposit in Gabon is being seriously considered by the French and the Americans. The discovery of bauxite and the hydroelectric potential of Guinea have led to the establishment of a number of corporations where Frenchmen, Germans, Italians, Swiss, British, Canadians and Americans enter with varying participations, totaling around five hundred million dollars. The outstanding hydroelectric potential of the Middle Congo will undoubtedly make possible the establishment of an industrial complex of the same size. To complete the picture, let us include two phosphate deposits, where mines are now being opened, and the oil of Gabon, which has already been tapped for a whole year. (The oil deposits of the Sahara are outside our discussion today.)

All these projects call for some financial contribution on the part of the State, but this contribution -- sometimes small and sometimes large -- always represents less than half, and often less than one-third of the total investment. The balance is provided by private capital.

Again, natural resources are not enough. The local governments and the local assemblies are induced -- in all cases where large amounts of private capital are involved -- to make some sacrifices, by waiving the possibility of increasing taxation on a given operation, for a given length of time. That is what is called a long-term fiscal contract. There are already twelve such contracts in force. Even apart from the field of taxation, companies often ask to benefit from long-term conventions that give them permanent guarantees with regard to certain aspects of local legislation; since 1956, the local assemblies have been authorized to pass on such agreements.

The French Treasury, too, has encouraged private investment in the African territories. In 1956, the creation of finance companies for the development of overseas territories was considered. These companies would enjoy certain fiscal advantages in Metropolitan France and, what is more, would benefit from a minimum dividend guaranteed by the French Treasury. Already a large company of this type has been formed by some of the leading Paris banks. In the weeks to come, it will endeavor to raise on the Paris stock market a few tens of millions of dollars in a single operation for the development of Africa.

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This economic policy sponsored by France in Africa has already had fruitful results in the nine years from 1947 to 1956. For instance, the combined gross national product of French West Africa, the Cameroons and French Equatorial Africa has increased from two hundred and thirty-one to four hundred and ninety-seven billions in constant local francs (equal to two Metropolitan francs). This increase of 115% is considerable, but it is obviously only a start: France's effort must continue and even increase. Moreover, France welcomes all foreign countries of good will desiring to join her in this effort. This may include attracting foreign private capital, obtaining assistance from all the international agencies that are prepared to back sound projects, or finally -- and perhaps most important -- organizing, through a combined effort on the part of nations, a worldwide stabilization of prices of raw materials at a reasonable level, which, in our opinion, is the most important gift that developed nations could make to underdeveloped countries.

THE PROBLEMS AND PROSPECTS OF SUB-SAHARA AFRICA:

A UNITED KINGDOM POINT OF VIEW

Sir Andrew Cohen
Permanent United Kingdom Representative
on the Trusteeship Council
of the United Nations

The issue before us is, I suggest, how can the West help tropical Africa solve its problems? The view which I wish to put before us this morning, as you will realise, is a personal view. I speak as one who has recently been working among the grass roots of Africa. In the short time available today I can do little more than give you a few blinding glimpses of the obvious.

It is as well first of all to remember how far tropical Africa has gone during the last two generations. Sixty years ago the great majority of the people were living on a tiny scale in largely isolated village communities. They were subject to tribal raiding. They were not influenced by the outside world, nor did they have the benefit of modern knowledge. Periodically they were decimated by famine or disease and frequently they suffered from drought. Many of these things applied even where large native communities existed. Now the people of tropical Africa are formed into big countries with millions of people, each under one political and economic system. They live under the rule of law and public order prevails. They have the benefit of medicine and education. They are moving forward with the help of skilled people from outside, of outside capital investment, of modern scientific and technical knowledge, of outside experience of raising peoples to high standards of living and culture and indeed to modern statehood.

When we consider how much has been achieved in so short a time and under such limitations, we administrators cannot fail to regard traditional anti-colonial criticisms as meaningless. On our records as administering countries we see no reason to appear internationally dressed in white sheets. But we should be foolish and unrealistic not to recognise at the same time how very much remains to be done. I want to address myself briefly to one or two of the things that need to be done. I must be strictly selective. I shall say nothing about the building up of the basic economic servies, communications, power and water supplies; nothing about the development of mining and industries; nothing about the carrying forward of scientific research in all the different fields where it is needed; nothing about housing, medical services or the fight against the tsetse fly. And this in spite of the fact that all these things are vital, absolutely vital to the development of tropical Africa; and in all of them outside help will continue for many years to be needed by the tropical African countries. I want to talk very briefly about two things, both mentioned already by other speakers, both of them in the sphere of developing the human potential of Africa. I believe that developing the human potential is the most important task of all, in fact essential to everything else. The two things I want to talk about are first the education of leaders, the potentially dynamic people in the widest sense in an African society, and secondly the prevention of unbalanced growth in these countries by the spreading of development in all its forms out to the rural areas. Leaders are necessary for all forms of progress and the strengthening and growth of the outlying rural areas should be the strongest safeguard against dangers from inside and outside these countries, dictatorship on the one hand and communism on the other.

The training of leaders involves the bringing forward of African young men and women with a good enough education to enable them to play leading parts in public life, the civil service, local government, the professions, business and industry. Not simply academic education is involved, but also technical and vocational education; not simply higher education, but an expansion of secondary and primary schools to provide the intake to the universities and an expansion of teacher training to provide the machine tools of all educational advance. Education can of course do no more than provide the material for leaders. Leaders and efficient managers and administrators will develop only through the exercise of responsibility and the gaining of practical experience. Hence the great importance of giving a wider and wider number of Africans practical experience in public affairs, of the proper use of educated Africans in the civil service, of helping by every possible means to build up a propertied African middle class which can gain practical experience of trade. Without an educated and efficient local leadership in public life, administration and economic affairs, the development of any of these countries would be held up, because there is a limit to what can be achieved by an outside body of administrators and managers whether in dependent or independent countries. And, after independence, outside financial and technical help will only be effective to the extent that there is a reasonably effecient local administrative machine. Thus education in the widest sense is vital. In every British territory great progress has been made in recent years. Four University Colleges have been established in the British territories in tropical Africa. An immense expansion of secondary and primary schools, of teacher training and technical education is going forward. But the very fact that in Uganda, as advanced in education as any territory on the eastern side of Africa, the annual turn out of the top class of the secondary schools will only be about 800 by 1960, and that the annual turn out from the University College of Makerere, taking the Uganda students there alone will be under 100.

In this process of helping leaders to emerge, the advancement of women must play a very important part. Women are potentially the greatest force for progress and the improvement of standards of living in under-developed countries, through the influence they have on the health, well-being and attitude of their children. Girls' education is relatively very backward in Africa. This is recognised everywhere and much progress is provided for in all plans for developing education and community work. Women are only starting to take part in public life in these countries. But women's movements are beginning to show life and vigour in many places and are expanding with enthusiasm. These movements will need much guidance from outside people, and the advancement of women is a very important field for outside help.

I now turn to my second point, the spreading of development to the rural areas and as widely as possible among the people. Both in the period of growth under a colonial system of administration and in the transition to responsible government, and indeed after independence, too great concentration of development in certain central areas of the country, or unbalanced growth as between one area and other, is likely to lead to political and general instability. Completely uniform advance is clearly impossible, but development in all its forms must be as widely spread as possible.

In economic terms the most obvious form of growth, in order to spread development widely, is the introduction and expansion of cash crops, and equally of livestock and fisheries industries for sale on the market. Hence the importance of peasant agriculture. However efficient plantation agriculture may be, however valuable in certain areas, peasant agriculture must in the foreseeable future be the mainstay of tropical Africa. In areas overcrowded by Africans there is no room for plantations. In many other areas African opposition to land alienation will prevent their development. Peasant farming of cash crops, with its wide spread of wealth, makes for both economic and political stability. Therefore the task is to help the African peasant farmers increase their efficiency, so that, quite apart from any new land which may be brought under cultivation, more can be produced per acre from the area already farmed. This is essentially a task for agricultural and veterinary field or expansion services, a task in the last resort for education and leadership. The need is in fact to persuade the farmer to cultivate in the right way, and to take the right measures against disease, to persuade him to organise his farming operations right, which may involve the consolidation of holdings; this in turn will raise the question of land tenure, which is the most delicate task in front of governments, administrators, technical officers and the people in the tropical African Territories. In British Territories, as in others, very much has been achieved in the development of cash crops, particularly groundnuts, cotton, coffee and cocoa. Notable examples are groundnut production in Northern Nigeria, cocoa production in Western Nigeria, and Ashanti and the southern area of what is now independent Ghana, cotton production in the East African Territories, particularly in Uganda, coffee production among the Chagga and Haia of Tanganyika, the Buganda and Bagishu of Uganda and now increasingly also among certain of the tribes of Kenya. Much has been achieved also in introducing proper methods of cultivation, in the building up of field services largely staffed by Africans under the leadership of highly trained scientific officers from outside; and progress has been made in the consolidation of holdings, notably in Kenya, and in tackling the problems of overcrowded areas. In land tenure and farm organisation in particular very much remains to be done.

There are other ways also of spreading development to the rural areas. One of them is the development of the cooperative movement, and here much progress has been made, particularly in the growth of marketing cooperatives. In educational terms the need is to ensure that primary and middle schools, and where appropriate full secondary schools, are spread throughout these countries. In political terms the need is to develop local government bodies and to organise economic and social services on a local basis under councils widely representative of the people. These local government organisations must inevitably be based on tribes, since tribal loyalty remains the most powerful force in African society, more powerful at the present state than nationalism. By working through the tribes we can use this force for constructive development. In promoting the growth of local government of a representative character a very great deal of progress has been made in British Territories.

Finally there is community development, sometimes called mass education; the essence of this movement is to encourage the people to promote local development in all its forms by their own efforts, with their own participation in planning, and as far as possible on their own initiative. In the conditions of these countries this is mainly a rural movement, although it could equally operate in the towns. It depends on the work of community development workers or leaders, men and women with some training but not far removed from the people. Community development recognises the importance of the common people as a great potential for progress and aims at harnessing them to this task and helping to bring development to their doorsteps. The movement has been very successful in India since independence and some progress has been made in the British African Territories. I should like to make a special plea for this form of development; outside help, particularly in the financing of training schemes, may be important.

For all these tasks which I have briefly described, the production of leaders, the expansion of peasant agriculture and the spreading of development to rural areas, as well as for the others I

have mentioned, the building up of the basic economic services, the development of mining and industries, the promotion of scientific research, the expansion of the medical services, for all of them outside experts will be needed for many years to come, both as administrators, managers and technicians and in some cases scientists, and above all as teachers and trainers of the local people. Africans themselves are the first to recognise this. For many of these tasks also much outside capital investment will be required. All the problems involved will take time to solve: the developments which we aim at and the changes in society which are needed will not come in a day, but will take many years to accomplish. Does this mean that I think recent political advances in some British Territories have been too fast? Or that in other British Territories political advance should be slowed down? It is, incidentally, a symptom of the changes which have taken place in recent years that I should pose these two questions at all before an American audience. My answer is that, in my opinion, you cannot set the pace of political advance by pre-arranged timetables, sometimes called target dates. You cannot do this whether the purpose is to speed up or to slow down political advance. The pace of advance is determined by inter-related pressures between a dependent people and the government and public opinion of the metropolitan country -- world opinion may also affect the matter.

In the case of the British African Territories it was inevitable that rapid progress should take place in the last fifteen years. The African Territories could not be isolated from the world or from British or world public opinion. The second world war and the ease of communications ensured that. In the Territories themselves the spread of education and the raising of standards of living gave the people the desire for rapid political progress and the energy to work for it. Public opinion at home and those who made and carried out public policy must in the broadest sense, and of course in normal conditions, be carried on by consent. It followed inevitably that we believed that there must be continually increasing representation of the people in the process of government. Indeed many of us went further and thought that some of the problems could in the long run only effectively be solved under responsible government. The history of the evolution of the British Commonwealth made it inevitable that the countries which were to emerge from the process should be independent countries with the choice, which we believe they will take, of remaining within the Commonwealth. Thus we have Ghana, with Nigeria to follow.

In East Africa the rate of advance will inevitably be slower. But here we have processes of direct election being introduced, and Africans are taking part with people of other races in the formation of policy at the highest level, as Ministers or Assistant Ministers. The old system of purely official administration has largely had its day.

Even where, as in East Africa, the stage when self-government will be reached cannot yet be forecast, local ministries or executive councils are developing personalities of their own, and it is no longer possible to assume, as some years ago many people did, that we have an indefinite period of time in front of us before self-government is reached.

What then is the conclusion? Steady advance in the solution of the economic and social problems to which I have referred is vital both to smooth progress towards independence and stability after independence. We cannot hope to reach the standards of highly developed countries before responsible government is established in these countries, nor can we delay its establishment until these standards are reached. Outside help will be needed to continue the process of raising standards for many years after independence. In these circumstances the task in front of us is clear. We must make all speed in the development of these services now, so as to provide these countries to the greatest degree possible with the men and the equipment and services they will need when responsible government is achieved. At the same time we must devise the right system for continuing to give them the help they want after they have achieved responsible government.

Here I should say something about what Dr. Kamarck and Mr. Stevenson said yesterday. You will appreciate that it is not for me to speak about Ghana. That is the task of Her Majesty's Ministers in Ghana. I will however say this. Ghana has had the benefit for many years of trained and experienced British personnel of all sorts. This continues to be available to the extent that Ghana wants it. British people must of course, if they are wanted, be persuaded to serve in Ghana. I believe they will, particularly in research, university education and teaching of all kinds. Technical assistance to Ghana is already provided for, although admittedly on a small scale at present, by bilateral agreement between the Ghana and United Kingdom Governments. Outside private business and trade, whether from Britain or other countries, is welcomed, I believe, in Ghana. British financial assistance in the shape of grants from the Colonial Development and Welfare Vote is no longer available in view of Ghana's independence; but in any case these grants have been very small in recent years, since Ghana has had its own financial resources available for development. Nigeria, which is less developed and has less resources of its own than Ghana, is likely in the future to present a much more difficult problem in financing development; Nigeria is certainly a country which will need very large help from the outside world.

Some radical rethinking is I believe needed on this whole issue of aid to tropical African countries which attain their independence. I certainly hope that such thinking will go forward on both sides of the Atlantic. These new countries will continue to look for

British assistance and we welcome this; but they will want assistance from other sources as well. As independent countries they will not wish to look only to Britain, although we have every reason to hope that their links of friendship will continue to be very close.

I believe that we are faced here with the major problem of tropical Africa in the future. The political course seems largely to be set. But this need for capital and technical assistance on a large scale presents a challenge to the Western World. I doubt whether this problem can be solved by the British Commonwealth alone, especially as most of the countries in the Commonwealth are importers of capital. In relation to French and Belgian Territories the European Common Market will no doubt help through the plan for a common investment fund; but not I should imagine to the extent of producing all that is required. The United Nations and international agencies can help materially, but cannot I believe be the main agents for solving the problem. This is something I think on which we on both sides of the Atlantic will have to take joint counsel in producing a solution. I am sure that the new countries in Africa will look first to the Western World; but they might look elsewhere if we failed to help them on an adequate scale.

THE PROBLEMS AND PROSPECTS OF SUB-SAHARA AFRICA:

A UNITED STATES POINT OF VIEW

Joseph Palmer II
Department of State

The position of the United States in Africa is quite different from that of the European powers. We have no such history of direct responsibility in the area. We do, however, have interests of national importance to us which reach back far into our history. The newly awakened interest in Africa in this country often tends to ignore, for example, such footnotes to history as the facts that the United States had consular representation in Zanzibar before our British friends and that the coarse cloth in common use on the East Coast is still known as "Americani" -- a term which goes back to the trading days of the New England clipper ships. Nor should we forget the contributions of our missionaries and private philanthropic societies -- the aid given to the founding of Liberia by the American Colonization Society. From these early beginnings, our citizens have vastly increased their contributions to the development and well-being of the African and, in return, have benefited from the spiritual and material strength of that great continent. Our total trade with Africa now reaches more than $1 billion per year. The book value of our investments on the continent totals approximately $500 million. Not a very impressive figure but growing nevertheless. And who can measure the enormous contribution which has been made to our national character and development by that one-tenth of our population which had its origin in Sub-Saharan Africa?

But it is not these somewhat narrowly national interests which I wish to emphasize today. It is instead a wider Western -- a wider free world interest in the peace, stability and prosperity of this vital area of the world. This is a matter which intimately affects the interests of all of us here today.

The position of responsibility which the United States occupies in the free world has as its inevitable corollary a position of interest and responsibility in Africa. It follows, as in other areas of the world, that we pursue policies and programs -- not from any selfish motivation -- but to contribute to the peace, stability and prosperity of the continent. In promoting these objectives, we further our own national interest and those of others who think like us.

It is against this background that we in the United States view the increasingly dynamic nature of the situation in Africa today and try to adapt our policies and programs both responsively and responsibly to these events.

I think most qualified observers would agree that the same dynamic forces -- which for want of a better term we call nationalism -- that have swept through Asia in this generation and have most recently made themselves felt in the northern parts of the African continent now are emerging in various forms in the south. It seems obvious that the success which the Western World demonstrates in accommodating itself to these forces may well be decisive in determining the future orientation of whole peoples, whole areas and perhaps the whole continent. Nor, in this connection, can we ignore the fact that rising African aspirations have in large measure been created by the impact of Western civilization itself. The West has deliberately exposed the African to its philosophies, its principles and its ideals. It has created new social institutions. It has built great urban areas. But as the African has become absorbed in these great undertakings, the traditional tribal nature of his society has in many parts of the continent become increasingly undermined. Under these circumstances, the test of stability becomes one of whether the African absorbs his new values and disciplines before discarding the old and whether developing institutions exist to permit him responsibly to realize the benefit of those values. Where these criteria are not present or are imperfect, it is inevitable that pressures will build up for recognition in terms of political, economic and social standing.

The inevitability of these pressures and the need for a gradual and responsible outlet for them has received widespread, although not universal, recognition in the West. The problem has become one of how to create the most desirable conditions possible in terms of educating an informed and discriminating citizenry, of building durable representative institutions, and of creating a stable economic and social infrastructure in the limited time available before the pressures become too great to contain. There are many emerging examples where the transformation to self-government and independence is proceeding smoothly and rapidly. We in the United States, of course, welcome such orderly transition and are anxious to do everything we appropriately should to facilitate it.

The policy of the United States towards this important and difficult question is, I believe, well known. In November 1953, Secretary Dulles stated in an address in Cleveland: "There is not the slightest wavering in our conviction that the orderly transition from colonial to self-governing status should be carried resolutely to completion."

It is, of course, a matter of the greatest importance that the word "orderly" be emphasized in this connection. It is axiomatic that membership in the family of nations carries with it responsibilities to the group. It is a matter of vital importance that this be known and accepted by emerging peoples. In the long run, premature independence may contain as many dangers for Africa and Africans as the denial of that status.

I would like at this point to insert a further word of caution. In such a large area inhabited by many different peoples and races with varying cultures and traditions, sweeping generalizations on the subject of nationalism are dangerous. In many parts of Africa where pressures are being felt, the concept of a "nation" has not existed in the past and either the concept must be created or another form of political society must be developed which will satisfy the desire of the African to govern himself on a multi-tribal and multi-national basis. The concepts of "federation" and "confederation" have spread in Africa with surprising speed in the past three or four years and arrangements such as these may be the eventual solution in areas where there is no purely national tradition or sentiment.

The essential problem that faces the West in this area is that of bringing about a new relationship between Africa and Europe in a manner which will assure the most beneficial results for both parties. I have already observed that these two continents are fundamentally complementary areas. We in the United States hope that the transition of Africa from a colonial to a national status will take place in a manner which will preserve the fruitful ties which bind the two continents together. If this is done, a basis will result for a new and perhaps more mutually beneficial relationship in which equality, cooperation and interdependence will be the dominant themes.

To summarize on the question of colonialism and nationalism: the African people quite naturally look to the United States for support for their aspirations for political progress. The European powers equally naturally look to us for support for their efforts to assure peace and stability. We in the United States have a very real interest in a politically stable Africa and believe that this stability is dependent upon steady and orderly political progress. We believe that only in this way will responsible, moderate and positive elements emerge in contrast to the extremist, disruptive, and negative nationalism which poses such dangers for us all.

In general, I believe that we in this country are encouraged by the remarkable progress which is being made in effecting the transition from colonial to self-governing and independent regimes. This has been particularly true in those areas where the population tends to be homogeneous. The problem is, of course, vastly more complicated in those areas in which there are important plural communities. This whole problem of relations between peoples of different races living together in multi-racial states involves deep-seated emotions and prejudices which can only be overcome gradually. There are, of course, a

number of different approaches to race relationships in Africa today, the spectrum ranging from countries in which the intermingling of races on an equal basis has become an accepted and unquestioned fact to countries in which separation of the races is a legal requirement. In the light of our own experience in developing harmonious race relations and balancing precept with practice, it behooves us to approach racial problems elsewhere in the world in all humility. Nevertheless, the principles for which we stand are clear. They are embodied in our Constitution and in our Bill of Rights. They have recently been dramatically reaffirmed by our Supreme Court and by our President. In accordance with our traditions we are attempting to solve these problems by the process of orderly law enforcement.

It would not be appropriate for us, even if we wished, to become identified with any conflicting faction in Africa. We can, however, and while preserving our adherence to our own basic principle of racial equality, attempt to exert a moderating influence upon extremists and to oppose those who seek to exploit racial tensions for ulterior purposes. We have, in this connection, the strongest hopes for the success of the administering powers in their search for a basis for racial cooperation. In addition to the vital moral considerations involved, it is not, we know, an easy matter to bring about a full understanding of the extent to which races in a particular community are interdependent.

This leads me to another of the great problems facing Sub-Sahara Africa -- that of economic development. The economic evolution of the area is moving rapidly from the barest subsistence to the point where the African is beginning to enjoy an increasing share of the world's great supply of consumer goods. This, in turn, is providing incentives to production and creating corresponding increased demands for capital.

It is, perhaps, not too strong a statement to say that the success or failure of the moderate regimes in power today in the self-governing and independent areas of Africa may well ultimately depend on the extent to which they are able to bring about the economic and social development of their countries in a manner which will meet the aspirations of their people for a greater share of the world's bounty.

The Western world is generally agreed that Africa must have a faster and more balanced economic development. Articulate Africans will not be satisfied with a mere increase in productivity of raw material exports. They clearly desire a more diversified use of their countries' overall productive capacities and to avoid the danger of excessive dependence on one or a limited number of crops which may fluctuate widely in price on the world market. Most of the European countries are undertaking extensive economic development programs which attempt to avoid concentration on raw material production. Progress is limited by available capital funds -- both public and private -- and deficiencies in African physical and human resources.

It appears likely that the total capital requirements of Sub-Sahara Africa will increase substantially in the critical years ahead. Certainly the demands will exceed the capabilities of any one Western nation to meet and it therefore becomes a matter of the greatest importance and urgency that all of the Western nations should seek to assure that the necessary funds are available for a progressive and orderly development of the sub-continent. The United States has already demonstrated its willingness to assist in this task to the extent that it can, taking into account the heavy demands which are made upon it on a world-wide basis. We have been providing and intend to continue to provide, in accordance with administration policy and subject to Congressional approval, assistance to countries in the sub-Saharan region. Moreover, through the instrument of the Export-Import Bank, we have made important loans in various parts of the area.

The amount of public capital available will, of course, be able to accomplish only a small part of the enormous task of development which lies before Africa. The demands for private capital will continue to be immense and perhaps one of the most crucial tests which lies ahead is the extent to which the African areas are able to create the conditions of stability and confidence conducive to the attraction of private capital and to make known in the proper quarters each and every opportunity for attractive investment capital. Some areas of the sub-continent have already shown considerable success in creating such an atmosphere and in attracting capital. It is, I believe, a matter of the utmost importance that those of us who are in a position to do so, seek to encourage the creation of such conditions everywhere.

Before concluding, I wish to say a few words about the problem of Communism in the area as we see it. Thus far the Communists appear to have made only limited gains in this part of Africa. Nowhere does a Communist party openly exist. Trade with Communist countries is still at a comparatively low level. African trade union movements have affiliated with the ICFTU rather than with the communist dominated WFTU. But there is no room for complacency.

The Communists are openly eager to exploit the soft spots wherever they find them. Thus they have already shown some progress in penetrating individual labor organizations, youth groups and nationalist organizations. They have assiduously cultivated students, particularly those studying abroad, with some success.

The greatest dangers of Communist penetration arise from factors affecting the attitudes of the West. Should the West falter

in its determination and its ability to show steady progress in the solution of the range of problems which we have been discussing here, the road for Communist exploitation will be clearly opened. I am confident, however, that there is too much wisdom in Africa and in the West to permit this to happen.

The political map of Africa has undergone tremendous changes in the 12 years of the post-war period. The number of independent states in the continent as a whole has more than doubled. The number of self-governing entities has shown an even greater increase. The dynamism of this situation becomes every day more apparent.

The responses of the West to the challenge which Africa presents has, I believe, thus far been both rapid and effective. In all of the newly emerged independent and self-governing states, we have moderate regimes, which are friendly to the West and genuinely dedicated to the protection of their newly acquired status. This, I believe, is cause for great satisfaction, because this situation has not come about by accident. It has resulted from planning, cooperation, compromise, and mutual good will. It represents a recognition by the administering powers involved of the fact that the African peoples are capable with education and experience of conducting responsibly their own affairs. The leaders of these new states have, for their part, recognized that in a sense their problems begin -- not end -- with independence and that their only real hope of building and maintaining the stable, peaceful and prosperous regimes which their peoples demand is through continued cooperation with the West. They will, I am sure, be able to maintain these positions so long as the West continues to show itself sympathetic to their efforts at adjustment and responsive to their needs. This is a situation, however, which will continue to require imagination and dedication. We must assure that the dynamism which is so apparent in Africa today is met by a corresponding dynamism in the West and that both forces are harnessed together to achieve the same objectives. In this way, we can build a relationship based on equality, confidence and mutual benefit which will provide an effective answer to the dis   ive and self-seeking objectives which the Communists seek in this continent, as elsewhere.

DOING BUSINESS IN AFRICA

Bryant F. Kenney
Standard-Vacuum Oil Company

This region of the world is inhabited by so many different kinds of peoples and contains nations with such widely divergent stages of development that an assignment to set the stage for a panel discussion on doing business in that area is truly a challenging one.

It seems to me, however, that the talks and conferences we have had here at Princeton for the past two days give one general impression of Sub-Sahara Africa. And that is that you can't generalize when discussing this area.

Just as we have millions of heterogeneous, many-sided people across the face of Africa, so our problem -- Doing Business in Africa -- is a many-sided one, and few of us can claim to know Africa as a whole. Speaking for myself, for example, I have visited various parts of the continent, and spent three and one-half years in the oil business in the Union of South Africa. Recently I was involved in helping to build and establish the Standard-Vacuum Oil Company refinery in Durban. But the lessons and business customs of the Union would have little application, say, in a country like Liberia. In the same way, a businessman who knew the ropes in Ghana might be quite at a loss if he were asked to advise us on the problems of starting a factory in Ethiopia. But this is precisely why we are here today -- to pool our knowledge. And to do that, it will be helpful if we can determine any common denominator for the region of Africa we are talking about. By that I mean a common set of circumstances that western businessmen are likely to encounter in Africa, whether they are in Kenya, Mozambique, Nigeria or the Belgian Congo.

Our discussions have brought out that there are <u>two</u> factors that influence life and the conduct of business almost <u>anywhere</u> in Africa. One is <u>race</u> or <u>color</u>, and the other is <u>nationalism</u>. If you are planning to <u>do business in</u> Africa, you may <u>be sure that</u> the problem of race relations is one you are going to have to live with for quite a while. We have seen that this problem varies in degree, and also in kind, from country to country.

In <u>Western</u> Africa there seems to be less tension than in other parts <u>of the</u> continent. In East Africa conflicts have been stronger and they have been well publicized. But the situation there has now improved considerably, although we can't by any means be complacent about it. In the Union, as we all know, tension is very strong

indeed. Yet here we have a paradox. In South Africa public order has been enforced with such a strong hand that it's possible for a visitor to go about his daily rounds and be almost unaware of the powerful conflicts beneath the surface of daily life.

But we are speaking of doing business in Africa. What does the foreign investor have to do with race problems? Basically he must be prepared to go along with the policies of the government in each area. That is, if it's local policy to hire Africans with the idea of training them for positions of responsibility, then the foreign company should be more than glad to do so. If on the other hand, as in the Union of South Africa, there is now no question of hiring Africans for white-collar positions, you have to go along with that. The point is that an American company abroad has to be extremely flexible. You can't expect to carry on your business in Ghana, or tomorrow in Nigeria, under conditions exactly comparable to those in the United States. It just won't work out that way. This doesn't mean that we ought simply to bow to the host country's point of view without trying to promote <u>our</u> way of thinking. But it takes time and tact, as well as <u>persistence</u>.

If I may say so, at Standard-Vacuum we have really been through the mill on this score. We operate in more than 50 countries and territories in Eastern and Southern Africa, the Far East, all of free Asia, Southeast Asia, Australia and New Zealand. In this area we have varying hiring policies, differing medical and insurance set-ups and salary scales, and widely varying training programs.

Our feeling is that we want to provide the best possible work atmosphere for our employees. This is not only the right thing to do, but if they like and respect management they will put out more work for you, and that's just as true in Nairobi or Capetown as it is in Youngstown, Ohio. If we have any leeway in hiring and training African employees we like to be as liberal as we can. When possible we sometimes try to take the lead in certain practices. This past summer, for example, we were happy to be the first private industry in East Africa to offer our African employees a medical plan of preventive medicine in the form of periodic health check-ups. These same employees are now in the process of being covered by a non-contributory pension plan including death benefits and lump-sum allowances payable on retirement. These are not spectacular events, and they don't make headlines. But they represent unobtrusive, carefully thought out moves in the right direction. And gradually they will become a routine part of doing business in Africa. Again, to show how rapidly things are changing over there, it is now the <u>declared aim</u> of our marketing company in East Africa to replace overseas personnel with African employees. Today Africans are already holding supervisory jobs. Some are salesmen of petroleum products. If you're driving along a road in Uganda, you will find many African service station proprietors.

All this relates to the second great fact of life in Africa -- the growing power of nationalism. It has been said many times that the first ten years after World War II will be remembered as the decade when the full impact of Western ideas and industrial techniques was felt by the nations of Asia. There's certainly a good chance that during the next few decades a similar process will be taking place in Africa. The combination of nationalism and new ideas is a dynamic one. Add to this the power of vastly improved communications, and these new ideas circulate more rapidly than ever before in history. Every day, in a manner of speaking, thousands of Asians and Africans are learning to read, and millions may be reached by radio voices persuading them in one direction or another.

In Asia the methods of Western science and business organization are making a deep impression on ancient cultures, some of which, in a philosophical sense, may be equal or superior to our own. From the West too has come the great literature of individual liberty. We need only remember that Gandhi's techniques of passive resistance were profoundly influenced by Thoreau. On the other side, we must admit that one of the major western exports to Asia has been, unfortunately, the doctrine of Communism.

As a consequence of this ferment of ideas in Asia, Western enterprise is in the forefront of the cold war in that part of the world. To win it, it is essential that Western enterprise in Asia proves by our conduct and example that old-style 19th Century practices, which were frequently of an exploitive nature, are now outdated and undesirable. To prove that free enterprise, while operating at a reasonable profit, offers them the best hope for raising their living standards and providing to all peoples the best that this life has to offer.

Today, in Africa, as in Asia, the West is viewed with mingled admiration and hostility. For the first time in centuries the populations of these lands feel that it is in their power to obtain the material benefits that come from Western industrial organization. Therefore, they admire our productive and commerical techniques and seek to emulate them. At the same time the new spirit of nationalism, which sometimes takes a negative, obstructive form, makes them, to a varying extent, resentful of Western ways. It may take considerable effort on our part to convince them that we want to do a good job at a fair profit, that we sympathize with their aspirations, that we genuinely want to cooperate for the common good.

If we assume that African nationalism could tend to follow the course of Asian nationalism, then the time ahead is a <u>time of opportunity</u> for the West and for Western enterprise. This means that we have a job to do. Can we turn the lessons we have learned in Asia to good

account in Africa, and help channel the course of rising nationalism so that it is friendly to us -- so that it will have a positive attitude toward doing business with us, rather than a sullen and reluctant attitude?

The question for us to consider today is "How can the foreign businessman conduct himself in order to make friends in Africa?" As we have seen, there can be no hard and fast rules. The right thing in one country would be disastrous in another.

But there are, I think, a number of predictable problems for the foreign businessman. First is education and training. Most host countries are likely to require training of their nationals for jobs now being filled by Americans. They will usually want this to go ahead as fast as possible. At Standard-Vacuum we sympathize with this desire. And so do many American and European companies now doing business in Africa. The training of African nationals here in the United States is being carried out not only by private business, but also, as you know, by American Universities and private foundations with the cooperation of the State Department. In fact one of our own African employees from Nairobi recently left us to accept a scholarship at Harvard. Eventually we would like to have him back, but we're not counting on it, particularly since he is going to specialize in nuclear physics.

It seems to me that it is perfectly natural for independent people to want to staff the industries and business offices that are making money in their own country. We know their eagerness to learn skills of western industry. From our point of view, that's fine. It's much more economical for an American firm to train local people in Africa to do a job than to transport Americans at great expense to a strange land one-third of the way across the globe.

However, in the beginning, it will probably be necessary to have a good many Americans on the spot to get the business started. Then, as the local residents become qualified, most of the Americans will gradually be withdrawn. This transitional period is an important one for the visiting enterprise. It can be a time of touchy relations between visiting and resident personnel. For this reason, it's best for the American or European business firm to make sure, in the year's ahead, that the employees it sends to Africa are mature and tactful people who can get along without stress and strain in their new surroundings. With the best will in the world, it is extremely easy to offend nationalistic pride in such matters as housing accommodations. The plain truth is that, usually, the visiting employee is going to have a better house and better pay than the local national. This can be an embarrassing situation to explain. We want to avoid any implication that the staff man from the United States or Europe is superior to the resident national. Yet there is his bigger house with more rooms for everyone to see. It's not easy to explain that the employee from the United States receives an inducement of premium pay for overseas duty in Africa. Also, he is building his future security on the basis of the American economy to which he will some day return.

Obviously our business operations in Africa call for a continuing exercise of tact and diplomacy in employee relations. And a factor that is growing more important with each passing year is that of public relations. There was a time when our behavior overseas was based largely on our relationship with a few political administrators. And this is probably still true in some parts of Sub-Sahara Africa. But this situation is changing rapidly. The relatively small trader -- the import-export man -- may not have to concern himself very much with the general public. But the larger industries must be prepared to make friends with the press and the people of Africa.

The public relations of "good citizenship" abroad may be expressed in any number of ways. The means needn't be spectacular, but the company should demonstrate a genuine regard for the people of the host countries. This should be done, of course, under the local ground rules. Sometimes it involves such things as making a contribution toward a new hospital. Or it may take the form of awarding scholarships to promising students.

Now I don't mean to say at all that we should feel obliged regularly to lay out sums of money to buy good will. This is hardly good business practice. In the first place no one likes to feel that he is being bought, and secondly, he'll be inclined to take these offerings for granted, and come back more and more frequently with the classic question: "What have you done for me lately?" It's only fair to note too that the public relations policies I speak of are largely those of big corporations, particularly those representing extractive industries. If a country's natural resources are being taken out of the ground -- even on a basis of partnership -- there is always the possibility of local resentment. This may be an extremist emotion of awakening nationalism, or often a device used by a local demagogue to gain easy votes. Actually we feel that the foreign investor today generally puts as much or more energy into a country than he takes out -- by stimulating local industries and training local people in new skills, as well as sharing the profits of his enterprise. But it is up to the American businessman to tell his story. For this reason, we in the oil business have found it advisable to show in every way we can that we wish to give as well as take. And we do this by lending our name and our strength to programs that are clearly helpful to the development of these countries.

Finally, I think that our growing interest in Africa points up a very important need. That is the need here in the United States for information exchanges or clearing houses of information on African affairs. Since the end of World War II we have had numerous foundations, libraries, cultural exchanges, and student exchange programs relating to Asia. You might almost say that Asia has been the fashion in the last ten years. But so far as most Americans are concerned Africa is still the "dark continent".

I understand that a number of our universities -- among them Northwestern, Boston University, and Howard -- are now offering courses on Africa under area study programs. Several of our major foundations, I am told, are becoming increasingly interested in African affairs. This certainly is an encouraging trend, and the work of these agencies will be reinforced and given new impetus by conferences such as the one we are having now.

I do not believe for one moment that these few remarks of mine do more than scratch the surfact of this challenging subject -- nor have they been new and original views, but I do hope they have served to crystalize our thinking of this vital topic.

DOING BUSINESS IN AFRICA

Thomas W. Childs
American Metal Company, Ltd.

Probably no part of Africa better fits within the framework of the statement of purpose of this meeting than the Federation of Rhodesia and Nyasaland on which I shall focus my comment. This Federation, formed in 1953 by the union of Northern Rhodesia, Southern Rhodesia and Nyasaland, is undergoing one of the most rapid and far-reaching transformations of our times and statistically has the fastest growing economy of any country in the world, small though it be. There are great economic opportunities in the area and at the same time the phenomenal pace of development has raised many serious questions in community and state relations. In this panel we are to discuss doing business in Africa presumably in its relation to the broad subject of this two-day discussion.

Doing business anywhere in the world today is a sociological as well as an economic undertaking, which carries with it a community responsibility that is probably one of the most distinguishing marks of the change that industry has undergone in the last 50 to 100 years. Particularly is this true of large-scale business and most particularly of the mining business which usually finds itself the creator of the community in which it exists and sometimes, in remote and undeveloped countries, the principal and dominant economic force in the land, standing like a beacon in the flat bushland. Under such conditions, industry has thrust upon it by sheer force of circumstance a social responsibility from which it could not escape if it wished. The copper mines in Northern Rhodesia, in the Central African Federation, find themselves today in just this position. They are the largest single economic factor in the country accounting for about one-fourth of the national income, two-thirds of the total exports and one-third of all the taxes collected in the Federation. They bear heavy social responsibilities which are multiplied and complicated by the swiftly changing political, economic and social scene in a state engrossed with the problems of knitting together a minority of whites with a vast majority of Africans into a multi-racial state only recently conceived in the spirit of partnership.

My company, The American Metal Company, Limited, is engaged principally in the mining, smelting and refining of base metals in North America and in the southern reaches of Africa; namely, the Federation of Rhodesia and Nyasaland, the Union of South Africa and the Territory of South West Africa. It is Northern Rhodesia, one of the three constituent parts of the Central African Federation, to which I want to

direct your attention. There, through Rhodesian affiliates, my company is closely concerned with the copper mining business in an area bordering on the Congo, known as the Copperbelt, barely two-thirds the size of Long Island, and considered to be one of the greatest copper-bearing areas in the world. There about one-quarter of the known copper reserves of the world exist and some 15% of the free world's primary copper is produced. About one-half of that production comes from the three companies, known as the Rhodesian Selection Trust group, or RST group, in which my company has the largest single shareholding but which are in fact run as local companies with British executives and management. The other half of the copper production in the Copperbelt comes from the mines of the Anglo-American group which is principally South African in character. Less than sixty years ago this was darkest Africa, fever ridden and forbidding bushland with a population more primitive than that which Caesar found in ancient Britain 2,000 years ago. Fifty-five years ago occurred the last slave raid in this territory. Thirty years ago there were only a handful of Europeans and some African villages in this still untouched land and yet there today, rising abruptly out of the surrounding bush, is one of the greatest industries south of the equator, the copper mines, with 7,000 white and 39,000 African employees, and a total population of some 400,000 in one way or another dependent upon the mines, living in towns and settlements which are veritable garden spots in a land that is now rid of fever and as healthy as Texas.

It is fairly well established that copper mining in the south central part of Africa had been carried on by Africans since the 14th Century, probably in the Katanga area of the Congo just north of the Rhodesian Copperbelt. However, there was no discovery in Rhodesia until the turn of this Century and no important development of the properties until the late 20's. The steady upsurge in the demand for copper, which received its strongest impulse with the beginning of the electrical age in the second half of the 19th Century, finally made even these remote copper deposits attractive. British and South African interests took the first steps to exploit the Rhodesian coppers and my own company joined in this development in 1927. The whole copper project has been financed by private capital with recent special exceptions for which U.S. Government funds were provided on loan.

There is little doubt that the discovery and development of copper awakened Northern Rhodesia. As is so often the case with a mining location, there was nothing there to recommend the place but the ore. Nature has so often been awkward and uncooperative in choosing the places to hide its treasures, and such was the case in Northern Rhodesia. The area was unhealthy and had to be cleared of malaria. There were no roads or railroads, no housing, no power and none but the rawest of labor. The companies had literally to create everything required for living and working.

The economic opportunity was indeed great, but so were the costs and the risks. The total cost of the four initial mines was in the neighborhood of $100,000,000 and to reproduce them today would cost many times that much. The risks of operating in such a strange and distant land, without settled political or social structure, were equally great. To make matters worse, when the first mine began production in 1931, the world depression took a hand and almost paralyzed the great enterprise which had successfully overcome the hazards of Africa.

In the beginning there were the plain, hard, technical and economic problems encountered in any new mining venture, heightened by the remote location, the unhealthy conditions and the world depression. Social problems initially were no more than one encounters in the establishment of a mine almost anywhere. However, the companies were confronted by the fact that the local peoples were utterly primitive and it was accordingly necessary to bring into the territory whites or "Europeans" -- men from the twentieth century of industry -- for practically every conceivable semi-skilled or skilled job. These men came from Southern Rhodesia, the Union of South Africa, Australia, England, Canada and the United States. It was necessary to pay them handsomely and to offer them many subsidized amenities to induce them into this inhospitable country. There was, on the other hand, no need or reason to offer comparable conditions to the indigenous people. The much lower scale of wages paid to the Africans and the simpler perquisites given them were so attractive by comparison with what they had known that there was no dificulty in inducing them to the mines. Besides, for the African a period of employment at the mines was simply a profitable excursion from his real life in his tribal reserve with which he remained identified. He would emerge from the bush to work for a short period to obtain some cash with which to return to his tribe and the easy and lazy life of cultivating subsistence crops. This process he repeated possibly several times in a working lifetime.

Gradually the influence of this great new world, the world of Western civilization and industry, began to have its effect on these simple Africans. The steady development of a money economy and the exposure of the African to the material things of the West that could be bought for cash tended to increase the African's interest in his earnings and to lengthen his period of work at the mines. At the same time, the mines, in their desire to develop a more stable labor force and recognizing the social advantages in having African employees settle with their families at their place of work, went to great lengths to make life at the mines attractive. They created African townships of well constructed homes, which in more recent years are equipped with electric light, running water and modern sewerage. The Africans were fed by the companies, or reimbursed for their food. They were given free medical attention and provided with hospitals, schools, churches, social and recreation centers, playing fields, cinemas, etc.

The result of these many influences has been to create on the Copperbelt a large population of Africans who are becoming urbanized, embracing the new life, identifying themselves more closely with it and seeking a greater and more permanent participation in it. But essentially they remain a race and civilization apart, living and working alongside the civilization of the West -- but not yet a part of it. To the extent that this separateness is forced upon them, it is or must become intolerable. But to a great extent their separateness is a natural and inescapable consequence of the fundamental differences between the two widely separated cultures, the one of the primitive bush and the other of Western civilization, which no one could reasonably expect to close together and merge in so short a time.

This part of Africa, the Federation, is committed by its Constitution to the principle of "partnership" of the races, which must mean in good time the elimination of enforced separateness and the opening to Africans of all possible avenues of access to the conditions of freedom of the West and to the absorption of our culture. It is to the undoubted interest of everyone concerned with this land to help and assist in this process -- by improvement of the African's economic condition, the removal of barriers to his development and positive assistance to his education in all aspects of our culture. Only in this fashion can we close the gulf between the peoples and create conditions essential to the healthy growth of the state.

The copper companies in the Federation are deeply sensible of these problems and of the heavy responsibility they bear to contribute to their solution. The RST group of mines showed the quality of leadership required in these matters when recently they broke the color bar imposed by the white workers' union on the Copperbelt, thereby opening to Africans the possibility of progressing into the higher echelon of jobs which had theretofore been reserved for European workmen only. This was one of the most important steps ever taken in southern Africa to improve race relations -- admittedly, a first step only, but significant and filled with promise. In other and lesser ways the mines have been opening new doors to Africans leading to a wider participation in the advantages and privileges of western industrial society. The Africans on the Copperbelt now have, for example, a retirement plan under which there are already a number of African pensioners enjoying a financially secure old age, free from tribal dependence. More recently the RST companies opened a stock purchase plan to all employees including the Africans, to which there was a surprisingly enthusiastic response, with the result that already 100 Africans have become capitalists in the Wall Street sense with shares in the great enterprise for which they work.

The RST companies, however, do not and cannot limit their responsibility to the Copperbelt. Because of their preponderant position, not only in Northern Rhodesia but in the Federation itself, they have assumed a measure of responsibility for the social and economic development of the whole state and for the solution of the many problems created by the very swiftness of growth of the dynamic copper industry. As the Chairman of the RST group, Sir Ronald Prain, said recently:

> "It is my conviction that the prosperity of the country and the prosperity of the copper mining industry are indivisible and that your Companies must inevitably face duties and responsibilities which go far beyond those which normally concern the management of a mining enterprise."

It is worth noting that this is in the old tradition of the so-called Chartered Company, the British South Africa Company, formed by Cecil Rhodes in 1889, to administer and develop the whole land of Rhodesia.

In pursuance of this larger responsibility the copper companies have taken a leading part in the development of power, transport and the basic industries. They have recently contributed loans of 20,000,000 pounds sterling and undertaken to pay an additional 10,000,000 pounds sterling in power surcharges for the financing of the great Kariba hydro-electric project which will have an ultimate capacity of 1,200,000 Kws., far more than required by the mines and which accordingly will serve for the broad development of industry in the Federation. The RST group of mines on their own initiative lent 3,000,000 pounds sterling to the Northern Rhodesian and Nyasaland Governments for capital developments for the benefit of Africans. Unsolicited the RST companies have granted assistance or launched programs for the common good that range all the way from a major experimental agricultural program on the Kafue Flats to a project for an Anglican mission to teach African children to paint. The list is long and includes the financing of technical and agricultural schools, the contribution of a building to the first inter-racial society in the Federation, the sponsoring of The Merchant Bank of Central Africa, the establishment of a company to explore the many possibilities of economic development throughout the land, and most recently, in cooperation with the <u>London Economist</u>, the founding of a new journal of opinion, The <u>Central African Examiner</u>.

In the broad view of this area in Africa, we are conscious that the Federation, with its burgeoning population and economy, promises to become the center of one of the most important industrial and raw materials producing areas in the Continent and that its influence in the future is bound to be great. It is probably the last great vacuum in the world that contains such promise. It is delicately placed between the Union of South Africa in the south, with its principles of white supremacy, the developing black nationalist countries of the west, and the areas to the east and north whose future course of development

is still unclear. In order to grow to its full strength the Federation will need much help from abroad in the shape of new capital and technical assistance, and to attract these it must handle its social and political affairs with great skill in order to create the healthy and stable conditions essential to growth. It must avoid the extremes and the tensions that have built up in other parts of Africa. It can not get along without its white population, and the thoughtful Africans recognize this. At the same time, the white population must accommodate itself to the aspirations of the Africans and "with deliberate haste" convert into a reality the principles of racial partnership on which the Federation is founded.

My company, with British partners, went into this land to find copper. We were successful and in the course of building one of the greatest mining industries in the world we found ourselves deeply enmeshed in the processes of creation of this great new multi-racial state. It is to our interest, and we believe to the interest of all the West, that this state be helped and guided towards the realization of its full stature, and that its people be enriched and not embittered by their association with the West. To that end we lend every force at our command.

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ECONOMIC PROBLEMS OF THE NEW STATES

ANDREW M. KAMARCK

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problems in relation to it. We tend to think in this country that Africa is going to follow the lines we have established for it, but Africa is no longer willing to accept its rôle as other people envisage it. The President of Ghana, Kwame Nkrumah, has put the case clearly before us:

> Some of us, I think, need reminding that Africa is a continent on its own. It is not an extension of Europe or of any other continent. We want, therefore, to develop our own community and an African personality. Others may feel that they have evolved the very best way of life, but we are not bound, like slavish imitators, to accept it as our mould. If we find the methods used by others are suitable to our social environments, we shall adopt them; if we find them unsuitable, we shall reject them.[1]

It is in this spirit that we must turn toward Africa. Africa has its own traditions, its own customs, its own outlooks and perspectives, and Africans are insisting that we recognize this. What is unique about Africa will doubtless remain unique, and it is in the traditional cultures of Africa that we find what is uniquely African.

ECONOMIC PROBLEMS OF THE NEW STATES

By Andrew M. Kamarck

International Bank for Reconstruction and Development

Mr. Chairman, Ladies and Gentlemen. As the Chairman pointed out, this is an enormous subject to cover. To cover it properly, one would have to touch on practically every aspect of the African economies. They are so different in structure from our own that one cannot begin to understand their problems until one understands how different the economy is with which they have to deal.

Underlying Economic Facts

Let me just mention some of the fundamental points to illustrate this. I hope you will take on faith my assertion that there are many other aspects just as important that I will not have time to mention.

The bulk of the people in Africa still live largely in a subsistence economy. That is, in essence, an African provides the bulk of his necessities for himself. His money income largely goes for the luxuries of his life—a bicycle, phonograph, bright clothes for his wife—and for public services. An African sometimes may pay out 50 to 100% of his money income for taxes and school fees.

We, in our economic structure, find a money economy as completely natural with a few subsistence activities (practically hobbies) grafted on.

[1] Cited in Program of African Studies, Northwestern University. United States Foreign Policy: Africa 4 (Washington, D. C., 86th Cong., 1st Sess. Printed for the use of the Senate Committee on Foreign Relations, 1959).

In Africa, the subsistence economy is basic. It is the money economy that is grafted on, or exists in enclaves. Per capita incomes are consequently still low—under $100 per year over most of the continent, with a few exceptions like Ghana and Tunisia. It is no surprise that these countries led the way to independence. Tribal or traditional pre-capitalist attitudes are still dominant. The old attitude toward time, toward work still exists. It is very hard to convince an African to put loyalty to his employer above loyalty to his family.

Africa is still the "Dark Continent" in knowledge of the natural environment. It was not until the 1920's that the great killing diseases were brought under control. In fact, to the middle of the 1920's there was even fear of depopulation. Many debilitating diseases are still not mastered. Bilharzia is not even under control. The tsetse fly is still the master over large areas.

The Kariba dam project is the largest ever financed by the World Bank, and one of the largest of its kind in the world. One of the reasons it, rather than the Kafue, a competitive project, was undertaken was because the engineers knew more about the Zambezi than the other river. Even so, they were unprepared for the 1957 flood (the 1 in every 100 years flood) and the 1958 flood (the 1 in every 10,000 years flood). Man's knowledge of nature is still largely of the temperate areas. He is only just starting to discover the tropics.

Africa is still a dependent continent. There is a dependency on external personnel and capital. In Ghana, one of the most advanced of African countries, at the time of independence only one-third of the policy-making jobs in the Ghanaian Government was held by Ghanaians. In Tanganyika, of the whole senior civil service, only one-seventh is Tanganyikan; in the policy-making jobs, there are almost no Tanganyikans. In Tunisia and Morocco even the postmen were French. Since World War II there has been a large inflow of help from France and Britain. In the French colonies, France financed all public investment and gave budgetary help. Even now, only two former French territories pay their own current government expenses.

Effect of Independence

The problems mentioned so far are pretty general throughout Africa, but with independence there may be new problems. This depends on how the country has been prepared for self-government, how independence is achieved and how relationships with the metropolitan Powers are continued. In Ghana, as one example, after independence the peasants asked: "Why are the Englishmen still around?" In Guinea, it was the opposite —everything French was pulled out. Tunisia and Morocco were in the middle of these extremes. The way that independence comes also determines the quality of the civil service and the country's dependence on expatriates.

The economic future depends on the maintenance of peace, law and order, and equitable administration of justice. Before World War II, the metropoles just maintained law and order, feeling that economic development would follow naturally. After World War II, it was realized that this was not enough, although law and order must still be maintained. Whether a country has a stable internal system or tends to dissolve and fall apart into tribal warfare disguised as political parties is important for the economic future. Companies put headquarters in such places as Tanganyika because they are internally more stable.

The supply of capital on independence was also a problem. There was a substitution of other sources of capital for the metropole: IBRD, European Economic Community Overseas Fund, IDA, IFC, ICA, DLF, and other country programs, both British and French. There are now many sources of public funds for well-worked-out economic projects. A need still exists for private investment and investment in people. That is, a publicly-built power station needs a market; commodities to be developed need entrepreneurs.

There are also other problems inherited from the colonial period: Prior to independence, most of the civil services were staffed by people from the metropole who were paid according to metropolitan standards (and frequently with an added increment). Thus a government salary is many times the average level of income. To retain these is a big drain on the budget. And, in some cases, as in the Congo, the incomes of the local staff are raised to European levels.

Many of the problems may become easier to solve with independence. A self-governing people can do much. A popular government may be better than an efficient government. For example, a popular government can get more compliance with disease control measures. With a newly independent government one gets new drive, new vitality.

Conclusion

Young countries are like young people. Some have great potentialities for good or bad, some start off with good training and some very poorly equipped. They all have great problems which we cannot solve for them but can only stand ready to help, not expecting too much, but being ready to show sympathy and understanding. This is going to be very hard, because the new countries are going to be very impatient and want their standard of living to grow rapidly. Broad sustained economic development will take capital from abroad, take entrepreneurs, and take help in "know-how." But it will be hard for the new countries to realize that whatever else economic development takes, it takes time.

Comments by Thomas M. Franck

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At this meeting one need not find solutions to the legal issues presented, just understanding. I am short on solution, long on understanding. I would like to set forth for you, though, six problems of law in the emerging states.

1. There has occurred an enlargement of the legal theory of self-determination. The last sixty years have culminated in 1960. The existing boundaries in Africa, however, are basically unrealistic. Split tribes are not pleased at finding themselves on both sides of a boundary line. In British Togoland there were contending demands by two ethnic groups—the Ewes and the non-Ewes. The United Nations decided to hold a plebiscite for the territory as a whole and thus the non-Ewes outvoted the Ewes. The decision itself to have the plebiscite for the whole territory decided the issue. The same problem recently came up in the British Cameroons. The northern and southern regions were polled separately with a predictable outcome. The same is true with Katanga today. The people there want independence chiefly because of economic factors. The question is: Can the rest of the Congo be let suffer, as Katanga has 60% of the gross national product? There are other boundary disputes such as Morocco-Mauritania, Ghana-Togo, Somalia-Ethiopia.

2. There are problems of state succession—of continuation of the benefits and continuation of the obligations of the metropole. For example, the Government of Belgium had a large block of shares in the *Union Minière*. Who gets them now—the Government of the Congo or the Government of Katanga? This is like the question of who gets the Indian archives in London—the Government of Pakistan or the Government of India?

There is the problem of the succession of treaty rights. The new state may make a declaration assuming all treaty obligations, or it may accept some and reject some. How will this determination be made? What if the new state says nothing?

3. There is likely to be new functional associations. The arrangements worked out among the new states may embody novel solutions. Ghana-Guinea-Mali are in contract relationship to unify certain political institutions, but there is no merging of sovereignty. International law will have to accept these types of arrangements.

4. There is also a question of regional uniformity of laws. Usually the jurisdiction of the Privy Council in London continues after independence. However, there is a desirability of uniform legislation, especially in the commercial field. This is met, however, with a desire on the part of most newly independent states of not wishing to surrender equality of sovereignty.

5. There is a problem of property law in most of the new African countries. The traditional system is the tribal system. Here the Chief has the power to dispose of the land. Many of the urban population want some land when they go back to the country. Under the tribal system this is possible, for the Chief just assigns them some. However, to counter this system there is now an emergence of a commercial class who want clear titles.

6. There is also the problem of all these new states in the United Nations. Many of the new countries are small states and are economically poor.

NOTES ON UNDER-EMPLOYMENT

BY ANDREW M. KAMARCK[1]

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The topic Mr Chisiza assigned to me to discuss is 'In the context of an underdeveloped country, what quick measures can be taken to minimize under-employment'. The first point to make, of course, is that the answer depends on the particular underdeveloped country, its particular circumstances and the kind of under-employment we are concerned with. But this does not help very much.

To begin with, then, I will define 'under-employment' generally as the labour position where without a change in the production techniques used or in the capital endowment, one can subtract people from the labour force without a loss of output. Within this definition, there are several major possible kinds of under-employment. One cannot begin to suggest the appropriate lines of policy action for a government to take to deal with the problem of under-employment until one discovers what particular kind of under-employment is involved (and what its magnitude is).

One fairly obvious type of under-employment is seasonal. This may be due to the changes in the seasons over the year, due to consumer habits (Christmas and Easter buying) or it may be due to the habits of the industry, for example, the American automobile industry's insistence on introducing new models every year at a particular time. Under-employment in agricultural countries due to the impact of the seasons can sometimes be cured by the farmer himself. Dr Jones in his excellent paper pointed out that farming is an activity where young men can put in an investment 'consisting almost entirely of their own labour and foresight'. 'A very great deal of the capital in farms, in the form of perennial orchards, of cleared and developed land, of terraces and drains, has been built up simply by the labour of the cultivator, frequently by labor that could find no other employment because of the seasonal rhythm of farming.' If existing under-employment is due to the fact that the farmer does not know enough or is not sufficiently motivated to take advantage of the

[1] The views expressed are those of the author and do not necessarily represent those of any institution with which he may be associated.

slack seasons to invest his labour in his farm, the government policy answer may lie in agricultural research and extension work to persuade the farmer to invest his spare labour in building up his farm. In many countries, where the weather may not permit this, the answer has been the provision of work on the roads or other public works which are scheduled for the slack season. There is a case in these circumstances for using a different and lower scale of pay than is applicable to workers whose sole occupation is wage labour. In many countries of Africa, such work traditionally was not paid for at all, but regarded as a social obligation or kind of tax paid in services, this was also often true on the American frontier. In some countries such as Guinea that have reintroduced this technique, it is now dignified by a new name 'investissment humain' or human investment. In Tunisia, work has been provided for the agriculturally under-employed in a vast well-worked out programme of conservation and afforestation. Here, the workers receive a small payment in money and the rest in the form of food provided through the American surplus food disposal programme. In some countries, farmers combine farm work with a complementary occupation — working as woodcutters in the forests in winter, for example. Agricultural processing industries may also help in this regard if their peak needs for labour in these plants can be set to coincide with the period after the harvest.

Then there is what might be called 'sociological' under-employment, which may be particularly important in parts of Africa. This may arise from a rigid division of labour between the sexes. If men, for example, regard only the clearing of new land in preparation for cultivation as man's work and the actual work of cultivation as women's work, then the men may be under-employed in the periods when no new land has to be cleared. This may be one of the economic reasons for the widespread practice of migrant labour in Africa. As Walter Elkan has pointed out, a man can maximize his income by going to work in industry or the mines as a migrant labourer, leaving his family to cultivate the land he has cleared and returning home to clear new land when this is necessary. Migrant labour, in essence, is a solution to this sociological kind of under-employment that the average African has worked out for himself. Of course, under this solution there may not be sufficient jobs in industry or mining to absorb all of the men who would want jobs and this sociological under-employment may persist for this reason. The costs and time involved in the men getting from their farms to the job opportunities in industry or mining may also be very high or the men may not know of the jobs available hundreds of miles away and this may result in inhibiting the movement and preventing this cure to under-employment. But, except in the early period when industry and mining were first beginning in Africa, and except in very special circumstances today, this does not appear to be a factor in Africa; on the contrary, it is remarkable the obstacles and the distance the average African man will overcome to get to a job that is available.

An alternative solution to the 'sociological' under-employment is to change the kind of farming that is done and to involve the men in the farming work more intensively. Dr. Jones has spelled out in his paper ways in which agricultural output could be raised. Many of these would involve employing the men more fully. The very fact of introducing new tools or equipment into agriculture would make it possible for men to participate in what before had been considered women's work. Dr. Jones has also suggested the organization of conservation or irrigation districts run by the farmers themselves with government assistance. And, he points out, 'Frequently, too, some of the labor and management required for their operation can be provided by the farmers themselves when regular farm work is slack.'

Then there is the kind of under-employment that is due to over-population: so many people on the land that farms are smaller than the area a man and his wife could cultivate, for example. This is, probably, not a widespread problem in Africa. There are instances of it in particular areas, perhaps here in the southern province of Nyasaland. In part, it is due to the fact that traditional or tribal attitudes may inhibit moves to under-utilized land. When I say 'tribal' in this context I am referring not only to Africans: the barring of African settlement from the White Highlands of Kenya until recently was also due to this sort of tribal feeling by the Europeans, for example. (I am sure the audience can think of other examples.) Where the barrier to movement may not be sociological it may be due to difficulties in using the available land because of the lack of the necessary roads or wells or because of tsetse fly or other infestation. In these cases, the solution may be one of public investment to eliminate the barriers to movement. An alternative which also has to be studied and weighed against resettlement, of course, is to take measures to improve the productivity of the existing land through capital, improvement of techniques, etc.

Still another solution to this type of under-employment is that adopted by many of the European countries — the emigration of surplus population to growing industrial centres. Much of the southern Italian problem is being solved in this way — by emigration to north Italy, to other European countries and overseas. Spain, Greece and Turkey are also trying this same solution. In some cases the governments of the emigrants' countries concerned have directly or indirectly facilitated this solution — by subsidizing the emigration or by working out agreements designed to improve the living and working conditions of the emigrants in their new homes. A country like Scotland by providing superior educational facilities for its children turns out more trained people than the country can absorb but the same education gives the Scots the skills by which they can make their way in the world.

Emigration is also a technique of development as Dr. Gaarlund has brought out in his illuminating paper on the Swedish economic development. It makes it possible to reduce population growth within the country and so to devote more of the limited capital available to improving the standard of living and less to taking care of more and more people at the same low or decreasing standard of living.

The possibilities of emigration in Africa in the future from one African country to another may in some cases be quite bright. Countries like Liberia and Gabon, for example, with extraordinarily rich deposits of minerals and very small populations may well need large numbers of immigrants if the full benefits of their resources are to be taken in Africa. Action such as that recently taken in Tunisia to introduce family planning is also important as a means of reducing under-employment.

So far I have not touched on industry or industrialization as a solution to under-employment. I believe that African countries should encourage industrialization as much as is reasonably possible and that this should be a top economic priority. The reasons for doing so are not mainly connected with under-employment, however. They are connected rather with the attempt to get economic growth ultimately faster than would come from pure reliance on growth in export earnings, etc. The possibilities of setting up economic industries in most countries in Africa are still very limited, no matter how far one stretches the concept of 'shadow prices' etc. There have been a number of contributions this week that have demonstrated this, notably by Dr. Brown and by Mr. D. S. Pearson. The industrial possibilities should be exploited to the utmost. But it would be foolhardy to imagine that these industries can possibly provide a massive amount of employment in a hurry. While doing all that is economically justifiable in this direction, the best use of the bulk of available government resources in most cases would lie in other directions.

There is a particular aspect of this general problem that I have been asked to discuss which is of growing importance in Africa. I do not know whether it has yet appeared in Nyasaland but if it has not it will. Strictly speaking, it does not fit into my definition of under-employment. However, since this has not been discussed by anyone so far in this symposium, it seems to me it is worth considering since it can be a major economic and social problem for a newly-independent country. What I am talking about is the growing number of young men without regular work in many African towns and cities. These are usually young men from rural areas who have acquired a certain minimum of education and, consequently, feel themselves above the occupation of farmer. In some countries, this is called the problem of the 'school leavers'. This is a complex problem and I am far from qualified to discuss it properly. But there are some remarks I can make about it and about what to do about it which may be of some help in at least getting some thinking started on this subject.

In part, one of the causes of this phenomenon is a wage and salary structure that has got out of line with the economic facts. At this point in time this particularly applies in some countries to the lower clerical jobs. The wages paid in these jobs were established when there were very few people who had the small amount of education necessary to fill them and, consequently, compared to the average *per capita* income in the country the wages were high. Now that there are a large number of primary school graduates qualified to fill these posts the salary structure is too high compared to the supply of people available. The result is that a primary school leaver who may have gone to school with the expectation of getting a clerical position will prefer to stay in a town without a job for months or years waiting for an opening to turn up rather than resign himself to going back to farm work and missing the glittering prize of work in a white collar. Moreover, his family, who has sacrificed to send him to school, would regard him as a failure if after all that education he becomes a farmer like his uneducated brothers.

This type of phenomenon is not unique to Africa: Italy experienced a somewhat similar 'unemployment' during the post-war period as the peasants, principally from the south, moved from the country into the cities ahead of the time that regular jobs could be provided for them. The reason they moved was that the chance of eventually getting a much higher income, even at the cost of months of difficult existence in the city, was much more attractive to them than the continuation of the poverty-stricken life their fathers had led. Somewhat as in Africa, the city earnings were kept up above the real market price by trade union and government action. In the Italian case, the number of men in the cities searching for jobs remained almost constant for many years in spite of the fact that the expansion of the economy was continually absorbing them into new jobs. As fast as one peasant got himself systematized in a regular job, another peasant would come to the city to take his place. The number of men seeking jobs was determined mainly by the opportunities there were in the city to carry on a hand-to-mouth existence — such as the men you encountered when you drove in Rome who insisted on watching your car when you parked, whether you wanted it watched or not.

In Africa, the number of men who can live in town without regular work is, in part, determined by the number of opportunities there are for picking up odd bits of money as in the Italian parallel. In Africa, another factor, perhaps much more important is also at work. This is the nature of African society.

There is a recent book of Romain Gary's that takes as its theme a quotation from a Russian poet, Sacha Tsipotchkine. This quotation freely translated runs somewhat as follows:

> 'Man — certainly. We are perfectly in agreement — one day Man will appear. There is still needed a little patience, a little perseverance — he cannot be more than 10,000 years away in the future. At the moment, there are only a few traces, a few presentiments, a few dreams. At this instant, the being who exists is only a pioneer of Man himself.'

One part of the problem in Africa, as I see it, is that human beings have evolved here somewhat farther along the road to becoming 'man' than is economically desirable.

The relevance of all this is that one of the important reasons why it is possible for so many men without jobs to continue to live in African towns is the responsibility Africans feel for their 'brothers' in the widest sense of the word. A man in town with what is regarded as good income by his relatives in the country often finds himself having to support these relatives who come and live off him. I have not seen any economic study of this but I imagine that the impact must tend to be somewhat as follows: A man with a good income in town may continue to acquire dependents until the average standard of living of himself and his immediate family sinks to something like the average standard of living of his rural relatives and there is, then, no further inducement for them to come to town and give up working.

This human feeling of responsibility for one's extended family is also, of course, an important factor in inhibiting the development of African entrepreneurs. It is very difficult for an African entrepreneur to build up his capital since any success tends to attract more and more dependents to him. John D. Rockefeller was once asked the secret of business success. He replied, 'Never let your wife know how much money you are making.' And, as a matter of fact, he did just this: his wife thought he was still a relatively poor man when he was already many times over a millionaire. In Africa, perhaps, the secret of economic development will turn out to be: 'Never let your relatives know that you are making any money.'

This is, of course, advice that does not help us move towards the poet's goal of developing 'Man' but this is an economic symposium and it may help in the goal of developing the economy.

I know these remarks may worry many of our African friends in the audience. But I hope that they are tolerant enough to realize that the kind of development of certain personalities that I am talking about was also very worrying to many people in Europe when industrialization first started there. I would like to recall to you the many hostile references in English literature of the period to the 'New Men' when they appeared. Dickens's *Hard Times* is just one example that comes to mind. As one consolation, it may be that this may be an instance where it is necessary for human beings to fall one step back to leap forward farther. The original John D. Rockefeller made possible the current generation of Rockefellers, a family of whose social and human contribution any country would be proud.

Aside from this somewhat dubious philosophical excursion, what can governments do about the problem of the unemployed young men we are talking about? There are a number of possibilities. One is to attempt to gear education more closely to the real needs of the country. Another is to take measures to narrow the great discrepancy in incomes between town and country. This can be done from the two sides of the gap. Measures need to be taken to improve agricultural productivity and raise agricultural incomes, from the one side. On the other, as a minimum, governments must be careful not to raise the incomes of those groups in urban areas where there is an over-supply of applicants still further. There is a tendency for governments to invest too much in towns and make them still more attractive through building subsidized housing, TV, etc., and not invest enough in developing the rural areas. One might suggest also that, as recently in Nigeria, the incomes of the appropriate urban groups might be cut. To some extent, the process of inflation in India, Pakistan, and now Ghana is serving a similar purpose — to bring the wage and salary structure, which earlier had been appropriate when it was necessary to rely on expatriates, back into line with the new conditions of the country.

Another solution might be the one that is being explored by several countries at the present time — the formation of Civilian Conservation Corps, Workers Brigades, Development Service Corps, etc. That is, the school leavers who refuse to go back to the farms and congregate in the towns are taken into a semi-military organization but one devoted to peaceful ends. Such a development service corps could be used to open up new areas through the building of roads, wells, public buildings, housing and laying out farms using the best agricultural knowledge available. They could then be settled on the farms that they had carved out.

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Nigeria, at present, is experimenting with agricultural settlement areas. The idea is to lay out farms in new areas in such conditions that the school leavers could put to work their presumably greater willingness to apply new techniques and so earn higher incomes than the farmers in the old areas. I understand that this work is being done by the governments of the regions themselves rather than by any development service corps and, consequently, is very costly. It may be too costly to be really economic.

The general measures to help economic development that we have been discussing all week will also of course serve to meet this problem of movement from rural to urban areas. But, as the Italian experience shows, it may take many, many years before the problem becomes fully manageable. In the meantime, it is worth considering special measures to mitigate the situation.

April 30, 1964

SOME MAJOR FACTORS INFLUENCING ECONOMIC DEVELOPMENT OF AFRICA

by

Andrew M. Kamarck

The first fundamental fact in Africa's development is that Africa is still very much an unknown continent economically speaking. The shape of Africa as a gigantic question mark is appropriate in this regard. Africa, preeminently, is the tropical continent. Man has only comparatively recently started systematic research on the tropics and we still know very little about them.

The bulk of the people in Africa still make their living from agriculture. It is not at all uncommon for 90% of the labor force to be in agriculture. Enough has been learned about African conditions to demonstrate that agriculture in Africa has many problems which do not exist in the temperate climates, and that, consequently, the pattern of agriculture and of economic development must be quite different. It took a considerable time to learn that tropical soils are not rich in spite of the evidence that springs to one's eyes. Everyone who has traveled in Africa has seen instances where fence posts take root and start growing, telephone poles put out branches. The exuberance of the plant life seems to show that the soils must be very rich. The truth is quite the opposite. The tropical soils, aside from certain exceptions are generally poor soils and they are very easily destroyed. Tropical soils are usually thin soils, poor in humus, even those in the dense virgin forests. In the forests the plants and trees are constantly returning to the supporting soil the elements that they have borrowed from it so that a perfect equilibrium is maintained. But if the tree or plant cover is removed, the thin layer of humus can be soon exhausted or washed away with the first heavy rains.

Tropical soils are threatened with degeneration or destruction as soon as the natural plant cover is removed. When the plant cover is present the surface of the soil is shaded and kept at a lower temperature and the hard tropical downpours are prevented from striking the soil directly. When the soil is laid bare, its temperature goes up, the proportion of humus diminishes rapidly with the sun hastening oxidation, the mechanical disintegration of the soil is accelerated with the big swings of temperature between day and night, and the rains and wind stimulate erosion.

A peculiar transformation of the soil takes place in the tropics. This is the formation of laterite. With the prevalence of strong heat and abundant rain, the silicate minerals of the rocks are decomposed and leached out so that the proportion of iron and aluminum hydroxides is increased. This results in the formation in some cases of economic iron ore or bauxite deposits (and this helps explain why iron and bauxite are such an important part of Africa's economic potential). In other instances, the laterite is easily compacted and the passage of a tractor or other heavy agricultural implements may leave behind soil that is unworkable.

There are a few important exceptions to the poverty of soils in tropical Africa. The first is found in the alluvial plains sometimes along the coast and in the bottoms of wide valleys. These are clay soils usually, sometimes almost black, rich in organic matter. The second exception is the tropical volcanic soil. Such soils are usually very fertile. In Africa, volcanic soils are found in Eastern Congo, Ruanda Burundi, the slopes of Mt. Kenya, Mt. Kilamanjaro, Mt. Elgon in East Africa and Ethiopia. Finally, the forest soils of the tropical mountains that are high enough to be out of the heat of the plains also tend to be rich in humus and therefore fertile.

The Africans over the centuries have established a method of cultivation to meet the dominant conditions they were confronted with. This is "shifting or semi-nomadic cultivation." This way of farming is still followed in most of Africa and has an impact not only on the agricultural but on the other economic activities that take place in the country. The cycle of "shifting cultivation" is roughly as follows. The men of the village, clan, or family, clear the land chosen for cultivation. The trees are cut down, the branches cut off, and the trees and branches are burned on the soil to be cultivated. This, enriched by the ashes of the burning, is then cultivated by the women.

"The spectacle is very typical: a few tall trees, either protected by taboo or considered too difficult to fell, are still standing, witnesses to the former forest splendour and also precious seed-bearers for future vegetable recolonisation; everywhere the stumps are standing, and between them the soft iron hoes of the women scratch the ground to make it produce a few crops of bananas, manioc, or sweet potatoes. Here and there, dotting these primitive fields, the untidiest in the world, are the blackened trunks that have not been properly burned. ... Two or three years, sometimes four, of this exposure of the soil to the sun's rays and to the rains, are enough to deprive it of its fertility, and then the village waits for the signal from its old men and its witch doctors to depart to a new site suitable for temporary occupation. The abandoned clearing is then reconquered more or less rapidly by the forest, and this recolonisation, depending upon the nature of the sub-soil, the degree of deterioration, and the extent of the clearing, is more or less complete, or, in other words, the secondary growth forms an assemblage perhaps as rich as the forest previously cleared by the cultivators.

"When sufficient land is available, the semi-nomadic group, under the leadership of its chiefs, makes ten to fifteen shifts before returning to a spot formerly occupied by it. This forest land, left uncultivated for thirty to fifty years, usually has its soil restored sufficiently to allow it to withstand a fresh cultural occupation under conditions not more harmful to it than those obtaining before; that is to say, if allowed the same period of rest, it is capable of a fresh regeneration sufficient to allow still another revolution of the cycle."

Source: Edgar Aubert de la Rue, Francois Bourliere, and Jean-Paul Harroy, The Tropics, New York, 1957 (pp. 171-172).

As populations increase, the farming area becomes smaller and smaller in relation to the population. Consequently, the periods of "bush fallow" must get shorter and shorter between periods of cultivation and the productivity of the soil must go down. This problem has already begun to arise in several places in Africa where, for tribal or other reasons, the people can not easily move into new areas where land is still abundant. Even where enough land remains available, the possibility of an improvement in the standard of living of the farmers from the land is strictly limited as increasing productivity under these circumstances is almost impossible.

There are two main ways that Africans have chosen to overcome the difficulties of tropical agriculture and to improve their lot. The first is go into tree crops: oil palm, manioc, bananas, cocoa, coffee largely since World War II and, in the last few years, tea. The tree-crops quite simply by-pass the problems of arable agriculture as brought out above. The tree crops shading and protecting the soil achieve the same sort of equilibrium with the soil and the climate that the original forest did. Further, it becomes possible for the farmer to have a settled farm to which he can apply the results of research, improve his methods and increase his productivity and income. In general, in tropical Africa it is the tree-crop farmers who have succeeded in improving their lot, the other farmers sometimes at best merely have held their own.

The second main way the Africans have followed (mostly in southern, central, east and parts of West Africa) has been to combine wage-labor and agriculture. This is essentially what is usually discussed as the "migratory labor" system that is so prevalent in Africa.

The "shifting cultivation" system in essence results in what I have called "sociological underemployment." This may arise from a rigid division of labor between the sexes. If men, for example, regard the clearing of new land in preparation for cultivation as man's work and the actual work of cultivation as women's work, then, the men may be underemployed in the periods when no new land has to be cleared. A man can maximize his income by going to work in industry or mines as a migrant laborer, leaving his family to cultivate the land he has cleared and returning home to clear new land when this is necessary. Migrant labor in essence is a solution to this sociological kind of underemployment that the average African has worked out for himself. Of course, under this solution there may not be sufficient jobs in industry or mining to absorb all of the men who would want jobs between the times that they are needed on their farms and this sociological underemployment may persist for this reason. The costs and time involved in the men getting from their farms to the job opportunities in industry or mining may also be very high or the men may not know of the jobs available hundreds of miles away and this might result in inhibiting the movement and preventing this cure to underemployment. But, except in the early period when industry and mining were first beginning in Africa, and except in very special circumstances today, the latter factor does not appear to be of importance in Africa; on the contrary, it is remarkable the obstacles and the distance the average African man will overcome to get to a job that is available.

The extent of this migratory labor in Africa is quite startling for anyone coming from outside Africa. The economies of Upper Volta, Nyasaland, Basutoland, are highly dependent on the export of labor and the income remitted to the families by the workers who go out. Likewise the gold-mines of South Africa, much of the industry in southern, central and eastern Africa, the sisal plantations of Tanganyika, the large coffee farms of Uganda, and the cocoa-farmers of Ghana are dependent on this migrant labor for their continued output.

While the system of migrant labor was probably a necessary phase in the development of Africa, with time it has become clear that the gains from the migrant labor system have been exhausted and further progress depends on a different kind of development. The disadvantages of the migrant labor system are that with the migrant moving back and forth between the money economy and the farm, he is unable to become either a more productive industrial worker or a more productive farmer but becomes stuck on a plateau of relative inefficiency in each case.

Over the last 15 years various African governments have been searching for ways of replacing the system of migratory labor. They have tried to do this by improving the methods of farming so that, on the one hand, men who remain on land can derive a good income and, on the other hand, the men who work for wages in the money-economy will remain settled in town as a permanent labor force.

In Kenya and Southern Rhodesia, programs of land settlement have been attempted under which permanent farms farmed on the basis of mixed farming have been set up with a generous infusion of extension service workers to give advice on improved farming methods. These have had considerable success helped largely by the fact that due to the altitude it has been possible to adopt much of the temperate zone farming methods. And, in both countries European farmers and the governments have over a period of some 50 years acquired the knowledge of what modifications in farming have to be applied for success.

In the Congo, a promising experiment, the paysannat, was cut short by independence which resulted in the departure of the extension workers needed to keep the scheme going. The paysannat was a scheme under which farmers were settled along a road with their farms laid out adjacent to one another in strips perpendicular to the road. These strips were sub-divided into 15 or 20 sections, with each section and each farm being similar to the adjacent section on either side. In these strips the peasants were to practice a kind of rolling rotation, moving down the strip section by section from year to year with particular crops and leaving the sections behind to go back into bush fallow.

In the rest of Africa, the basis for improved productivity in agriculture and industry is evolving to some extent by itself. In those areas where mixed farming is possible, a gradual evolution of property rights in land is taking place, which at some point can become recognized in the demarcation of land and the issue of titles to the land. Under these circumstances, it then becomes possible for the farmer to borrow on the land as collateral and so begin to increase the amount of capital equipment with which he farms. This is somewhat jumping the gun, however, since in most of Africa these conditions are not yet present.

While for the tree crops much has been learned, mainly since World War II, on how to improve output, for the annual crops this is not yet true. On the annual crops, various experiments have been made with fertilizer to try to restore and maintain the fertility of the soil. This so far has had little success: fertilizers are expensive. Secondly, so little is still known about the tropical soils that the specific deficiencies that need to be made good and the way in which they can be made good is usually not known. Then in most circumstances, with the hard tropical downpours, the fertilizer a farmer may put on the soil generally goes out to sea with the next rain.

One further comment must be made on the tropical soils which helps explain the shortage of proteins in the African diet -- with its concomitant impact on the work efficiency of human beings.

> "As might be expected, tropical plants tend to be poor in nitrogenous constituents which must be manufactured from the precarious supplies in the soil. On the other hand they are relatively rich in carbohydrate which can be synthesized by the plant from carbon dioxide in the air and the abundant water. Sugar, manioc, rice, corn, and sweet potatoes are familiar examples of tropical foodstuffs

rich in carbohydrate but relatively poor in protein..."

Source: Douglas H. K. Lee, Climate and Economic Development in the Tropics, Harper & Brothers, New York, 1957 (Published for the Council on Foreign Relations), p. 33.

While the soils in tropical Africa are poor, the climate favors reproduction, growth and survival. The result is a multiplicity of species and sub-species with a relatively few individuals of any one. Only a mixed population with varying demands can exist where reproduction and survival is favored by the climate but the store of any one requirement is limited and where as a result the competition for survival must be most fierce. It is not surprising also that the human population in Africa was also sparse and widely scattered. For man to survive in large numbers and prosper he must be able to meet and beat off assaults from every quarter. The poet for the tropics is Henley and, above all, never Wordsworth.

This central fact of the tropics -- fierce competition for survival but survival depending on dispersion -- has large economic implications. Tropical lumbering, for example, is quite a different kind of operation from temperate zone lumbering. In the tropics there may be only one or two specimens of any particular tree per acre. Consequently, the lumberer is engaged in an activity that is more like hunting than mass production. Another even more important fact is that whenever man comes in and tries to grow a pure stand of any particular plant, he runs up against tremendous disadvantages. There is a good chance that among the multiplicity of life that exists there is already at least one existing or potential enemy of the pure stand. Once the enemy discovers the pure stand and attacks it, it will flourish at the expense of the pure stand until both are reduced to the general state of a small number of individuals leading a life of precarious coexistence. The enemy that attacks may be a microbe, a virus, an insect, an animal, a bird, or even a plant. Defense against these attacks must therefore be an important part of any major innovation in agriculture in the tropics.

The failure of the British $100 million groundnut scheme in Tanganyika was in part due to this factor. Africa is littered with the ruins of similar projects which are less well known like the CDC chicken scheme in Gambia, which was wrecked by Newcastle disease, or the Richard Toll rice-growing scheme in Senegal which has not yet learned to cope successfully with the hundreds of thousands of weaver birds that descend on the fields each year when the rice is ripe.

The multiplicity of species in Africa includes the bearers of diseases of animals and human beings. There is no question but that disease in Africa is a major factor holding up development. The diseases that affect animals (in particular the trypanosomiases carried by the tsetse fly but also the tick-carried East Coast fever, rinderpest, etc.) prevent Africa from utilizing its vast stretches of savannah as the basis for a major meat-producing industry. The economic cost to Africa of the human diseases also is immeasurable. The major diseases that are still important in Africa include malaria, which still affects millions of Africans; at least five million people in Africa are still affected by leprosy although this is also easily controlled; "river blindness" affects nearly 20 million people in tropical Africa to a smaller or greater extent. Bilharzia or liver fluke deserves special mention. It is still spreading throughout Africa. It is a debilitating disease and no satisfactory cure for it has yet been developed. There are a whole series of other diseases, filaria diseases other than river blindness, yaws and the venereal diseases which are also important.

The lack of knowledge about Africa is an economic factor not only in agriculture, health, but in most fields. Take electric power, for example: whenever there is need for more power in a country and a decision has to be taken, the lack of continuous data over a sufficiently long period of time on river flow often hampers the decision that needs to be made. When the two Rhodesias were considering building a big hydro project in the early 1950's and the decision had to be made between building the project on the Kafue River or the Zambesi River, an important factor in the decision to build the Kariba project on the Zambesi River was that the engineers knew somewhat more about the Zambesi than they did about the Kafue and therefore could be more sure of designing the proper dam there. But although they knew more about the Zambesi than the Kafue, there were still many surprises from the Zambesi. The major construction on the Kariba dam began in 1956. In 1957 work was held up because the Zambesi came down in a flood which according to the engineers should occur only once in a hundred years. After construction had recovered from this setback, the following year when the rains came, the flood that came down was the "10,000-year flood"! Fortunately, this uncertainty had been taken into account: a large enough contingency reserve had been put into the financial estimates and the process of construction was such that no major damage was done and the dam was completed on time and within the estimates.

Aside from a few instances such as the work on yellow fever, there was little significant research on African problems prior to World War II. After the war, financed by the metropolitan powers, there was a substantial increase in research and much important useful knowledge for the economies of Africa was secured. Since the independence of most of the African countries, however, research is beginning to suffer. The expatriate research officers are tending to depart and Africans are not yet ready to take up the burden. The newly independent governments find themselves faced with so many demands on their resources that research almost inevitably takes a lower priority than the need to build a new road or a new school in a particular area. France and the United Kingdom are still doing a great deal in helping research in Africa but almost inevitably the totality of research now is less than it was a few years ago, and this is bound to have repercussions on the pace at which development will be able to take place in the future.

In the economic development of Africa so far, the most potent propulsive force has been the development of mineral resources. It was minerals that touched off the economic development of South Africa and it is minerals which up until fairly recently have dominated the pace of economic growth there. Minerals are the largest export from Libya, Algeria, Morocco, Mauretania, Guinea, Sierra Leone, Libya, Congo, the two Rhodesias. The first minerals of major economic importance in Africa were gold and diamonds, and she is still the world's main source. They are still an important export from South Africa, Sierra Leone, Ghana, Congo and Tanganyika. In recent years, copper, iron ore, bauxite and oil have become the new propulsive factors in African economies, particularly since World War II. Africa has now become the second most important copper source in the world. The Rhodesias, Congo, South Africa, supplemented by small production from Uganda and potentially Mauretania, have made Africa the fastest growing copper producer in the world and probably the area in which most of the future development will take place.

Iron ore and bauxite seem, however, to be modern Africa's minerals par excellence. It is almost easier to list the countries in Africa that do not have important reserves of iron ore than to list those that do. Bauxite also is present in many countries. Within the last few years, Africa has also become a major oil producer. Algeria and Libya together now are producing around

50 million tons of oil. Nigeria is expected to reach 5 million tons shortly and there have been smaller reserves discovered in Gabon and Angola.

The systematic search over most of Africa for minerals has scarcely begun. Aside from the oil and some of the recent discoveries of gold and copper in southern Africa the minerals that have been discovered and exploited in Africa are those that have been evident in the form of out-crops or that the Africans have already been exploiting over the centuries. It is quite likely that Africa will be found to possess whatever minerals prove desirable in the future. For example, if the demand for tatanium really develops, it will be Sierra Leone that has the rutile deposits to satisfy it.

The minerals of Africa have sparked off economic development in a number of ways. First of all, mining has acted as the basis and the attraction for the inflow of capital from abroad; it has justified and made possible the building of port, railway and power infrastructure which has then been available to the other parts of the economy. The earnings from the minerals have made it possible for the governments to finance the basic minimum of services necessary and to provide the help needed by other parts of the economy, notably agriculture. The mineral development particularly in South Africa provided the first market for the growth of manufacturing in that country and it has continued as the main source of the foreign exchange for the economy.

An important factor -- and growing problem -- in many of the African countries in recent years is the increasing number of young men without regular work in many African towns and cities. These are usually young men from rural areas who have acquired a certain minimum of education and, consequently, feel themselves above the occupation of farmer. In some countries, this is called the problem of the "school leavers." This is a complex problem. In part, one of the causes of this phenomenon is a wage and salary structure that has gotten out of line with the economic facts. At this point of time, this particularly applies in some countries to the lower clerical jobs. The wages paid in these jobs were established when there were very few people who had the small amount of education necessary to fill them and, consequently, compared to the average per capita income in the country the wages were high. Now that there are in many countries a large number of primary school graduates qualified to fill these posts the salary structure is too high compared to the supply of people available. The result is that a primary school leaver who may have gone to school with the expectation of getting a clerical position will prefer to stay in a town without a job for months or years waiting for an opening to turn up rather than resign himself to going back to farm work and missing the glittering prize of work in a white collar. Moreover, his family, who has sacrificed to send him to school, would regard him as a failure if after all that education he becomes a farmer like his uneducated brothers.

This type of phenomenon is not unique to Africa: Italy has experienced a somewhat similar "unemployment" during the postwar period as the peasants, principally from the South, moved from the country into the cities ahead of the time that regular jobs could be provided for them. The reason they moved was that the chance of eventually getting a much higher income, even at the cost of months of difficult existence in the city, was much more attractive to them than the continuation of the poverty-stricken life their fathers had led. Somewhat as in Africa, the city earnings were kept up above the real market price by trade union and government action. In the Italian case, the number of men in the cities searching for jobs remained almost constant for many years in spite of the fact that the expansion of the economy was continually absorbing them into new jobs. As fast as one peasant got himself systematized in a regular job, another peasant would come to the city to take his place.

The number of men seeking jobs was determined mainly by the opportunities there were in the city to carry on a hand-to-mouth existence -- such as the men you encountered when you drove in Rome who insisted on watching your car when you parked -- whether you wanted it watched or not.

In Africa, the number of men who can live in town without regular work is, in part, determined by the number of opportunities there are for picking up odd bits of work or money as in the Italian parallel. In Africa, another factor, perhaps much more important, is also at work. This is the nature of African society.

There is a recent book of Romain Gary's that takes as its theme a quotation from a Russian poet, Sacha Tsipotchkine. This quotation freely translated runs somewhat as follows:

> "Man - certainly. We are perfectly in agreement - one day Man will appear. There is still needed a little patience, a little perseverance, he cannot be more than 10,000 years away in the future. At the moment, there are only a few traces, a few presentiments, a few dreams. At this instant, the being who exists is only a pioneer of Man himself."

One part of the problem in Africa is that human beings have evolved somewhat farther along the road to becoming "man" than is economically desirable.

The relevance of this is that one of the important reasons why it is possible for so many men without jobs to continue to live in African towns is the responsibility Africans feel for their brothers in the widest sense of the word. A man in town with what is regarded as good income by his relatives in the country often finds himself having to support the relatives who come and live off him. I have not seen any economic study of this but I imagine that the way it works must tend to be somewhat as follows: A man who has a good income in town may continue to acquire dependents until the average standard of living of himself and his immediate family sinks to something like the average standard of living of his rural relatives and there is, then, no further inducement for them to come to town and give up working.

This human feeling of responsibility for one's extended family is also, of course, an important factor in inhibiting the development of African entrepreneurs. It is difficult for an African entrepreneur to build up his capital since any success tends to attract more and more dependents to him. John D. Rockefeller was once asked the secret of business success. He replied, "Never let your wife know how much money you are making." And, as a matter of fact, he did just this: his wife thought he was still a relatively poor man when he was already many times over a millionaire. In Africa, perhaps, the secret of economic development will turn out to be: "Never let your relatives know that you are making any money."

The kind of development of personality that I am talking about was worrying to many people in Europe when industrialization first started there. I would like to recall to you the many hostile references in English literature of the period to the "New Men" when they appeared. Dickens' Bleak House is just one example that comes to mind. As one consolation, it may be that this may be an instance where it is necessary for human beings to fall one step back to leap forward farther. The original John D. Rockefeller made possible the current generation of Rockefellers, a family of whose social and human contribution any country would be proud.

Some measures are being taken to narrow the great discrepancy in incomes between town and country from both sides of the gap. Attempts are being made to improve agricultural productivity and raise agricultural incomes, from the one side. On the other, as a minimum, governments must be careful not to raise town incomes of those groups where there is an over-supply of applicants still further. In Rwanda, Tanganyika and Nigeria, some steps have been taken to try to cut the incomes of the appropriate urban groups. To some extent, the process of inflation in India, Pakistan, and now Ghana is serving a similar purpose -- to bring the wage and salary structure, which earlier had been appropriate when it was necessary to rely on expatriates, back into line with the new conditions of the country.

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ECONOMICS AND ECONOMIC DEVELOPMENT IN AFRICA

(Chapter in forthcoming book, Social Research in Africa)

by

Andrew M. Kamarck

There is no African "personality" in economics. There is no "African" economic theory as such that has been developed for and applicable only to Africa. Most of the writing in economics and economic development problems and theory is usually presented in general terms applicable to all the world or to all of the underdeveloped world. Much of this is relevant to Africa and often has been the result of research on Africa but the conclusions are generalized into theory which is not limited to Africa alone. However, there are aspects of economic problems which are especially applicable to Africa as well as specifically African manifestations of general economic phenomena.

The economics most significant for Africa is the economics of development, i.e. the economics of a society that is transforming itself, rather than the economics of a society where the fundamental structure remains unchanged. Consequently, consciously or unconsciously, economists working on African economic problems tend to be much less narrowly specialized and to be more interested in problems related to other disciplines than is generally true of economists who work on industrialized societies. It is no accident that S.H. Frankel, a pioneer in work on African economic problems, who wrote the classic Capital Investment in Africa before World War II, is also the author of The Economic Impact on Underdeveloped Societies. The former work concentrated on the flow of capital into Africa;

the latter emphasizes that capital can do nothing except in the hands of people who know how to use it, maintain it, replace it and consume its products. The lesson of the second work, in short, is that economic development on any scale whatsoever is inseparably social and political transformation. In the same way, even the analysis of quite technical subjects such as the level of wages, agricultural productivity, etc., must go deep into the structure of African society.

Probably one of the biggest gaps in economic work on Africa so far has been the paucity of studies on the history of economic development in Africa. What is needed is not collections of curious historical facts, but an analytical history of why an economy developed the way it did. Aside from a handful of studies such as those of C.W. de Kiewiet on South Africa, N.A. Cox-George and David Carney on Sierra Leone, and the series being edited by David Walker on East Africa, the shelves are quite bare.

In addition to the emphasis on transformation of the economy, there are a number of other economic characteristics which are present in especially accentuated form in Africa and so especially differentiate the economic work on it from most other areas. The african economies, other than South Africa, are exceptionally "dependent" economies. They are dependent on the rest of the world not only for a major part of the supply of their total capital investment (at least 50% of the total) but also for a major part of their entrepreneurs, technicians and other key personnel. They are exceptionally export-oriented. The dependence of Africa's income on exports is greater than that of Latin America or Asia. In addition to being highly dependent on export income, the exports of the African countries consist in the main of one or a few primary products. (The impact of these factors is discussed later on in the section on Economic Dependence.)

A strong point in the economic development of Africa is that Africans in most areas have shown an exceptional willingness and ability to adapt or change their institutions to the requirements of economic development. There are, of course, many specific exceptions to this generalization but, in the main, the African openness to innovation is comparable perhaps only to the Japanese and Americans in the past. Herbert J. Spiro, in his The New Africa in Politics has made this point even more strongly: "... Africans are the most present-minded people on earth". "Without significant exceptions, all African leaders ... share the passionate desire to acquire all the good things which western civilization has produced in the two millenia of its history. They want especially to get the technological blessings of American civilization, and to do so as quickly as possible. The lack of historical consciousness of their peoples gives the African leaders a great advantage in moving rapidly toward this goal of modernization. They are not encumbered by written traditions, or by the visible and tangible physical presence of the ruins of their own 'civilized' past - as most Asians have been. Therefore, they do not have to reconcile every innovation with the different practices of their past."

There has also been an exceptional mobility of labor within and across national boundaries in response to economic demands. At the same time, the subsistence economy has continued to be a pervasive factor that influences economic behavior even in the most monetized African sectors.

A striking difference between Africa and most of the rest of the under-developed world has been, until recently, the absence of indigenous inflations and their accompanying balance of payments problems. This has been largely due to the monetary and banking systems of the colomial era which, whatever defects they may have had, were primarily designed to provide a sound currency and which were run by experienced technicians. There also has been absence of any latifundia and landlord-tenant problem in agriculture. This is, however, made up in Africa by the peculiar importance of the various kinds of communal or tribal land tenure arrangements which have dominated much of the agricultural economic policy and which according to some views have been so important in retarding economic progress.

Finally, the fact that Africa is preeminently the continent of the tropics, about which man knows least, has given an exceptional economic importance to research on tropical diseases, pests and agricultural techniques.

Defining and Measuring the Structure of African Economies

The first step in making any useful economic policy decisions in or about a country is to have some idea of what you are talking about. That is, the economist should have as accurate an idea as possible of what the economy actually is. One of the most useful ways of describing an economy is the preparation of what is called a system of national or social accounts. These give a systematic presentation of the major economic flows within the framework of a comprehensive accounting system. A fairly complete system of such accounts for a country presents information on the total value and the main categories of the goods and services produced during the year. It shows how the national income represented by those goods and services was divided by major economic groups. It tells how big a share of national income was consumed and how much was invested in future growth. It tells how important the role of government was and how much of the national income was used for governmental services. One part of the accounts presents the balance of payments showing the main economic relationships of the country with the rest of the world. Over a period of years, the national accounts show how fast the economy was growing in real terms and whether the standard of living of the average person was growing and how fast. National accounts in short can provide a kind of economic X-ray of the economy.

Most of the industrialized countries have only begun calculating national accounts regularly since World War II. In Africa even partial accounts for a single year do not exist for all countries, but considerable progress is being made. More than 25 African countries have at one time or another published simplified or partial national accounts for a single year and about 10 now produce regular annual accounts. South Africa has estimates from 1918 on, the Federation of Rhodesia and Nyasaland has a series for Southern Rhodesia beginning from 1939, for Northern Rhodesia from 1945, and for the Federation from 1950.

Aside from the incompleteness of the national accounts now prepared in Africa, they differ from those of industrialized countries also in significance. The national accounts describe best a monetary economy (although economists are also aware of pitfalls even there). In a country with a large subsistence sector, the significance of the accounts is quite different. The problem is that it is impossible to ignore the subsistence activities but it is almost equally impossible to bring them into the accounts in a meaningful way. How do you value something in money terms when its essence is that it is non-monetary? The pioneer work on this problem was done by Phyllis Deane in her Colonial Social Accounting. What she, and everyone since then, had to do was first to decide where to draw the line between non-economic and economic subsistence activities. The former (e.g. the passage of goods at the time of betrothal or marriage) could be neglected while the latter had to have a price tag put on if the goods and services involved were not exchanged for money but used directly by their producers. But the process of putting a price tag on subsistence output is in itself difficult to justify logically. As Phyllis Deane said: "Where the bulk of goods in a given category are traded, it does not greatly strain the conceptual framework to impute a value to the remainder. Where the bulk are not traded, it is obviously a highly artificial process which bears no direct relation to the physical facts of the case. The figure for subsistence output can never be more than a token figure."

Besides the problems of valuation, at present there is no general agreement on what should be valued in subsistence activities and included in the national accounts. A meeting of a working party on this subject at the Economic Commission for Africa in 1960 agreed that all countries should include subsistence activities in agriculture, forestry, fishing, building, construction and land works by households. It was left up to the individual countries whether to include: processing, storage, transport and distribution of own primary output; home processing of goods purchased; other services such as collection of firewood and fetching of water.

The general practice today is that a figure for subsistence is included in the national accounts, but it is quite clearly not of the same validity as the rest of the figures. With time, of course, the increased monetization of Africa will give more and more meaning to the prices used to evalue subsistence output. In the meantime, we have to make do with the figures we have. But it is important to remember that the significance of what appear to be similar figures is not the same in most of Africa as in more economically-developed countries. (In fact, the statistical data are not good enough even for making very meaningful per capita comparisons or comparisons of composition of output or income between any two African countries.) For example, when after making the usual allowances for subsistence production one finds the per capita income in a particular country to be, say, $50 equivalent per year, this should not be interpreted as having the same significance as $50 would have in the United States. A per capita income of $50 a year in the U.S. means death by starvation, whereas in Africa many populations continue to live and to grow on this low income level.

Another problem in the meaning of the national accounts that are prepared for African countries arises from the great economic importance in many countries of the expatriates and foreign investment. There are two conventional ways of presenting national accounts in this connection: one is to compute them on a territorial basis, taking into the accounts what happens within the territorial boundaries of a country and paying no attention to national ownership of assets or nationality of the income-receiver. In countries that have a large foreign enclave, this, of course, exaggerates the real income and well-being of the permanent residents of the country. Another method is to exclude the enclaves, but this understates the economic position of the country, since after all the country does derive some benefit from the expatriates present and the enclave investments. Jo Saxe has suggested that a compromise should be effected under which the accounts presented would "show clearly and in detail what part of the expenditure by expatriate individuals and which of the investments by foreign-owned firms have an affect on the incomes of the indigenous inhabitants". This important refinement will probably have to wait until much more progress has been made in compiling even the usual conventional accounts.

A somewhat different approach is represented in Barber's The Economy of British Central Africa. The non-African element in the economy of British Central Africa is so large and so important that it would be misleading to treat it purely as an enclave. Barber believes that economies like the one he discusses (i.e. the settler countries) should be considered as dual economies. That is, rather than considering a country as having a "money" sector and a "subsistence" sector in a single economy, the two parts, though connected, are sufficiently independent and autonomous to justify calling them two economies. He makes the point that traditional agriculture functions according to its own peculiar set of rules that differentiate its economic processes from the remainder of the economic system. The unique properties of this traditional economic system may have a crucial influence on the course of economic change (as will be discussed later on). In the money economy, production and exchange are well-organized, largely financed and administered by Europeans and heavily dependent on external trade and investments. Members of the indigenous people may derive part of their livelihood from both economies simultaneously or they may move between them at different times.

One important implication of the "dual economy" approach is that the usual simple test of economic development - increase in real income per capita - is not enough. One might get this by an increase in European immigration into the country, while the incomes of the Africans remained unchanged. The test consequently must be whether (a) income per capita increases in real terms for the economy as a whole, and (b) the per capita real income of the indigenous population also improves.

At the present time, there are two systems of national accounts being used in Africa, the U.N. "Standardized System" which is used in the non-French-speaking countries, Congo (Leo), Ruanda and Burundi and the "French System" used in most of the French-speaking countries. The difference between the two systems is one of approach mainly. The U.N. system stresses in its presentation the final destination of the main flows resulting from production and presents these final destinations in product, income and expenditure tables. The French system presents the intermediate calculations also whereby the final economic data can be arrived at from the basic data.

All of the difficulties in the preparation and interpretation of the national accounts in Africa have suggested to some economists that some alternative approach be adopted. Dudley Seers, about ten years ago, recommended that instead of trying to build up national accounts for a country, priority should be given to securing statistics on specific important aspects of the economy. Along this line, William O. Jones and Christian Merat have made an attempt at providing an indicator of economic well-being and of economic progress other than through construction of national accounts. They have done this by using the data on physical imports consumed directly by the indigenous inhabitants of ten African countries. The data they have presented do achieve their objective: Ghana, for example, clearly comes out with a much higher per capita economic well-being than the Ivory Coast in 1955-57 or any of the other African countries represented in the data. As a means of reconstructing the development of the African countries in the past when essentially only trade statistics are available, the Jones-Merat approach undoubtedly has considerable value. As a substitute for national accounts now and for the future, it is more dubious because less comprehensive and less flexible in its coverage of rapidly changing economies.

Economic Rationality

One of the early fundamental problems that economists encountered in Africa was the belief expressed by "old hands" that the general laws of economics do not apply to Africa because Africans do not behave in an economically rational fashion. Of course, there are very few people anywhere in the world who behave in a completely economically rational fashion. The question really is whether Africans, like other people, are sufficiently motivated by economic considerations to make economic analysis meaningful. The answer by economists has been unanimously, "Yes". In general, it has been found that whenever African economic behavior has seemed to be irrational it has been because there has been insufficient understanding of the major forces in his environment influencing his behavior. This has often been because of the lack of real understanding by the observer of the African environment. (As a matter of fact, some agricultural schemes and some industrial incentives in industry have failed because the Africans affected worked out what would pay them best more accurately than the people who set up the scheme.)

The accusation of economic irrationality has usually come in the form of a statement of the premise that higher prices for produce or higher pay does not result in greater effort or more regular work - that higher prices or pay, in fact, may result in less work. (The truth of this as regards farmers will be discussed later on; at this point our remarks will apply mainly to wage workers.)

Labor Supply and Wages

In actual fact, this phenomenon of the "target" worker (or the worker who is working to acquire a given sum of money to buy a given set of goods and is not interested in earning more) is not new. It was first identified in Western Europe when the European countries were beginning their industrialization. Max Weber, in his The Protestant Ethic and the Spirit of Capitalism describes it, as follows: "... a peculiar difficulty has been met with surprising frequency: raising the piece-rates has often had the result that not more but less has been accomplished in the same time, because the worker reacted to the increase not by increasing but by decreasing the amount of his work. ... (the worker) did not ask: how much can I earn in a day if I do as much work as possible? but: how much must I work in order to earn the wage, 2½ marks, which I earned before and which takes care of my traditional needs?"

This phenomenon, in economic terms, is described as a backward-bending supply curve for labor, i.e. the supply of labor called forth by a higher price at a certain point instead of increasing with an increase in wages, bends backward and decreases. Such behavior is completely economically rational. When wants that can be met by purchases with money are limited and are satisfied and the demand for holding money, or saving, for unknown needs in the future is either still unknown or satisfied, the rational economic behavior quite understandably can be to prefer leisure to higher earnings when the rate of pay goes up. And, in fact, this happens quite frequently in highly developed societies when people's incomes for some reason shoot up more rapidly than their wants for goods can grow.

The second question that flows from this discussion is how important today is such behavior in Africa. Or to put it more precisely, is the aggregate supply curve for African labor backward-bending for any significant range of wages? Elliot J. Berg has done the definitive study on this quite recently. There are several forces operating: the level of income an African can get by remaining on the land, his own particular supply curve of labor (e.g. at what wages can he be induced to leave the land and what wages are his target income) and the number of individuals affected by these forces. As far as the individual African worker is concerned, the quantity of wage labor he is willing to do tends to be inversely related to changes in village income and to changes in wage rates in the exchange sector. This relationship was quite definite in the early years when migrants tended to be reluctant target workers whose elasticity of demand for income, once their target income was achieved, approached zero for everything except leisure: that is, once a worker got the sum of money he wanted, he quit. Nowadays, the target income is getting more and more remote as wants increase in size and flexibility. It has little significance for the "committed" workers in the urban areas who no longer move back and forth between the land and wage-employment.

The shape of the aggregate labor supply curve - giving the total labor supply that will be forthcoming at each level of wage rates - depends on the net outcome of two contrary changes that follow a wage rise - changes in the number of people from the land that are induced into work for wages and changes in the average time each man spends at work. In early days, the curve probably tended quite soon to be backward-sloping: a rise in wages induced few new men into employment while it encouraged many of those in paid employment to cut short their stay. In present-day Africa this is no longer true: a wage rate stimulates many more men to emigrate to paid jobs and leads far fewer to reduce their time in paid employment. And, broadly speaking, when account is taken of the peculiar international character of African labor markets, it is most unlikely that for any given country for any long length of time the aggregate supply of labor was ever negatively elastic with respect to wage rates.

Wilbert E. Moore has pointed out that an important factor in increasing the supply of labor in many areas has been the push from the rural areas resulting from the decline of alternative opportunities more in keeping with the traditional order of things. This may be due to the pressure of population on the land with the given levels of techniques and organization in agriculture. In some parts of southern and eastern Africa this has been accentuated by the forcible restriction of African agriculture to confined areas while the pressure was accentuated by the persistence of the "cattle culture" which led to over-grazing and growing poverty.

Now that economists have decided that Africans going into wage labor are behaving rationally, the next question is what are the main forces particularly important in the African environment that affect the level of African wages. We have touched on some of these already, of course, in our discussion of "target" incomes. There are two special aspects of supply of labor in Africa which are present in some other parts of the world but are so important in Africa as to seem peculiarly African. The first is the infinite elasticity of supply of labor or, more simply, the unlimited supply of labor. That is, the developing enclaves in Africa are still so small in relation to the sea of subsistence activities which surround them and the mobility of labor, nationally and internationally, is so great that within a reasonable range of wages the supply of labor can be considered practically unlimited. What then determines the level of wages of unskilled labor?

This problem has been worked on for a number of years. Ida Greaves, before World War II, concluded that wages paid to an unskilled worker had to be high enough to overcome the strength of the tradition that binds him to customary tribal practices. (Wages, therefore, could be used by an anthropologist to measure the strength of tribal tradition.) W. Arthur Lewis went further. He concluded that the floor or the minimum level of wages paid, was set by the subsistence income the African could earn on the land while the ceiling was set by this income plus the necessary incentive to go into wage labor. William Barber accepted this theory for the permanent labor force and went on to explain the forces influencing migrant labor. This is the second distinguishing characteristic of the labor position in Africa compared to most other continents - that is, the great importance of short-term labor migration within the whole supply of labor. While the measurement of this is very difficult, it is quite clear that in most countries in sub-Sahara Africa the percentage of permanent African wage earners in the total labor force is still very small.

In explaining migrant labor, Barber points out that a man will seek wage-income when it serves to maximize the real income of his family. In much of Africa, he can go out into temporary work during his periodic under-employment period. Since a man's function in subsistence agriculture often is to clear new land every two or three years for his wife to cultivate, in between he can go to work for wages and so maximize his family's income. That is what I have named "sociological under-employment", i.e. under-employment of men due to the peculiar division of labor between the sexes as laid down by society. Migrant labor, then, makes good economic sense for the African engaging in it.

There are other aspects of this problem that have been analyzed by Walter Elkan. An important point that comes out is the fact that the English experience during the beginning of the industrial revolution has not been a precedent for Africa. The people from the countryside in England who settled in the cities as the new proletariat were not farmers but agricultural laborers who had no property stake left in the countryside. This has not been true of most of the African wage earners and their economic calculus is consequently different. In most of Africa, the existing land tenure and market arrangements do not give land as such a money value. The only way a man can secure benefit from his claim to land is by keeping his family on it to work it. Land provides social security against unemployment, sickness and old age, but the individual cannot use it for these purposes if he does not preserve his claim to it. Thus, he himself will have a constant incentive to quit his industrial job for longer or shorter periods to return to his family and land.

Given the prevalence of migrant labor, industries that must rely on semi-skilled or skilled African labor find it difficult to become efficient. In other words, this analysis shows that progress in industrialization like agricultureal advance (as I discuss below) may be closely related to the slow processes of change in land tenure and of the relationship of men to the land. Also, it should be said that the implications of the economic analysis just presented are not always fully appreciated by non-economists in their considerations of policies that should be followed to achieve permanent urban settlement of Africans.

There has been very little work done on some of the implications of this analysis. For example, what happens if wage rates are raised, by minimum wage legislation, union action or other influences, above the wage "ceiling" for unskilled labor? Clearly the wage will keep on attracting labor from the subsistence economy into the urban areas even after there is no longer any need for more workers. The results may be that the unemployed will keep on increasing until the average real income of wage workers in town is reduced below Lewis' "ceiling" by their having to support some of their unemployed tribal brothers, or the capacity of the town to hold unemployed is reached (housing limitations, police action, petty jobs available, etc.). Given the forces holding nominal wages up, the level of unemployment then would be like a pressure gauge. It would always show some unemployment and the exact level would be set by the pressure of the movement of people from the land into towns against the counter-pressure of the absorptive capacity of the towns for number of unemployed.

Without passing on the merits of policies of governments to bar foreign Africans and to expel those who have been living there for years, it is quite clear that such action should help raise the average level of the unskilled wages in the countries concerned by putting definite limits on the number of workers available to work for wages - even though these policies may retard the general growth of the economy otherwise.

A new situation in some countries results from the large educational effort turning out large numbers of school-leavers in excess of the jobs currently available. These school leavers, as Callaway's research is showing, have quite different economic attitudes toward the land than do their fathers - in short, the English industrial revolution may be becoming more of a precedent now.

Land and Agriculture

Since in Africa most people still make their living in agriculture, the economic problems of agriculture are central. The first item to dispose of is the question of the economic rationality of African farmers. In general, the remarks we have made about target income in the case of wage-labor apply: that is, if income from farming (due to rapidly rising prices or extraordinary good crops) rises more rapidly than the farmer acquires new wants, the supply curve of his labor will become backward-bending at some point. Normally, however, with the passage of time and the spread of education, formal and informal, in Africa this point at which the curve becomes backward-bending will become less and less relevant.

But in the meantime, certainly in many areas, the backward-bending supply curve may still be very relevant to economic policy. And, it will still be true in most areas that the lack of adequate knowledge of just where the bending point is will be a handicap in forming agricultural policy.

S.D. Neumark has commented that often the economic reasons for an apparent lack of response by farmers to higher prices for a commodity are not evident to a casual observer and yet these reasons may fully justify the farmers' behavior: he may not increase his output of a commodity whose price has gone up, for example, because the relative prices of other crops may still make them a more profitable opportunity than the crop whose price has increased. Often the lack of response is misunderstood because it is due to circumstances over which the individual farmer has no control. These may consist of institutional and tribal deterrents such as systems of communal land holdings or lack of transport and marketing facilities. John Raeburn has also emphasized the factor of uncertainty as a force that explains what otherwise appears to be irrational behavior. The answer, in short, may lie in other economic factors or in sociological or institutional factors which prevent the economic forces from operating.

While there is still not unanimity on this point, Johnston and Mellors conclude that most of those who have given careful study to the problems of peasant agriculture would endorse the view that: "... the peasant farms his land as rationally as possible under the social and economic conditions affecting him and within the limit of his opportunities as regard labor, land, markets, capital, knowledge and managerial skill". Of course, a difference between Africa and more developed areas is the much greater relative importance of the constraint put on the farmer by the social conditions affecting him.

Of these, the economist would consider as among the most important the system of land tenure affecting the farmer. Probably in this regard the economist comes most directly in opposition to the anthropologist. The strongest position here is taken by Frankel who believes the indigenous systems of land tenure are the main obstacle to economic development in Africa. As he put it in The Tyranny of Economic Paternalism in Africa, "... it is clear that the root cause of the economic backwardness of various African territories, as well as of the native areas in the Union, lies in the failure to modify customary control of land occupation and tenure, which has prevented the emergence of land use and ownership compatible with modern forms of commercialized production in a money economy. The failure to make of the land a viable economic factor of production has condemned the peoples on it to eke out a precarious subsistence."

Nearly all economists would agree that development in agriculture would be accelerated if conditions were such that African farms were held on some sort of individual freehold tenure. The basis for this belief is that the communal system of land tenure does not provide incentive toward the best use and conservation of land. The responsibility felt by the community is less than that felt by the individual towards his own land. Once the farmer has a secure title to his land, he can invest in it, since he knows that he and his family will benefit from this. He has thus every incentive to improve his farm and increase his production from it. The title to land, when land is scarce, is valuable and is the best collateral for borrowing capital to improve the farm. The best system of land tenure is that which provides the greatest incentive for the farm family to exploit its own labor. Under the communal system those able and willing to undertake new ways of production often cannot obtain farms large enough to do so which are protected against alienation and so ensure to the farmer the undisturbed reward of his labor for himself and his children.

The economist's bias does not, of course, mean that every economist believes an immediate shift from communal tenure is always desirable and possible. The World Bank's Economic Survey Mission report on The Economic Development of Uganda, for example, advocates a policy of moving to individual land tenure. But it recognizes that this is a costly process to achieve and that benefits are slow in maturing. It also points out that certain preconditions must exist: a relatively high density of population, use of land to grow cash crops and thus the imputation of money value to land, and a growing rate of litigation over land rights (showing that these are acquiring growing value). In addition, it is important that the program not be imposed against the wishes of the local population affected.

Most farming in Africa is still subsistence farming. Perhaps the most important economic change taking place in Africa today is the transition from subsistence to market agriculture. Subsistence production is, of course, production for the direct use of the producers and their families. M. Yudelman and S.M. Makings have divided the transition from subsistence to market agriculture into four stages as follows: the first stage comprising areas where production is used entirely for subsistence and which are completely self-contained, is already very rare - perhaps it exists only in the Kalahari desert. There are still many communities in the second stage where, although some sales or barter transactions take place, the production of a small surplus above immediate subsistence requirements is largely unintentional and the result of an occasional particularly favorable season. The next stage in the transition is where the regular production of a marketable surplus is deliberately sought but the main emphasis is still on subsistence production. In the fourth stage, production for the market predominates over subsistence. The bulk of the African producers in South, Central and East Africa are in the second and third categories. Probably, the cocoa farmers in Ghana and in the Western Region of Nigeria and the coffee producers of Buganda have now reached the last stage mentioned above. K.C. Abercrombie has suggested that more than half of the total agricultural production of Africa south of the Sahara is for subsistence and that this means that the average farm family produces food enough only to feed itself and less than one other family off the farm. In some of the developed agricultural countries elsewhere in the world, the average farm family may produce enough to feed itself and some ten to twenty non-farm families as well.

Subsistence production has a number of important economic effects. Subsistence producers tend to be isolated from the economic influences of the outside world. This means that the action of the price mechanism and the inflow of innovations and ideas is greatly limited accordingly. Specialization which is the important means of growth in productivity, is strongly inhibited. Specialization can develop only to the extent that exchange takes place.

Very roughly, almost all of the increase in agricultural output in Africa that has occurred so far in modern times has come from an increase in the number of acres farmed. Where yields per farmer have increased it has come mostly from an increase in the number of acres farmed per farmer. There has been very little increase in yield per acre, which is, on the other hand, the main element in agricultural progress in most of the rest of the world.

A practical set of decisions on investment policy in agriculture that often confronts governments is the choice between putting resources into large-scale agricultural projects, such as resettlement or irrigation schemes, or concentrating on and trying to increase production within the existing areas of agricultural production. There is no easy answer to this, although theoretically it is just a matter of comparing the yield of investment in alternative projects (including both private and social costs and benefits in the calculation). There is a tendency for governments to prefer the large schemes. This is in part because they are more spectacular and in part because it is easier in these schemes to calculate and to demonstrate the benefits coming from the governments' action than it is when the benefits are scattered over the mass of a farming population - who tend to take all the credit for increased output for their own efforts. It was for reasons such as this that the British Government took the decision to launch the ill-fated scheme in Tanganyika to increase the supply of groundnuts rather than to help the Nigerian farmers to produce more and get their groundnuts to market. It is obvious in hindsight, that a small fraction of the money wasted on the groundnut scheme if it had been used in Nigeria to improve transport would have had large beneficial results. The Tanganyika scheme is, of course, only the most notorious of a number of project failures of this kind in various parts of Africa.

There are cases clearly, as in the Gezira scheme, that investment in a large-scale project will pay off. But, in general, the conclusions of Johnston and Mellors would be accepted by most economists with broad experience in Africa, that the most practical and economic approach to achieving a sizeable increase in agricultural productivity and output in most of Africa at present lies in enhancing the efficiency of the existing agricultural economy.

Progress to increase agricultural output in the existing agricultural economy, as Yudelman has shown, can be divided into two main categories: exogeneous or endogeneous. That is to say, there are (a) programs that change the infrastructure and environment in which the farmer operates, or (b) programs that require change in the way the farmer himself operates. Instances of the first would include the provision of roads, water supplies, control of locust breeding places and of locust swarms, spraying of crops by government, rigid control over and provision only of selected seed, etc. These are all actions that can be done by the Government or other organizations without calling on the farmer to improve his own management techniques. They do not require the individual to show initiative, enterprise or to change his age-old method of farming. This first category of program is still much more manageable and successful in Africa than the second category, in large part because of the lack of adequate technical knowledge of the latter case.

It is in planning this second category of programs that the points discussed in the first part of this section become most relevant. That is, just how do price and other monetary incentives affect a particular group of farmers? What are the cultural and tribal restraints that prevent economic incentives from being most effective? What is the most effective way of getting adopted a change in techniques and getting it spread through a group? These are, of course, questions for which the economist must find the answers, but it may be that other disciplines have better tools than economists to find the right answers more quickly.

The answer to which the economists have arrived (as exemplified in The Economic Development of Uganda) as the best way to secure changes in the farmer himself is to pick out individual farmers who have shown or appear to have the potential to be innovators and to give them special help, credit facilities and other services to enable them to forge ahead. This is almost par excellence an economist's approach - using the scarce resources available to the government where they will produce the highest returns most quickly.

This conclusion poses a number of practical difficulties, however. It means spending money on agricultural research, education and extension services. It may also mean subsidizing the provision of implements, plows, oxen, sprayers to farmers to encourage them to improve their techniques. But, unfortunately, it is very difficult or practically impossible at the present time in Africa to forecast the increase in output or cut in costs that will result from a given expenditure on research or extension workers. In addition, these expenditures because they are not on conventional capital equipment, are usually regarded as "recurrent" rather than investment expenditures and cannot be financed by loans. The Uganda Survey Mission recommended the inclusion of such items in the investment program in Uganda but it is not yet clear that financing for them can be found.

Other Policy Issues in Economic Development

Most economists would agree that the purpose of research on the economic problems of Africa is to get sufficient understanding to make it possible to take intelligent action to deal with those problems. The main economic objective of most of the African countries is economic development, or more simply, they want to feed, clothe and house their people better, and to give them the chance to live healthier and longer lives.

One technique of trying to achieve this end is economic planning. Nearly all of the African countries have done some economic planning in the postwar period. Even South Africa, which made no pretense of having an economic plan, set up a national economic advisory council several years ago. Very few of the economic plans, however, until recently properly deserve the name, being little more in most cases than collections of disparate projects with little coordination of policy and objective. The main exceptions to this have been the development plans suggested by the World Bank economic survey missions (Nigeria, Tanganyika, Libya, Uganda and Kenya), the development plans of the Federation of Rhodesia and Nyasaland during C.H. Thompson's tenure as Economic Adviser to the Prime Minister, and the 1961-64 Four-Year Plan of Senegal prepared by Pere Lebret and his collaborators. Nigeria, the Sudan and Tunisia have also recently announced plans which will be valuable instruments in their economic development.

The central motive of economic development has already come out in the discussion on economists' attitudes toward land tenure where differences among economists are mainly on the question of timing and degree of the pace of change from communal to individual land tenure, and in the discussion on land and agriculture. In fact, it is very difficult to consider any economic subject concerning Africa without policy issues connected with economic development playing a central role or at least being very much present in the background. This discussion will have to focus, therefore, on some of the other issues that have been or are of most interest.

Economic Dependence

Among these there is the problem of dependence on the outside world or specialization which was mentioned at the beginning of the paper. Because of the heavy dependence of African countries on exports, Walter A. Chudson has pointed out that an appraisal of their export prospects is fundamental to any attempt to estimate their capacity to provide from their own efforts the savings and the foreign exchange resources required to finance their economic development. "In the coming decade, at least, trends in the national product of most countries of the region are likely to continue to be dominated or strongly influenced by the evolution of export proceeds; indeed, in some cases the transition from subsistence to commercial production may increase the degree of dependence." By the same token, an appraisal of export prospects is basic to an estimate of the African countries' requirements for external financial assistance and capital inflow generally and, indeed, of their capacity to obtain capital from abroad rather than in the form of grants or soft loans.

As Pierre Moussa has shown in Les Nations Proletaires, the dependence of the African countries on a few primary product exports is a source of great difficulty to them because these products are subject to wide price and supply fluctuations. This dependence makes a greater demand on the ability of the African governments to cope with these wide swings in export income, national income and government revenues than do the cyclical problems facing the governments of most developed countries. (It must be said, however, that the situation is better now than before World War II when the industrialized countries were unable to avoid severe depressions.) It has also become increasingly evident in recent years that world demand for primary products does not and is not likely to keep pace with the growth of world income for a number of reasons - the development of synthetics, the fact that much of the increase in income in industrialized countries is spent in the form of greater fabrication of industrial commodities without an increase in the raw material content, and the greater consumption of services as individual incomes increase. This means that primary producers as a whole have an increasingly difficult task just to keep up with the rate of growth of income in industry and it is much more difficult to close the gap of the existing absolute differences between the industrialized and underdeveloped countries.

These remarks, it should be noted, apply to primary producers as a whole. As far as primary producers in Africa are concerned, there are several mitigating factors. First, not all primary producers are in underdeveloped countries; the United States, for example, still is a much larger primary producer for its own consumption and export than it is an importer of primary products. Especially in the case of minerals, many of the developed countries are or have been important producers. Minerals are a wasting asset. The underdeveloped countries may therefore by taking over a larger share of a growing market, be able to keep up with or surpass the rate of growth of the economies of the industrialized countries.

Especially in Africa, minerals have been of great importance in sparking economic growth. The modern development of South Africa began with the diamonds in 1867 and gold in 1886. The development of Northern Rhodesia and the Congo (Leopoldville) began with copper. And, in recent years, iron ore and bauxite mining have become propulsive sectors in a number of countries (Mauretania, Guinea, Liberia, Gabon, Swaziland).

The countries producing tropical agricultural products do not have the same type of opportunities as the mineral producers. An FAO projection for 1970 of agricultural exports produced by underdeveloped countries forecasts only a slow growth in demand with the bulk of this being in Western Europe, the Sino-Soviet bloc and Japan. For the political scientist, this may well have important implications both within Africa and in its relations with the rest of the world. The African countries producing agricultural products for export, if they wish to secure a faster rate of growth than the projections would indicate, must rely on securing a growing share of the total market.

One conclusion that most economists do <u>not</u> draw from the consideration of the problems resulting from reliance on export of primary products is that the development of the export of the primary products was a mistake. On the other hand, probably a large number of non-economists do draw this conclusion. Most economists instead would agree with S.H. Frankel and Cyril Ehrlich that the initiation and growth of the export of these primary products was a most important factor in achieving the degree of economic development that the African countries have attained and that it still is a most important engine of economic development. It is well to remember in this connection that it was the growth of export income that was a powerful force in getting the economy growing of countries like the United Kingdom, United States and Japan and so started them on their way to industrialization. The existence of export markets for minerals or the agricultural products that Africa can produce provides a ready means of securing a money income for the individual and the country. It makes it possible for the governments of the area to secure sufficient revenues to provide the necessary minimum of law and order and to begin to make the investment in building up the human capabilities necessary for progress.

The majority of economists in prescribing policies to quicken the economic growth of an African country consequently almost instinctively look first to an investigation of the possibilities of increasing the income from existing export commodities and of finding new possibilities for export.

In this connection, Chudson has pointed out that from 1950 to 1960 the value of exports from tropical Africa rose by about 70%. This was an impressive performance, particularly in comparison with the sluggish growth of exports from Asia outside of Japan and the virtual stagnation of Latin America's exports as a whole. This growth of exports helped make possible the more rapid economic growth of Africa compared to the other major under-developed regions. The economic performance of Africa also may not be unrelated to the rapid development of demands for political independence that occurred during the 1950's. The FAO's projection of possible deterioration in the prices of some of the major African agricultural products over the remainder of the 1960's may also have political implications, if this is allowed to occur.

Another important facet of the commodity problem is the difficult decision that African countries are currently being confronted with in the negotiations on international action to stabilize the prices of some of their export commodities. The African countries, for example, are clearly low-cost producers of coffee and their long-range interest is in getting a bigger share of the world market. On the other hand, they are also interested in higher prices at present and in preventing a further drop in prices. But, in order to keep prices up through international agreement they have to agree to hold down expansion in their output.

Industrialization

With the sober prospects for primary products, a natural sequence is to consider the possibilities of industrialization in Africa. The majority of economists following on from their positions as just given, emphasize the approach from the market side. In general, it is fair to say that while there are many obstacles to industrialization in African countries - lack of entrepreneurs, managers, technicians, etc., in most cases a ruling constraint is the size of the market to be supplied. The size of the market primarily depends on the incomes of the overwhelming mass of the population, that is, of the farmers. Economists consequently go on to draw conclusions such as the following of the Uganda Economic Development Committee in 1958, influenced by W.T. Newlyn and David Walker: "The Committee conclude therefore that the most effective steps which can be taken to secure development of manufacturing industry in Uganda, paradoxical though it may seem, are steps which will have the effect of increasing agricultural production. The committee recommended (italics in the original) that Government's economic strategy should be determined accordingly."

In the World Bank's report on The Economic Development of Uganda, there was a subtle change in emphasis but the essence of the policy recommendations remained the same. This report recommended that "everything that is administratively and economically feasible be done in the next five years to increase output in manufacturing, mining and agriculture". But that "It is quite obvious, however, that in spite of doing everything possible in manufacturing and mining, the main opportunities for economic growth in Uganda in the next five years are in agriculture".

To some extent, of course, the forces also run the other way. As manufacturing and towns grow, the internal market for agricultural products grows and the internal market can provide more and more of the propulsive impulse that export markets provided originally in Africa.

This relationship at the current stage of development of the African economies between development of agriculture and development of manufacturing also appears in another form. We have already mentioned Elkan's research on migrant labor. He found that in Africa south of the Sahara one of the important growing motives for Africans to go to work in towns is to save as much money as possible to buy the necessary tools for increasing production on their farms. This seems to be almost a peculiarly African manifestation of the general proposition that economic growth is self-reinforcing - i.e. that not only does growth of manufacturing depend on the growth of market due to higher incomes of farmers, but growth of manufacturing and of towns helps in the growth of agriculture. It also follows from this that as agriculture progresses and becomes more specialized and more capitalized the possibility for Africans to move back and forth between agriculture and towns will become less and less. In other words, they will begin to become either more efficient, because specialized, farmers, or more efficient, because specialized, industrial workers. This pioneering work of Elkan's has consequently given us new insights into the process of economic development in Africa but it still needs to be tested in other areas and to be followed up as Africa's economic development goes on.

Market Forces vs. Government Action

An important policy issue in Africa which takes many forms is the extent to which there should be reliance on market forces to bring about economic development and the extent to which direct governmental or administrative action in the economy should be relied on. It would be practically impossible nowadays to find any economist who would subscribe to the prewar dominant economic philosophy of a very narrow restricted role for government in this regard. The earlier approach was perhaps most succinctly phrased by Adam Smith in his Wealth of Nations, published in 1776, as follows: "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes and a tolerable administration of justice; all the rest being brought about by the natural course of things."

Even in the Communist sphere there would not be unanimity, to go to the other extreme, that the state should do everything. Most economists, therefore, believe that there should be some mixture of governmental and market forces in the economy as a whole to achieve development. The disputes arise on the amount needed of each ingredient in particular sectors. Some of these disputes arise from forgetting the fact that there is no absolute in this field: a particular policy may be more relevant to one stage of development than it is in the next. What may be a desirable degree of government action at one time in helping the economy grow may be a fetter on the economy in the next stage as entrepreneurs develop.

One of the most important and most acute of these disputes was over the marketing and division of the proceeds of some of the main export commodities since the war. In view of the central importance given to the exports in economic development in Africa, this question is clearly crucial. Briefly, in a number of countries, Marketing Boards of Caisses de Stabilisation were set up to handle the marketing of some of the export crops. There were a number of reasons for doing so: some of which were not completely formulated and some of which may even have been quite contradictory. It is not, however, necessary at this time to go into all these details. The important point for this discussion is that as world prices in the postwar period went up, the prices received by the growers of the crops, particularly in the English-speaking countries, did not follow suit all the way. Some of the difference between the world market prices and the prices paid to the farmers by the Marketing Boards was set aside in Price Reserve Funds and part of this was later taken over or borrowed by the governments for their development plans. Some part of the export proceeds was also directly taken by the governments in the form of export taxes and used to finance capital and current expenditures.

For the early portion of the postwar period, some justification of the policy of building up large Price Reserve Funds is essentially uncontroversial - in that the supply of commodities the farmers could buy was limited anyway and giving them extra money would simply have resulted in their bidding up prices against themselves. But, once this first period of scarcities was over, the issue is clearly joined: the East African Royal Commission, Walker and Ehrlich criticized the policy in East Africa and Frank Paish and Peter Bauer criticized the policy in West Africa. The point they made is essentially that if the African peasants had received the full benefit of the higher prices, economic development would have progressed faster than it did with the government's use of the money. This was on the grounds that (a) the higher prices would have called forth greater output of the commodities concerned by the farmers putting forth greater efforts; (b) the African farmers would have saved more and used the funds to develop, improve and even transform their farms; (c) the higher purchasing power in the rural areas would have stimulated other forms of economic development - African traders and backyard industry; (d) the farmer was insulated from world market prices, this hindered the development of an entrepreneurial sense and led the farmer to believe that the way to cure low prices is to put pressure on the government; (e) government expenditures both current and capital were enabled to grow rapidly through the higher availability of funds to the government. Much of this money went into assets, such as education and research that have a very slow yield, and with abundant funds available to the government, probably much was used for extravagance and waste.

Kamarck?

This is a formidable indictment. Unfortunately, no thorough research on the ground has been done either to prove or to disprove these points. There is perhaps some possibility of research to throw light on the main point of whether higher incomes for farmers do have the beneficient results claimed for them through a comparative study of the results obtained in Ghana where the policy of taxing quite heavily cocoa producers is being followed (and quite justifiably since they are a relatively prosperous part of the economy) with that in some of the French-speaking territories where France has made available a part of her aid by paying prices to the producers of some crops above what would be justified by world market prices.

Not all economists agreed and agree with the main weight of the criticisms of the marketing board policies as given above. In view of the lack of any real data on which to base decisions, the attitude towards what the marketing board policies accomplished or did not accomplish is largely a matter of judgment. The World Bank Economic Survey missions of Nigeria and Uganda, after making as thorough an assessment as they could of the policies followed and their results, came to the conclusion that, on balance, the way the export proceeds had been used did contribute effectively to the development of their countries. In Nigeria, the mission said, "On the whole, the operations of the Marketing Boards have benefitted the producers of the controlled crops and the Nigerian economy in general". It pointed out that under any stabilization scheme, a period of rising prices is the time for the formation of reserves. The setting of relatively low producer prices greatly mitigated the severity of inflationary pressures at a time when no other machinery for anti-inflationary action existed. And, the accumulated stabilization reserves were large enough not only to assure producers the direct benefit of reasonable and relatively stable prices for many years but also to enable the boards to lend large sums to the government for development purposes.

In Uganda, the mission felt that the marketing boards and export tax arrangements had made a useful contribution in financing a large growth of the infrastructure and of most of Uganda's modern economy outside of agriculture. The mission went on to point out that in view of very high cotton and coffee prices that prevailed, the predominant position of these two crops in the Uganda economy and the fact that Africans were exempt from income tax, the government had no choice but to tap this tax source. But it is also true that the export tax introduced an element of inequality: cotton and coffee growers became subject to a rather heavy tax burden, while the producers of other crops and livestock paid no similar tax.

Johnston and Mellors come to a similar practical economic policy conclusion: "An underdeveloped country that is making determined efforts to achieve economic progress faces formidable requirements for capital to finance the creation and expansion of manufacturing and mining enterprise, for overhead investment in transportation and utilities, and in the revenue needed for recurrent expenditure for expansion of education and developmental services. These requirements are certain to outstrip the supply of funds available except in those countries which have large earnings from petroleum or mineral exports or particularly favorable access to foreign capital. The sheer size of the agricultural sector as the only major existing industry points to its importance as a source of capital for overall economic growth."

By now it is generally agreed that Marketing Boards and Caisses de Stabilization should be regarded as multi-purpose insitutions, not merely as stabilization devices. They perform useful technical and commercial services for the small farmers and protect them against collusive buying by middlemen. They often finance technical aids to production which have frequently been very effective. In general, as David Walker has emphasized, the stabilization that is sought is stabilization of national income not necessarily of the price paid to producers. In some cases, it is possible to act to stabilize the national income by using the resources of the Marketing Board elsewhere than to increase prices to producers.

Trade

The attitude toward trade in Africa of most economists would be in general agreement, and in strong opposition to many of the governmental policies pursued towards trade and traders. As Peter Bauer has so well brought out, trade is an effective instrument for development of resources and for fostering their growth. Traders penetrating to every part of an African country are among the most potent agents of change and of awakening of economic incentives. In brief, the economist's attitude is to encourage and facilitate the work of the trader.

Unfortunately, in almost every African country people of non-African origin are prominent or predominant in trade outside the subsistence sector. This coupled with the lack of economic training of most administrators and their fondness for neatness and direct administrative action has often led to restrictions on the activity of traders and attempts to fit them into an "orderly" structure of trade. Where the economist would rely on encouragement of traders and so rely on increasing the number of competitors to avoid abuses, governments often tend instead to rely on restrictions and controls. The result is that the costs of procuring and distributing goods are raised and the leavening effect of the trader on the economy is reduced. (It might also be mentioned in passing that the over-regulation of road transport is also often another area of misguided paternalism in some African countries.)

Federations and Common Markets

An important group of economic policy questions arises from the formation of or the proposals for federations or common markets among the African states. Economists have done considerable work on these questions in Africa, especially in the last ten years and have, in the main, agreed on several important conclusions. The impact of these, which may be rather surprising for non-economists, is that the economic benefits of a federation or a common market for a particular individual country may be quite slight or even negative. The particular circumstances of the country have to be investigated before a definite conclusion on this point is reached.

In general, economists will agree that a tariff area as a whole may gain from protection - an infant industry may be made possible through protection until it can stand on its own feet; a market may be too small to allow industry to develop but will remain small until industry can develop, whereas protection may allow industry to develop and so enlarge the size of the market and justify the original decision to organize a new industry.

Also, the social benefits from establishing a new industry in the way of training workers, entrepreneurs and shaking up the indigenous economy may be large enough to warrant putting in a tariff to make it possible for the industry to run at a private profit.

But the gain from tariffs may be unevenly distributed. A customs union between a relatively developed country and a relatively underdeveloped country will benefit the former because it will give it bigger markets, but it may not benefit or may even hurt the latter. Jacob Viner, in his authoritative work on customs unions, in fact, regarded the common market in East Africa as a good example of how the establishment of a customs union works to the detriment of the less developed part of the union.

The point is that a customs union or common market, if the area covered is regarded as a single unit, will, all other things being equal, help the area. The larger the market created the greater the economic benefits possible. But, if the focus of interest shifts from the area as a whole to a particular region or country included in the area, the balance of advantages may shift quite considerably. In a common market, Country A that is already in advance has considerable advantages in attracting further investment and further industry. Some of this might not have come into the area at all in the absence of the larger market provided by the common market. But, some of this is likely to be investment that might have located in the more underdeveloped country, Country B, to meet the needs of Country B if the common market did not exist. Country B, in addition, could have erected a tariff to protect the industry from the competition of Country A, which in the common market is not possible.

The East African Fiscal Commission (Raisman Commission) which reported in February 1961 and the World Bank's Economic Survey mission to Uganda, both examined the East African common market from this standpoint and agreed on the general economic analysis applicable, but disagreed on some of the particulars as regards Uganda. The Raisman Commission and the Uganda Mission both agreed the common market had resulted in special benefits to Kenya along the lines of the discussion above. Consequently, there should be some special compensation to Kenya's partners in the common market to offset this. The Raisman Commission felt, however, that Uganda and Tanganyika had gotten some benefits from the over-spill of Nairobi's development which limited the size of compensation needed. The Uganda mission, on the other hand, was not able to find any such benefits, pointing out that any increase in demand for Uganda's agricultural products in Kenya that might have come from the higher income in Kenya resulting from industrialization was prevented from resulting in higher Uganda sales in Kenya by various impediments that Kenya put in the way. In the longer run, Uganda might gain from a demand for Uganda labor in Nairobi, but this had not yet occurred. In addition, Uganda was hurt by having to pay more when a protective tariff led to a shift in Uganda's purchases from imported goods to goods manufactured in Kenya. Also, in this last instance, whether the import was costly or not, Uganda lost the revenue from the import duty.

The Uganda mission did not recommend abandoning the common market, however. If it were to be abandoned, customs barriers would have to be erected which would be costly and hard to police. In the longer run, Uganda may get more benefits from inter-territorial trade as Kenya removes some of the impediments to Uganda sales of agricultural products in Kenya. A unilateral attack on the common market would put in jeopardy the common services from which Uganda gains much. Finally, the mission pointed out that Uganda will find it difficult to share equitably in the gains of economic integration without a substantial degree of political integration which would make it possible to share out the benefits of a large economic unit more equitably.

Unlike East Africa, in the Federation of Rhodesia and Nyasaland there was created at the same time a customs union and a political federation. The economic benefits of this new governmental unit have been investigated, most notably, by Hazlewood and Henderson. Their findings were as follows: while the extent to which the Federation has contributed to the economic development of the three territories cannot be ascertained exactly, it did make some positive contribution but not as much as most discussions on the matter imply. The contribution it did make was mainly due to the fact that government current expenditure and investment was higher than it would have been without Federation. This was due to the fact that tax revenues from the copper belt in Northern Rhodesia could be used for the Federation whereas otherwise they would have reduced or eliminated the need to borrow by the Northern Rhodesian Government.

The bulk of the advantage of having a customs union and a common tariff for the three territories was reaped by Southern Rhodesia, which as the most attractive region to investors, may have drawn industry that without the common market might have gone to Nyasaland or Northern Rhodesia. In addition, tariff changes were made that were to the detriment of Nyasaland consumers but in the interests of industry in Southern Rhodesia. Since

Nyasaland was not able to set tariffs to protect industry from Southern Rhodesia competition, this may also have kept industry from developing in Nyasaland. This could have been offset by a deliberate policy of other inducements to industry but this was not done.

The main advantages that Nyasaland got from Federation was that she was able to get more in the way of government revenues at the expense of Northern Rhodesia and the employment opportunities for Nyasas in the Rhodesias increased.

The lessons from the foregoing discussion that can be drawn would be somewhat as follows: it cannot be taken for granted that a particular country will or will not benefit from participating in a common market, customs union or federation. The answer must depend on an economic analysis within the framework of the political and constitutional decisions that determine how the economic benefits can be distributed. In other words, the political scientist cannot get general advice from the economists that a federation or customs union is desirable per se for Country X until he can tell the economist what the impact of the political distribution of power is likely to be on economic decisions.

What should be noted here, especially, is that the economist may look at the problem of the federation from two different levels. From the vantage point of a particular country, he may conclude that a proposed federation may be quite against its interests. On the other hand, from the vantage point of the development of Africa or the particular portion of Africa involved, he can also quite legitimately conclude that the proposed federation is economically advantageous. Similarly, in any consideration of the allocation of revenues and expenditures within a federation, an economist advising a constituent part of the federation can quite legitimately propose a transference of revenues from the richer to the poorer sections, while from the federal level, he could conclude that the national economic interest in getting the most rapid growth of gross national product lay in concentrating on development of the already richer section. This also applies, of course, to multi-racial countries, there is no necessary coincidence between policies that result in the most rapid national growth and those that raise the standard of living of a particular race most rapidly.

This whole class of problems is particularly hard to handle because political considerations are so dominant. No economist has yet ventured far into this field. J.W. Garmany, in the South African Journal of Economics, March 1962, suggested that some attempt should be made to work out a guiding principle, on an economic basis, in the allocation of funds between governments in a federation and in the allocation by governments between different forms of investment. As a beginning, he suggested attempts should be made to measure the inputs and the outputs concerned. However, the chances are that political scientists will have to decide these questions without any appreciable help from the economists.

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ON

CAPITAL MOVEMENTS AND ECONOMIC DEVELOPMENT

July 21-31, 1965

Washington, D. C.

THE FINANCIAL EXPERIENCE OF LENDERS AND INVESTORS

by

Andrew M. Kamarck

World Bank

THE FINANCIAL EXPERIENCE OF LENDERS AND INVESTORS:

THE CASE OF AFRICA

By A.M. Kamarck

"If you find any Island or maine land populous, and that the people hath no need of cloth then you are to devise what commodities they have to purchase the same withall.

"If they be poore, then you are to consider the soile, and how by any possibilities the same may be made to enrich them, that hereafter they may have something to purchase the cloth withall". Instructions given by Richard Hakluyt to merchants of the Moscovie Company, 1580.

In the same era, Sir Francis Drake in commending colonial expansion to his countrymen remarked of the American Indians: "their gain shall be the knowledge of our faith, and ours such riches as the country hath".

Both of these widely different approaches towards development of a new area, frankly stated at the beginning of European expansion to the rest of the world, can be identified in the experience in Africa.

INTRODUCTION

The time period in which there has been substantial lending and investing from abroad in Africa is quite limited - for most of Africa, much less than the 60 odd years that it has had a significant economic contact with the rest of the world.

Note: The help of Badri Rao and Dina Driva in assembling much of the material used in this paper is gratefully acknowledged.

In evaluing the "financial experience" of investors and lenders in Africa, I mean primarily, the financial return to foreign investors and lenders on the particular investment concerned in Africa and not a financial appraisal of the whole activities of a particular individual or institution. This still is an unprecise term but a practical one. Let us see what it covers.

Let us consider first the financial return to lenders. This, formally, consists of interest and amortization. If we accept this as a working basis, the amortization is the repayment of the original capital, assuming the bond or the loan was made at par. The interest is, formally, the return on the capital. This last assumes, however, that there is no risk involved and that no risk premium is included in the interest. In foreign lending in the actual world, risk is always involved and the return to lenders must include not only a return on the capital but a differential payment for the particular risk undertaken. In addition, the lender usually will have certain costs of administration that have to be covered. For example, the make-up of the World Bank's interest rate was quite explicit until quite recently in this regard. It was made up, grosso modo, of the cost of money to the Bank - the interest rate being paid on its own borrowings at a particular time by the Bank - plus 1/4 of 1% for administrative expenses, and 1% which went into a Special Reserve against losses. The result was a rate which combined explicitly a return on capital, administrative costs and risk premium. (In actual fact, the element of cost of money to the Bank was interpreted liberally in favor of the developing countries: it was raised only with a considerable time lag when the interest paid by the Bank on its borrowings was going up and lowered more rapidly when the interest paid by the Bank was going down and the administrative charge, 1/4 of 1%, did not fully cover the administrative costs of the Bank. On the other hand, as the Bank had no losses to charge to the Special Reserve, the risk premium seems to have been too high. The Bank now no longer sets its rate in this mechanical fashion but taking all of these factors and other policy considerations together sets a final rate without attempting to de-compose it into the various elements as in the past).

The "return to investors" is even more complicated. "Investors" I am defining as companies or people making direct investments abroad. The return to investors is a composite including some elements that are the same as in the return to lenders - a return on capital, payment for risk premium. It consists also of payment for the services of management and supervision and technicians of various kinds - engineers, accountants, salesmen, etc. - which are an important part of the direct investment. It can also consist of something much more - of profits in the Schumpeterian sense, that is to say, of profits made by the foreign entrepreneur from his importing knowledge and techniques from his own economy which are in advance of those available in the host country. This enables him to produce at lower cost than is true of the rest of the economy.

The direct investment undertaken by foreign entrepreneurs takes advantage of their access to know-how, the managerial techniques or capital equipment which is superior to the local entrepreneurs. This foreign-owned sector may expand quite rapidly and, if it has tariff protection or transport cost protection, it may keep most of the benefit of the high productivity for quite a time rather than pass it on to local consumers.

In essence, this type of enterprise gains from exploiting a type of quasi-rent - which in some cases can last for a long while before the indigenous population can adopt similar techniques and methods or organization or before other foreign investors come in. The difference in level of development of technique represented by the foreign firm and that of the indigenous economy may determine how long it will take before this catching-up occurs and the quasi-rents are wiped out. In the case of Africa, this period could be a very long time - consequently the persistence of such profits may depend instead on how open the country is to imports and the entrance of additional foreign investors.

In a country like Australia the data appear to show that there is now no marked divergence in earning rates between foreign-owned companies in general and domestic companies. However, North American companies in Australia do appear to earn more than U.K. companies or the average of all overseas companies (Statistical Appendix Table 2). This latter may be a real difference or it may be due to the uneven incidence of tax laws between the U.S. and other developed countries.

A somewhat similar type of quasi-rent arises from the exploitation of natural resources in an under-developed country. At the present stage of development in Africa, this is by far the more important. The greatest returns to investors in the developing countries very often come through investors providing the missing cooperating factors, such as transport, technical knowledge, management and the command over capital necessary to exploit a resource. Without these necessary cooperating factors, the value of many natural resources is zero or close to zero. This seems to be particularly true in Africa for mining development. The natural obstacles are usually so great that to get at and exploit most mineral resources takes such large capital and managerial and technical resources that the indigenous population cannot possibly mobilize. Where it is possible to buy resources at prices corresponding to their value in their present uses and turn them over to other more profitable uses which the rest of the economy is at the time in no position to exploit, large gains can be made. It is the attempt to secure such gains that provided and provides one of the main inducements to invest in much of Africa. One of the chief benefits of foreign investment in the development of Africa is that they make it possible to secure economic use for natural resources for which so far there have been none, and thus to convert objects without economic value into economic resources (Lachmann, pp 698-713). This discussion so far has assumed that the return investors are searching for can be measured in terms of the money that can be directly made from an investment. But direct investment often is motivated by other reasons which are even less easily measurable. Much of the motive for investment in the development of the iron ore and bauxite resources of the African countries in recent years has been the desire of the iron and steel or aluminum producers in the developed conntries to have a sure source of raw materials. At the other end of the process, a good part of the investment from abroad in manufacturing plants in Rhodesia, East Africa, and Nigeria, was touched off by the wish to get a foothold in a market which was likely to be (or was being) cut off from the foreign producers' exports by tariff barriers. Some direct investment by machinery manufacturers is also a result of their sales of machinery - as a partial return they take an equity in the factory. Then there are other motives also, for example, the "empire building" instinct in corporate managers who want to have a far-flung corporation to run.

The philanthropic motive is not the least important in Africa. The Uganda Company, which has contributed a great deal to the development of Uganda, was organized around the turn of the century under the inspiration of the Church Missionary Society as a practical way of helping the people of Uganda. (The Economic Development of Uganda, p 16). A large part of the drive to accelerate the development of what is now Zambia and Rhodesia through intensified search for investment opportunities backed up with the money to put into them came from the desire of Sir Ernest Oppenheimer (Chairman of Anglo-American, de Beers, British South Africa Company, etc.) to make a personal contribution to the development of Southern Africa (Source: Conversations with the author, in Johannesberg in 1955 and 1956).

In this paper, while the foregoing considerations affecting private investment in Africa need to be kept in mind, the emphasis is given to the financial returns.

RETURN TO INVESTORS IN AFRICA

Even so it has not been possible to make a comprehensive study of the returns on private foreign investment in Africa - much of the information is inaccessible or impossible to collect. However, it has been possible for me to get together some bits and pieces which I believe are fairly representative and do seem to present a fairly consistent story.

Slave Trade

Up to about 1860 in West Africa, and 1900 in East Africa, the bulk of the investment from abroad in Africa was devoted to the slave trade. Very little is known about the returns on this investment. Presumably it was very profitable, otherwise the large losses in men and ships would not have been borne for a period of some 400 years. It was an important part of the development of commerce in England, Western Europe and the new world. The Arab slave trade in the Indian Ocean must have also paid quite handsome returns to justify the continuance of the trade for so many centuries. The slave trade, however, is a field of activity which no longer is a subject for investment and has little relevance to us today.

Chartered Companies

Aside from South Africa, where the discovery of diamonds in 1867 and gold on the Rand in 1884 began the era of modern investment, in the rest of Africa South of Sahara up to around World War I the major investments that were made were in the form of the chartered companies. These were private companies or concessionaires who were given monopoly powers over large areas and were mostly organized in the period from the opening up of Africa in the 1880's to the first World War. These companies were much like the companies and proprietors who had been given immense grants of land in what is now the United States: the Virginia Company, Lord Baltimore's colony of Maryland, Carolina, New Jersey, Georgia, etc.). Among these African companies were the Imperial British East Africa Company for what is now Kenya and Uganda, the British South Africa Company for the former Rhodesias, the Royal Niger Company, the Portuguese Mozambique Company, the Compagnie du Congo pour le Commerce et l'Industrie, the Comite Speciale du Katanga (CSK), Compagnie des Chemins de Fer du Congo Supérieur aux Grands Lacs Africains (CFL), Comite National du Kivu (CNKi), Société du Haut-Ogooné, the Deutsche Ostafrikanische Gesellschaft, etc. There were usually one or more per territory.

These companies in most of the areas where they were established followed Sir Francis Drake's approach and introduced a form of Raubwirtschaft.

That is to say, the companies tried mainly to exploit the existing resources and to put as little as possible in the way of investment into the areas being exploited. There were, of course, some exceptions like the East Africa Company that was set up in order to reach Uganda and abolish the slave trade in East Africa. Most of these companies, however, simply went into an African territory and took out what could be easily taken out, such as the ivory, any gold that could be found, and any other natural riches that could be easily and quickly exploited. (See, in particular, Conrad, Heart of Darkness and Gide, Voyage au Congo).

But, as it happens, there was very little in the way of easily exploitable riches in Africa. And, one after another, nearly all of the companies went bankrupt or ran into such financial difficulties that the metropolitan governments had to take them over.

In most of the areas these chartered companies went out of existence by World War I. In French Equatorial Africa they remained in existence up to the 1930's. The British South Africa Company succeeded in surviving and still exists today having lost the last of its privileges, the mineral rights in what is now Zambia on the eve of Zambia's independence in October 1964. The three Belgian charter companies (CSK, CFL, CNKi) which were set up after the Congo ceased to be the personal property of King Leopold and most of the abuses of that period were abolished, remain in existence. By agreements between Belgium, the Democratic Republic of the Congo and the chartered companies, the Congolese Government took over the Portfolio of the former Belgian Congo consisting in part of shares in the chartered companies. The chartered companies lost their remaining concession granting privileges as well as their rights to royalties from the mines in their former territories (Kredietbank, Weekly Bulletin, Brussels, April 24, 1965).

The chartered companies that went out of existence before World War I or before World War II in no case gave a positive return on the capital that had been invested. In some cases, the investors were able to get a short-lived return while the territory was being initially exploited, but very soon in the case of most of these companies they found themselves unable to pay dividends. The British South Africa Company (BSA) which did succeed in surviving did not pay any substantial dividends until World War II although it was founded in 1887. This company, like the three Belgian concessionaires, differed from most of the other chartered companies in that it did put a substantial investment into permanent productive facilities. BSA built the railway from South Africa through Bechuanaland and the Rhodesias to the Congolese border as well as connected Southern Rhodesia with the Port of Beira in Mozambique. The CSK, CFL and CNKi through concessions secured the opening up and exploitation of the mines in the Katanga and plantations in the Kivu and built the rail connection between the Congo River at Stanleyville and later Tanganyika. The dividends that were paid in 1940 of £400,000 represented 5% of the book value of the BSA at that date. As a return on the present value of the original investments the rate of return is derisory. Of the three Belgian chartered companies, the CSK with the rich mineral resources of the Katanga to exploit - and which were in part known before the CSK was organized - appears to have become quite profitable as early as the 20's. The other two did not enter a period of prosperity until after World War II.

South Africa

South Africa was an important exception to the frustrated hopes of foreign investors and remained an exception up until World War II.

Like the investments in the CSK and in the BSA which finally began to pay off, the profitable investments in South Africa were in mining. In South Africa, the investment in mining did show fairly good returns - mostly in the range of 6 to 8% - nothing particularly spectacular for most investors especially when it is remembered that this was the average return of the <u>successful</u> companies (Statistical Appendix Table 2). The contrast between South Africa and the rest of the continent is indicated by S.H. Frankel's classic study which showed that in 1936 the largest share of foreign direct investment in Africa south of the Sahara had taken place in South Africa.

<u>Unilever</u>

Outside of South Africa and mining the returns on other direct investment appear to have been very low before World War II. The experience of Lever Brothers or Unilever in Africa prior to World War II is instructive in this regard (Wilson, <u>Unilever</u>). Prior to the war, and still today, Unilever has had the biggest single foreign direct investment in Africa outside of mining. It is still the biggest foreign industrial interest outside of South Africa and the biggest trading, farming and transport complex in Africa.

By 1906, Lever Brothers had become the leading British soap-maker. Its growth had been of a fairly simple "verticle" type, from raw material production, to output of soap. The imported vegetable oils required made William Lever particularly conscious of the importance of foreign supplies. He feared being "squeezed" by the merchants and brokers who, he thought, were conspiring against the manufacturers and he also feared that other manufacturers might themselves take action to secure their own raw materials.

After failing to find land in West Africa, because of British colonial policy of refusing to alienate African land for establishment of plantations, in 1911 Lever established the Societe Anonyme des Huileries du Congo Belge to buy wild palm oil from the Africans and to grow oil palms in the Congo. This was intended to give him a secure raw material source. The Societe was empowered to establish communications and other facilities which were to be made available also to others. The Societe was also required to provide schooling and hospitals and to pay a guaranteed minimum wage to labor. The Societe, in fact, like the chartered companies of the period, was almost more of a government than a business. The original concession covered 1.8 million acres leasehold of which eventually around one-half million acres became freehold.

The Huileries du Congo Belge was the greatest single enterprise that Lever had undertaken, and it ran into difficulties almost immediately. The available population was not large enough for the double task of collection of wild palm oil and construction of the new plantations. Costs were high and progress was slow.

Lever also acquired some six million acres from a French concessionaire, la Compagnie Proprietaire du Kouilou Niari (CPKN) in the French Congo. But on closer investigation it turned out that only 10,000 acres of this were suitable for planting and this proved a total loss.

In British West Africa, the policy of the Colonial Office in refusing to allow plantations to be established led Lever to decide to acquire his palm oil by buying wild palm oil from the Africans. He consequently bought trading companies in Nigeria, Sierra Leone and Liberia. A second product of the oil palm is palm kernels and Lever decided to crush them on the spot for palm kernel oil to save on transport costs. But shipping the oil alone was found to be more expensive as the valuable by-product, the cake had no market in Africa. (This industry has still not shown itself economic in Africa).

By 1914 about £1.5 million had been sunk in the African businesses. One of them - the CPKN - was a dead loss. The Belgian Congo showed no profit. The oil mills lost over £50,000 in 1913 alone.

The war years proved prosperous for Lever Brothers as a whole. Although separate figures are not available on the African investments, the indications are that they remained a burden on the rest of the business. Ordinary dividends were declared of 10% in 1914, 15% in 1917 and 17½% in 1918.

The years 1919-1929 were difficult years. Lever Brothers made them more difficult by taking on the Niger Company and merging it with the other Lever companies in Africa into the United Africa Company (UAC). In 1929 after the merger of the Margarine Unie with Lever Brothers into Unilever, UAC also acquired Margarine's West African trading companies.

UAC for years did not declare any dividends and was in severe financial trouble. Unilever's Congo plantations, now closely associated with the UAC, were producing palm oil at a cost higher than market price while this latter was a little more than a third of the value of palm oil when the original concession had been secured.

Because of its investments, Unilever felt compelled to continue to use African oils rather than other and possibly cheaper products. By the autumn of 1931 the banks and finance houses were pressing UAC to cut its commitments. But instead Unilever found £3 million of liquid capital which UAC required. The decision of Unilever to stay in Africa was reached by looking hopefully at Africa and her resources rather than at balance sheets.

Better management and rising commodity prices served to improve the prospects of UAC between 1932 and 1936. But commodity prices broke again in 1937 bringing new trouble to UAC.

Since World War II, UAC has done better. The following table shows, however, that while Unilever's rate of return since World War II is comparable to prewar rates, the return on UAC investment is still smaller than on Unilever's investment as a whole. Unilever's policy over the last 7 or 8 years appears to have been to reduce the relative share of UAC in the total investment while reorienting the whole activity of UAC in such a way as to withdraw from sensitive areas such as the agricultural trade and to expand in manufacturing.

Return on Capital of Lever Brothers Ltd. and of Unilever

	Lever Bros.		Lever Bros.& Unilever	Unilever Ltd. & Unilever N.V.	
	1922	1927	1938	1955	1962
	£ millions				
Capital Employed*	64.4	68.1	100.5	425.0	690.0
(of which in Africa)	n.a.	n.a.	n.a.	(118.0)	(116.0)
Profits	4.6	5.4	9.9	42.3	54.3
(of which from Africa)	n.a.	n.a.	n.a.	(7.6)	(3.7)
	Percentages				
Rates of profits to capital employed	7.1	7.9	9.9	9.8	7.9
(of which from Africa)	n.a.	n.a.	n.a.	(6.5)	(3.2)

Source: Data for 1922, 1927 and 1938 are from Moody's Manual of Investments, volumes dealing with "Industrials" for the years 1928 and 1939. Figures for 1955 and 1962 are from Unilever's Report and Accounts, 1962.

*NB: Figures for capital employed in 1922, 1927 and 1938 are based on data shown for aggregate liabilities and may not strictly conform to the definition of 'capital employed' used in the later balance sheets.

U.S. Private Investment in Africa

Since World War II the returns on private direct investment in Africa appear no longer quite as bleak as in the past and there are indications that the opportunities for good returns on well-chosen investment are at least as favorable as in the rest of the world.

Using the U.S. Department of Commerce figures available on U.S. direct investments abroad, we have made some calculations of the rate of return shown. Obviously these are quite rough comparing as they do both value of investments and the annual earnings shown. Still, there is no particular reason to believe that the figures for Africa should not be comparable with those for other areas outside of the U.S. and, consequently, some conclusions can be drawn from these comparisons. (Statistical Appendix Tables 3-6a-h) The first point that comes out is that the average rates of return on the total U.S. direct investment in Africa over the period 1957-1963 were, for five years out of the seven, below the average rates shown by U.S. direct investment in the world outside the United States as a whole. The rates of return in Africa fluctuated also a great deal more - from a high of 21% to a low of 2.6% while for the world as a whole they remained within the range of 10.7% to 13.2%. Comparing the returns from Africa on the total of direct investment to those in other developing areas: generally both the Western Hemisphere and Asia paid better - Asia, in fact, much better. Europe too was a better paying area.

However, the figures for the average return on total investments are somewhat misleading. Figures on the return by sectors can only be calculated for the years 1958-1963. What they show is that the returns on most types of U.S. direct investments in Africa tend to be higher than in other parts of the world: it is the petroleum investment in these years that dragged down the overall average. The return on manufacturing investment in Africa (and this is mostly in South Africa) is fairly consistently higher than in other parts of the world, ranging usually around 16% but as high as 23 and 24% in two years. Earnings on mining and smelting fluctuate considerably more - from 8.8% to 24.7% in these years - but again tend to be higher than earnings in other parts of the world - though not as consistently as in manufacturing.

Apparently, the return on U.S. direct investment, if the petroleum investments are excluded, for the years 1958-1963, was higher from its African investments than the return secured by other investors. (In this comparison, different tax laws as between the U.S. and the other capital-providing countries may be in part at least responsible for this showing.) Using the available South African data on foreign direct investment in South Africa for the years 1956-1963, the rough calculations on the return to foreign direct investment show a fairly consistent return of 4.6 to 6.2 per year. (Statistical Appendix Table 8) A consistently higher return for U.S. direct investment, it will be recalled, is also apparently true in Australia.

Congo

A number of comprehensive estimates have been made of private investment in the former Belgian Congo prior to World War II (Statistical Appendix Table 9) but not of the returns on the investment. (Banque Centrale du Congo Belge, Bulletin, Aout 1955.) According to these, the total private investment in the Congo in 1939 was around the equivalent of about $800 million. For 1953, the estimate was almost $2 billion. Of this, half had come in from abroad and the other half was ploughed-back profits on the foreign investment. In a later study, the Congolese Central Bank calculated the dividends payable abroad by Congolese enterprises and found the total averaging from 11.68 to 13.10% on their "Moyens Propres" during the years 1951-1956 (Statistical Appendix Table 10). If one adds to this the "allocations to reserves", total profits run at 30-35% during these admittedly unusual years of high primary product prices. During these years, the conclusion of the Congolese Central Bank that firms in the Congo had a return much greater than that of firms in Belgium certainly appears justified. (Banque Centrale du Congo Belge, Bulletin, January 1958.)

The Congolese Central Bank also made a comparison of the capital net domestic output ratio in Belgium (1950) and the Congo (1953) and with a total capital investment figure of $2.2 billion equivalent in the Congo found a ratio of 3 to 1 and, to its surprise, found the same ratio in Belgium. The implication here is that the productivity of capital in the two countries must have been roughly the same.

EXPERIENCE OF LENDERS

Until World War II, the main lenders to Africa were private and institutional bond buyers in the capital markets of London and Paris and the main borrowers were the governments of Africa. Partly because information on the French record is less well-known, and partly because France's policy-orientation as a result has led the way for other countries, the discussion on this point is concentrated on the French experience.

French-Speaking Territories

In the period up to World War II, the greater part of the funds needed for capital works in the French colonies in Africa was raised on the French market. The loans in almost all cases carried the guarantee of the French Government. A few loans were raised direct from government agencies, such as the Caisse des Depots et Consignations and the Caisse de Garantie des Assurances Sociales. In order to raise a loan on the market a colony first required a special Act of the French Parliament. The budgets of a colony which raised a guaranteed loan had to be submitted to the French Parliament for approval. From 1900 to World War I, the total of these loans amounted to some F315 million, all but F35 million of which went to two colonies - AOF (French West Africa) and Madagascar. This amount, F315 million, was equivalent to a little over $60 million at that time. Most of these loans were paid off after World War I at depreciated franc rates and the investors lost on an average from two-thirds to four-fifths of their original investment.

From 1919 to 1931, loans totalling only F510 million were raised, all by two colonies - AOF (French West Africa) and AEF (French East Africa). This in real terms was probably equivalent to $20-30 million of the period. During this period, too, the rates of interest went up, one tranche of the AEF loans being issued at an actual rate of more than 8%. A large part of this loan was devoted to what was then a somewhat dubious project - the construction of the first railroad in AEF from Brazzaville to Pointe Noire which duplicated the existing

Belgian line from Leopoldville to the sea.

In 1931, laws were passed authorizing new loans for public works in all the overseas territories. There was for the first time a general program - The Maginot Program for the development of the Colonies, but no direct financial aid was granted other than the usual guarantee. By the end of 1939 about F3 billion had been issued at rates of interest which rose steadily from 4% to 6-1/4%. During World War II new authorizations of more than F1 billion were made to those colonies not adhering to free France, these advances being made by the French Treasury in view of the unpropitious market conditions. These amounts totalled around $150 million at the exchange rates of the time. Again, of this capital the investors have lost from 80% to 90% of the capital value. (Statistical Appendix Tables 11-13)

The total capital lent by French investors to Africa prior to World War II came thus to the equivalent of perhaps $200-250 million pre-World War II dollars. According to a calculation made by the French National Institute of Statistics, investment in bonds between 1914 and 1940 gave a negative yield of minus 3 to minus 7%. (I.N.S.E.E., Revue, Octobre, 1965)

As one result, since World War II the bulk of the external capital provided to the public sector in the French-speaking areas in Africa has been provided by the French Government on a grant basis with a minor amount being extended in the form of loans, and these mostly soft loans. Since 1957, there has also been participation in this by the governments of the other European Economic Community members. The aid program is discussed in more detail below.

Belgian Territories

From the beginning to 1920, a total of some 170 million francs (1914 francs) i.e. equivalent to around $35 million, was lent to the Belgian Congo Government by private investors, this increased by another $4 million by 1939. Again, as in the French case the bulk of the value of the loans was wiped out by the inflation connected with the war and the net return to investors was definitely negative. (Banque Nationale de Belgique, Bulletin, pp. 174-181)

The Belgian government found it necessary between the wars to finance the Congo directly. From 1921 to 1925, it advanced 17 million gold-francs equivalent. In principle, these were repayable but repayment was never demanded. Then, beginning during the depression, 1933 to 1940 when Belgium was over-run by the German army, it provided 104 million gold francs to meet the Congo budget deficits. Altogether from the beginning of the Congolese Free State to 1951, the Belgian Government had to pay net some 209 million gold francs (around $140 million foreign exchange equivalent as of 1965) as grants or non-reimbursed advances. (L'Institut Royal, p. 191)

British Colonies

The British experience was less dramatic and the evolution followed by British policy was, consequently, behind that of the French. On the conclusion of World War II, the British Government began an expanded program of grants to the colonies under the Colonial Development and Welfare Acts (C.D. & W), created the Colonial Development Corporation (C.D.C.) to make direct investments in the colonies and the Overseas Food Corporation for investment in food production. The last organization passed out of existence after several disastrous investments. The C.D. & W. also has become irrelevant to most of Africa as the countries become independent. The C.D.C., at first not allowed to operate in independent countries, has since been renamed the Commonwealth Development Corporation and allowed to function in its previous areas. The U.K. Government has also gradually been recreating a substitute for C.D. & W. - first by setting up Commonwealth assistance loans with interest rates geared to the government's own borrowing cost; then, by waiving interest charges on some loans for an initial 7-year period and latterly, in June 1965 announcing that the U.K. would make interest-free loans in appropriate cases.

Today, the vast bulk of the lending to the African as to the rest of the developing countries is done by governments or their official agencies or by the international development institutions. Of the public issues raised in the major capital markets of the world over the past 20 years by the developing countries, only the English-speaking African countries continued to be able to raise money in the foreign private capital markets until around 1960. Since then, both the black African and the southern African governments have not been able to secure any appreciable amounts in this way. The British Government like the French has had to replace the private capital market as the main source of external funds for the African governments. (Statistical Appendix, Table 14)

In 1964, the total net flow of official long-term financial resources to the developing countries according to OECD estimates was \$6 billion. Of this, \$1-3/4 billion was lending (net of amortization).

Meanwhile, the total amount of new issues (publicly issued) sold by all the developing countries in foreign capital markets was $97 million; in 1963, this figure was $200 million. And these amounts are gross, since refunding or amortization is not deducted. None of this went to the African countries.

In Africa South of the Sahara the net flow of official capital has reached about $1 billion a year, with net official lending over $200 million a year.

Of the total financial resources made available to the developing countries by DAC countries on a bilateral basis, more than half are grants or grant-like contributions. In 1962, this percentage was 60%; in 1963, 56%; and in 1964, 54%. In Africa South of the Sahara grants have been running at 70-75% of the total. The loans themselves are made on quite favorable terms. The weighted average maturity of official loans has been increasing. It was 23.9 years in 1962, 24.6 years in 1963, and 27.6 years in 1964. The weighted average interest rate was 3.6% in 1962, 3.4% in 1963 and 3.5% in 1964. These terms quite clearly are considerably below the cost of capital to the developed countries: they do not cover an economic return on capital, much less include any allowance for risk premium or costs of administration.

AID PROGRAMS IN AFRICA

Until after World War II, economic aid made available to the African countries was sporadic and not a part of the general policy line of any of the metropolitan or industrialized powers. After World War II both the British and French governments started grant aid programs for their dependent territories as did the Portuguese at a much lower volume. Since independence has been won by the African countries, the aid programs have been continued by the former metropolitan powers (without interruption by the French; after a pause by the British). The United States came on to the African scene for a brief period during the Marshall Plan and after, mostly in connection with the use of local currency counterpart funds generated in the aid programs in Europe. The amounts of the U.S. contribution are lost or obscured in the intricate accounting of the counterpart funds - particularly in France where a strict division was not maintained between the use of funds in France and overseas. In any case, somewhere around half a billion dollars of real resources that were made available to the European countries under the Marshall Plan were passed on to the African countries by France and the United Kingdom. Most of this went to North Africa but as much as a hundred million dollars of the French and British aid to Africa South of the Sahara might notionally at least be ascribed to the Marshall Plan. (Since during this period France and the U.K. were receiving aid from the U.S. and simultaneously extending aid and exporting capital to their currency areas, it is admittedly arbitrary to identify one final user as the "recipient" of aid. The figure given here is essentially an accounting estimate of the amount of counterpart funds generated by Marshall aid that were made available to the African countries. Economically, one could just as well argue that the aid given to the African countries by the U.K. and France during this period was the marginal use of resources and that if Marshall aid had not been received by the U.K. and France, aid to Africa would have been eliminated. On this basis, all of the French, British and Portuguese aid to their African territories during this period could be claimed as indirect U.S. aid.)

It was essentially after the independence of the African countries that the U.S. began directly making aid available to Africa. The U.S. program although it extended at first to virtually every independent country is now concentrated on the English-speaking countries, the Congo (Leo), Ethiopia and Somalia. The Soviet Union and the other Eastern European countries also came in with independence but concentrated from the beginning on particular countries. Mainland China came on to the scene first in North Africa with help to the Algerian Nationalists and then in 1964, South of the Sahara with aid to Kenya and Tanzania. A number of other countries also have begun aid programs in independent Africa; among the most important of these are West Germany, in both capital and technical assistance, and Israel in technical assistance.

International and multilateral assistance is also important in Africa - about 10% of the total flow of funds has come from the World Bank Group and the European Common Market's Economic Development Fund (F.E.D.).

The following table gives a summary picture of the main sources of the flow of funds to sub-Saharan Africa (excluding South Africa) over the last several years. The total has increased from a 1960 total of $650 million to around $900 million equivalent a year for 1962 and 1963 and over $1 billion in 1964.

The Net Flow of Financial Resources from Multilateral Agencies
and the
Flow of Official Bilateral Net Contributions from Individual OECD Member Countries
to
Africa South of the Sahara (excluding South Africa)

	1960	1961	1962	1963	1964 (Preliminary)
			($ millions)		
Multilateral Agencies					
World Bank Group	48.7	51.9	44.0	8.3	
Other U.N. Agencies 1/	16.0	39.9	29.5	36.0	
EEC	3.2	15.2	51.3	58.9	
Total multilateral	67.9	107.0	124.8	103.2	
Bilateral					
France	280.1 2/	282.1 2/	285.9 2/	293.6 2/	
U.K.	123.6	228.3	172.3	163.5	
U.S.	39.0	75.0	148.0	142.0	
Belgium	86.0	70.5	63.4	75.8	
Germany	5.3	13.4	59.2	54.1	
Portugal	36.6	32.4	40.7	51.1	
Italy	16.6	18.5	12.5	22.5	
Other 3/	0.5	2.9	3.5	4.3	
Total bilateral	587.7	723.1	785.5	806.9	
Total, Multilateral and OECD Bilateral	655.6	830.1	910.3	910.1	1,038

1/ Disbursements net of subscription payments for UNICEF, UNWRA, UN High Commissioner for Refugees, the UN Fund for the Congo, the UN Special Fund, and the UN Technical Assistance Programmes.
2/ Excluding aid to French overseas territories.
3/ Including funds from Austria, Canada, Denmark, Japan, Netherlands, Norway, Sweden and Switzerland.
Sources: Prepared from tables in OECD, The Flow of Financial Resources to Less Developed Countries, OECD, Paris, 1964; Development Assistance Efforts and Policies, Report by Willard Thorp, September 1965, (Paris).

The figures do not include Soviet and Eastern European or mainland Chinese aid. While no detailed reports are available on disbursements on these, from the information available on the aid agreements made by these countries and the exceptional slowness of disbursements under them, it is not likely that total disbursements exceeded $100 million from 1960 through 1962 with a maximum of $50 million in 1963. (Mainland China through 1963 for the whole of Africa (mainly Algeria) had made total commitments of $140 million; in 1964, it made $90 million in commitments. Total disbursements are not likely to have exceeded $20 or 30 million.)

The largest single program has continued to be the bilateral program of France to the former French colonies, supplemented since 1957 by the Economic Development Fund (FED) of the European Common Market. For these countries, the foreign aid received has amounted on the average to around 8% of the countries' GNP's, with the range between 6 and 12%. As gross investment in these countries averaged around 12% of GNP during 1960, foreign aid was equivalent to about two-thirds of this. Since 1960, aid to the French-speaking countries has increased by about one-quarter (mostly from the Common Market Investment Fund) or somewhat faster than the GNP and is probably around 9% of total GNP; with gross investment, perhaps, around 13% of total GNP, on the average. The volume of aid per capita in the former French colonies is on the average around $9 equivalent.

In the rest of sub-Sahara Africa, aid has increased more rapidly than it has to the former French territories since independence - going up by some 70% from 1960 through 1963, but it was still half the relative importance of French-speaking Africa - averaging over the whole area about $4 per capita in 1965. The aid funds for these countries amounted to around 5% of their GNP, and were equivalent to about five-twelfths of their total investment.

Of course, the foregoing represents a rather heroic aggregation of a wide variety of programs providing funds to the African countries. Not all of these amounts can appropriately be called "economic aid", i.e. funds made available on a subsidized basis - below market cost - to a country designed to help its economic development. Certainly some of these funds were provided for political or military ends - to influence directly the political orientation of the recipient country, or to secure military bases. Also, some part of these funds were supplier or exporter credits, primarily designed to sell machinery or equipment - in some cases machinery that was basically unfitted or uneconomic to use in the country that it was sold to. Probably only the whole of the international and multilateral aid could be counted without reservation as being wholly "economic aid". But even capital that is made available for other ends can be helpful to economic development. Even aid to military forces can sometimes be helpful - through the army's construction of military roads which turn out to be generally useful, the training of soldiers which gives them useful skills or habits of mind, etc.

A substantial part of the aid provided to Africa has been in technical assistance: almost half of the French contribution is payment for technical assistance; almost a third of the total official aid to Africa South of the Sahara consists of expenditures on and connected with technical assistance. In Africa, technical assistance in the form of trained key personnel is often even more important than additional capital. The ability of the African countries to absorb capital, in fact, in most cases depends upon the amount of technical assistance they have received. In general, Africa receives a greater volume of technical assistance in both relative and absolute terms than any other region of the world.

During 1963, there were 34,000 technical assistance personnel stationed in Africa South of the Sahara. This is 40% of the total number provided to the developing countries by the OECD countries and the international agencies. (In North Africa, there is another 40%.) Of this number, 8,000 were teachers and 23,000 were operational personnel and teachers. These figures are surely among the most significant for understanding the present position and prospects for development of Africa. Of these, 24,000 were provided by France at a cost of $136 million equivalent; 10,000 came from and were largely or partly financed by the United Kingdom at an annual cost to Britain of around $40 million equivalent; 3,000 by the U.S. (including Peace Corps); over 2,000 by Belgium; around 1,500 by the various U.N. agencies; and around 500 by Israel.

The distribution of French technical assistance personnel among the African countries aided varies considerably in intensity from country to country - it is seven times more intense per million of population in the Ivory Coast than in the Congo (Brazzaville), for example. In general, the higher the present per capita income, the greater the intensity so that Senegal and Ivory Coast each receive four times as much assistance as Upper Volta, for example, although Upper Volta's population is greater than either, while its per capita income is about a quarter or a fifth of that of the others. This certainly is not the basis on which the assistance is made available - the basis being rather the ability of a country to make good use of the assistance and its desire for assistance. The results, not entirely by coincidence, are that the more resources and the more developed a country already is, the more help it can usefully use to accelerate its growth further. Beyond a certain point in development a country obviously will be able to cut back on its need for technical assistance. But this point is not likely to come before the African countries have multiplied their present per capita income several times and are at least semi-industrialized.

Consideration of the French-speaking countries in this regard is particularly revealing since it does represent almost a controlled experiment. Because of the French government's generosity in paying liberally for the French technical assistance and in being willing to meet practically every reasonable request of the African country of this kind, the provision of French assistance is close to being the maximum amount that can be usefully employed. The finding that this assistance appears to vary directly with the level of development of a country is significant, therefore. It should be possible for a country as it develops to reduce its <u>use</u> of technical assistance - and this is what appears to have happened among the English-speaking countries in Africa - and still maintain a favorable rate of growth. But, if technical assistance were available on favorable terms and politically acceptable, it appears reasonable to assume that, as in the French-speaking countries, the capacity of a country to substitute its own nationals for prior technical assistance can also be used to absorb and make use of still more technical assistance and so secure an acceleration in the rate of growth.

Flow of Capital

Based on S.H. Frankel's figures, I have estimated that the total foreign capital invested in Africa South of the Sahara by World War II was around $6 billion; of this, about half was borrowed by the public sector of the African territories on the private capital markets, mostly in London and Paris, and the rest was private. From 1945 to 1960, probably another $6 billion, at current price, came in from private sources and around $10 billion of public funds. At varying dates since 1945, in much of Africa and certainly since 1960 for the whole of Africa South of the Sahara it has not been possible for the African public sector to secure an appreciable amount of funds from private lenders or investors at any reasonable range of return. The main reliance, therefore, has been placed on official sources abroad, that is, governments and the international development institutions to provide funds at concessional rates. Since 1960 through 1965 the net inflow of capital has been under $5 billion with the net inflow of private capital (including ploughed in profits) of around half a billion in Southern Africa, Nigeria, Ivory Coast and Liberia largely offset by capital flight or repatriation from other parts of the continent.

The indications are strong that except in mining the pre-war returns on private direct investment were very poor and not very exciting even in mining. Since the war, the situation seems to have improved: manufacturing, at least in South Africa, and mining appear to give very good returns. On the other hand, investment, other than mining, outside of South Africa does not appear particularly favorable.

Finally, one quite definite conclusion can be reached from this exercise - much more research is needed in this whole field of returns to foreign investment and much better statistics are needed on the flow of capital and the returns to capital. The World Bank, in cooperation with OECD and the IMF, is beginning a program to improve the various data components on the flow of capital. We are also considering beginning research on the returns to capital.

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STATISTICAL APPENDIX

STATISTICAL APPENDIX

Table 1

COMPARISON OF "EARNING RATES" ON NORTH AMERICAN, UNITED KINGDOM AND TOTAL OVERSEAS INVESTMENT IN COMPANIES IN AUSTRALIA

	Income Payable as Percentage of Total Investment in Companies in Australia from—		
—	North America	United Kingdom	All Overseas Countries
	Per cent.	Per cent.	Per cent.
1947–48	7.3	7.7	8.0
1948–49	6.9	5.6	6.3
1949–50	9.4	8.2	8.7
1950–51	13.9	8.5	9.5
1951–52	14.5	7.0	8.6
1952–53	11.7	6.6	7.6
1953–54	22.8	7.4	10.7
1954–55	18.7	7.6	10.1
1955–56	16.8	8.4	10.4
1956–57	14.8	7.7	9.5
1957–58	15.2	6.9	9.1
1958–59	17.3	7.3	10.0
1959–60	16.0	7.4	9.6
1960–61	12.8	5.8	8.0
1961–62	7.8	4.8	5.7
1962–63	8.2	6.3	6.8
1963–64	7.7	6.1	6.6

(1) It will be recalled that figures showing the domicile of the overseas investor do not provide a break-down between direct investment (other than undistributed income) and portfolio investment. Earning rates on North American capital (say) cannot therefore be calculated separately in respect of direct and portfolio investment.

(2) On direct and portfolio investment combined. *See* footnote (1).

Source: Australia, Commonwealth Treasury, Private Overseas Investment in Australia, (Canberra, 1965), pg. 19.

STATISTICAL APPENDIX

Table 2

ANNUAL YIELD TO CAPITAL INVESTED IN WITWATERSRAND GOLD MINING COMPANIES EXISTING AT THE END OF 1932

Selected Years

	Total 'Available' Profits £000	Dividends £000	Capital Invested Excluding Appropriations from Revenue £000	Capital Invested Plus Cash Premiums Plus Appropriations from Revenue £000	Percentage of Dividends to Capital Invested Excluding Appropriations from Revenue (A) %	(B) %	Percentage of 'Available' Profits to Capital Invested Including Appropriations from Revenue and Cash Premiums %
1888	261	251	2,585	2,596	38.0	9.7	10.0
1895	1,247	751	18,843	20,708	5.2	4.0	6.0
1900	121	115	38,537	43,504	0.2	0.3	0.3
1905	4,147	3,232	56,217	64,586	6.1	5.7	6.4
1910	7,435	6,016	67,882	84,139	9.4	8.9	8.8
1915	7,720	6,180	71,588	96,036	8.7	8.6	8.0
1920	9,071	7,842	78,356	110,969	10.2	10.0	8.2
1925	9,775	8,170	82,874	124,958	8.9	9.9	7.8
1930	10,258	8,930	90,630	138,904	10.0	9.9	7.4
1932	9,976	8,877	92,012	142,740	9.7	9.6	7.0

Source: Selected from Table 15, S.H. Frankel, Capital Investment in Africa, Oxford University Press, London, New York Toronto, 1938, pp. 96-97. Percentage figures under Column "A" are from Frankel; these seem to be in error. Figures "B" have been computed from the data presented by Frankel.

STATISTICAL APPENDIX

Table 3a

U.S. Direct Investments by Area

(millions of dollars)

Year end	Total	Canada	Other Western Hemisphere	Europe	Africa	Asia	Other
1929	7,700	2,000	3,600	1,400	-	-	700 1/
1936	6,690	1,952	2,803	1,258	-	-	651 2/
1940	7,300	2,100	2,600	1,900	-	-	700 1/
1945	8,400	2,500	3,100	2,000	-	-	800 1/
1950	11,788	3,579	4,735	1,720	-	-	1,753 2/
1956	22,177	7,460	7,373	3,520 3/	659	1,106 4/	2,059 5/
1957	25,394	8,769	8,052	4,151	664	2,019	1,739
1958	27,255	9,338	8,447	4,573	746	2,178	1,974
1959	29,735	10,171	8,990	5,300	843	2,236	2,196
1960	32,778	11,198	9,271	6,681	925	2,291	2,412
1961	34,667	11,602	9,190	7,742	1,064	2,477	2,593
1962	37,226	12,133	9,474	8,930	1,271	2,500	2,918
1963	40,686	13,044	9,891	10,340	1,426	2,793	3,193
1964 p.6/	44,343	13,820	10,318	12,067	1,629	3,062	3,447

1/ Including undistributed.
2/ Including Western European dependencies.
3/ Western Europe only.
4/ Middle East only.
5/ Including the Far East.
6/ Preliminary.

Source: U.S. Department of Commerce: Survey of Current Business; 1929, 1940, 1945, November 1949, issue. 1936, December 1952 issue. 1950, November 1954 issue. For the years 1956 through 1964, figures are obtained from either August or September issues of each successive year.

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Table 3b
U.S. Direct Investments in Africa South of the Sahara
For Selected Years, 1929-1963
(millions of dollars)

1929	92	1959	695
1936	83	1960	730
1943	103	1961	810
1950	231	1962	880
1957	558	1963	1122
		1964	1247

Sources: Dept. of Commerce; U.S. Business Investments in Foreign Countries; 1960, p.92; and Survey of Current Business; August 1962, p.22; August 1963, p.18, August 1964, p.10, and September 1965, p.24.

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Table 4

U.S. Direct Investments in Africa by Country
1929-1964
(millions of dollars)

Country and Area	'29	'36	'43	'50	57	59	60	61	62	63	64
East Africa	-	-	4	12	30	43	46	56			
Ethiopia	*	*	**	5	1	1					
Fr.Eq.Africa)		*)		4	9	8					
Fr.West Africa)	1	*)	3	11	34	76					
Ghana	-	*	-	-	7	9					
Liberia	5	*	18	16	72	115	139	160	184	197	187
Nigeria	-	*	5	11	15	16					
Congo(L)	**	1	4	8	19	17					
Rhod.Nyasal.	-	-	18	26	59	72	82	85	83		
South Africa	77	55	50	140	301	323	286	309	357	411	467
Total of foregoing	83	55	102	233	547	680	553	610	624	608	654
All Other	19	38	27	54	117	163	372	454	647	818	975
Total Africa	102	93	129	287	664	843	925	1,064	1,271	1,426	1,629

Source: Department of Commerce; U.S. Bus.Invest.in Foreign Countries; 1960, p.92. Survey of Current Business: August 1962, August 1963, August 1964 and September 1965.

Notes: * not separately shown.
** less than $500,000.

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Table 5

U.S. Foreign Direct Investment[1/] and Earnings[2/] by Area, 1956-1963, and Percentage of Earnings on Total Investment
(million U.S. dollars)

Year	Total			Africa			Canada			Other Western Hemisphere			Europe			Asia			Other		
	Invest-ment (1)	Earn-ings (2)	% of 2 to 1 (3)	Invest-ment (1)	Earn-ings (2)	% of 2 to 1 (3)	Invest-ment (1)	Earn-ings (2)	% of 2 to 1 (3)	Invest-ment (1)	Earn-ings (2)	% of 2 to 1 (3)	Invest-ment (1)	Earn-ings (2)	% of 2 to 1 (3)	Invest-ment (1)	Earn-ings (2)	% of 2 to 1 (3)	Invest-ment (1)	Earn-ings (2)	% of 2 to 1 (3)
1956	22177	3135	14.1	659	-	-	7460	701	9.4	7373	1052	14.3	3520	485	13.8	1106	-	-	2059	897	43.6
1957	25394	3330	13.2	664	94	14.2	8769	653	7.4	8052	1096	13.6	4151	582	14.0	2019	751	37.2	1739	154	8.9
1958	27256	2954	10.8	746	51	6.8	9338	569	6.1	8447	760	9.0	4573	582	12.7	2178	800	36.7	1974	192	9.7
1959	29736	3255	10.9	843	55	6.5	10171	713	7.0	8990	774	8.6	5300	667	12.6	2236	785	35.1	2196	261	11.9
1960	32778	3545	10.8	925	33	3.6	11198	718	6.4	9271	829	8.9	6681	762	11.4	2291	901	39.3	2412	302	12.5
1961	34668	3699	10.7	1064	28	2.6	11602	684	5.9	9190	910	9.9	7742	841	10.9	2477	958	38.7	2593	278	10.7
1962	37226	4245	11.4	1271	81	6.4	12133	825	6.8	9474	1010	10.7	8930	844	9.5	2500	1040	41.6	2918	445	15.3
1963	40686	4587	11.2	1426	166	11.9	13044	948	7.1	9891	1125	11.4	10340	996	9.6	2793	1116	40.2	3193	235	7.4
1964	44343	5118	11.5	1629	343	21.1	13820	1104	8.0	10318	1253	12.1	12067	1112	9.2	3062	1067	34.8	3447	239	7.[illegible]

1/ Position at the end of period.

2/ Per year. Earnings is the sum of the U.S. share in the net earnings of subsidiaries and branch profits.

Source: U.S. Department of Commerce, Survey of Current Business, various issues. Earnings percentages calculated from U.S. Department of Commerce data.

STATISTICAL APPENDIX

Table 6a - 1957

U.S. Foreign Direct Investment 1/ and Earnings 2/ by Sector and Area and Percentage of Earnings on Total Investment in 1957

	Total			Mining and Smelting			Petroleum			Manufacturing			Other		
	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment
Total	25,252	3,330	13.2%	2,634	281	10.7%	8,981	1,623	18.1%	7,918	852	10.8%	5,718	574	10.0%
Canada	8,332	641	7.7%	996	71	7.1%	2,154	95	4.4%	3,512	348	9.9%	1,670	127	7.6%
Western Hemisphere 3/	9,711	1,405	14.5%	1,370	154	11.2%	3,805	865	22.7%	1,711	126	7.4%	2,825	259	9.2%
Europe	3,993	547	13.7%	50	9	18.0%	1,184	163	13.8%	2,077	269	13.0%	682	106	15.5%
Other	3,216	737	22.9%	218	47	21.6%	1,839	499	27.1%	618	109	17.6%	540	82	15.2%

1/ Position at the end of period.

2/ Per year. Earnings in the sum of the U.S. share in the net earnings of subsidiaries and branch profits.

3/ Including Western European dependencies.

Source: U.S. Department of Commerce, Survey of Current Business, September 1958.
Earnings percentages calculated from U.S. Department of Commerce data.

STATISTICAL APPENDIX
Table 6 b - 1958

U.S. Foreign Direct Investment[1] and Earnings[2] by Sector and Area and Percentage of Earnings on Total Investment in 1958

	Total			Mining and Smelting			Petroleum			Manufacturing			Other		
	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment
Total	27,075	2,954	10.9%	2,856	219	7.7%	9,681	1,307	13.5%	8,485	873	10.3%	6,053	555	9.2%
Africa	789	69	8.7%	234	37	15.8%	276	-19	-6.9%	139	23	16.5%	140	28	20.0%
Canada	8,929	568	6.4%	1,083	42	3.9%	2,410	66	2.7%	3,696	337	9.1%	1,740	123	7.1%
Other Western Hemisphere	9,125	847	9.3%	n.a.	n.a.	n.a.	3,211	404	12.6%	1,759	107	6.1%	n.a.	n.a.	n.a.
Europe	4,382	532	12.1%	51	3	5.9%	1,256	104	8.3%	2,308	308	13.3%	767	117	15.3%
Middle East	1,315	648	4.9%	n.a.	n.a.	n.a.	1,218	637	52.3%	38	-	-	n.a.	n.a.	n.a.
Far East[3]	1,681	253	15.0%	53	3	5.7%	646	86	13.3%	546	98	17.9%	436	66	15.1%
Other	854	37	4.3%	1,435	134	9.3%	664	30	4.5%	-	-	-	2,970	221	7.4%

1/ Position at the end of period.

2/ Per year. Earnings is the sum of the U.S. share in the net earnings of subsidiaries and branch profits.

3/ Including Australia and New Zealand.

Source: U.S. Department of Commerce, Survey of Current Business, August 1959.
Earnings percentages calculated from U.S. Department of Commerce data.

STATISTICAL APPENDIX
Table 6 c - 1959

U.S. Foreign Direct Investment 1/ and Earnings 2/ by Sector and Area and Percentage of Earnings on Total Investment in 1959

	Total			Mining and Smelting			Petroleum			Manufacturing			Other		
	Investment	Earnings	% of Earnings to Investment	Investment	Earnings	% of Earnings to Investment	Investment	Earnings	% of Earnings to Investment	Investment	Earnings	% of Earnings to Investment	Investment	Earnings	% of Earnings to Investment
Total	29,735	3,255	10.9%	2,858	315	11.0%	10,423	1,185	11.4%	9,692	1,129	11.6%	6,762	626	9.3%
Africa	843	56	6.6%	255	38	14.9%	338	- 27	- 8.0%	120	17	14.2%	130	28	21.5%
Canada	10,171	713	7.0%	1,090	67	6.1%	2,465	74	3.0%	4,558	438	9.6%	2,058	134	6.5%
Other Western Hemisphere 3/	8,990	869	9.7%	1,416	192	13.6%	3,312	340	10.3%	1,426	121	8.5%	2,837	216	7.6%
Europe	5,300	709	13.4%	50	10	20.0%	1,453	114	7.8%	2,927	444	15.2%	870	142	16.3%
Asia	2,236	757	33.9%	20	3	15.0%	1,662	663	39.9%	248	37	14.9%	305	55	18.0%
Other	2,196	152	6.9%	28	6	21.4%	1,193	22	1.8%	412	72	17.5%	564	52	9.2%

1/ Position at the end of period.
2/ Per year. Earnings is the sum of the U.S. share in the net earnings of subsidiaries and branch profits.
3/ Including European dependencies.

Source: U.S. Department of Commerce, Survey of Current Business, September 1960. Earnings percentages calculated from U.S. Department of Commerce data.

STATISTICAL APPENDIX
Table 6 d - 1960

U.S. Foreign Direct Investment[1] and Earnings[2] by Sector and Area and Percentage of Earnings on Total Investment in 1960

	Total			Mining and Smelting			Petroleum			Manufacturing			Other		
	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment
Total	32,744	3,546	10.8%	3,013	394	13.1%	10,944	1,282	11.7%	11,152	1,176	10.5%	7,635	693	9.1%
Africa	925	33	3.6%	247	61	24.7%	407	- 77	-18.9%	118	19	16.1%	152	30	19.7%
Canada	11,198	718	6.4%	1,329	88	6.6%	2,667	97	3.6%	4,827	398	8.2%	2,375	134	5.6%
Other Western Hemisphere 3/	9,249	970	10.5%	1,331	224	16.8%	3,264	370	11.3%	1,631	147	9.0%	3,024	229	7.6%
Europe	6,645	762	11.5%	49	10	20.4%	1,726	85	4.9%	3,797	487	12.8%	1,072	180	16.8%
Asia	2,315	901	38.9%	24	3	12.5%	1,655	799	48.3%	286	42	14.7%	350	58	16.6%
Other	2,412	162	6.7%	33	8	24.2%	1,223	9	0.7%	494	82	16.6%	662	63	9.5%

1/ Position at the end of period.
2/ Per year. Earnings is the sum of the U.S. share in the net earnings of subsidiaries and branch profits.
3/ Including European dependencies.

Source: U.S. Department of Commerce, Survey of Current Business, August 1961.
Earnings percentages calculated from U.S. Department of Commerce data.

STATISTICAL APPENDIX
Table 6 e - 1961

U.S. Foreign Direct Investment[1] and Earnings[2] by Sector and Area and Percentage of Earnings on Total Investment in 1961

	Total			Mining and Smelting			Petroleum			Manufacturing			Other		
	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment
Total	34,684	3,700	10.7%	3,061	359	11.7%	12,151	1,449	11.9%	11,936	1,180	9.9%	7,536	711	9.4%
Africa	1,070	28	2.6%	285	44	15.4%	491	- 84	-17.1%	113	19	16.8%	180	50	27.8%
Canada	11,804	684	5.8%	1,380	90	6.5%	2,841	121	4.3%	5,093	360	7.1%	2,490	113	4.5%
Other Western Hemisphere 3/	9,108	1,032	11.3%	1,284	205	15.7%	3,648	465	12.7%	1,678	152	9.1%	2,497	209	8.4%
Europe	7,655	841	11.0%	48	8	16.7%	2,131	84	3.9%	4,212	532	12.6%	1,264	217	17.2%
Asia	2,482	958	38.6%	27	4	14.8%	1,750	840	48.0%	321	50	15.6%	384	64	16.7%
Other 4/	2,564	156	6.1%	36	8	22.2%	1,289	24	1.9%	518	66	12.7%	721	58	8.0%

1/ Position at the end of period.
2/ Per year. Earnings is the sum of the U.S. share in the net earnings of subsidiaries and branch profits.
3/ Including Western Hemisphere dependencies.
4/ Including Australia and New Zealand.

Source: U.S. Department of Commerce, Survey of Current Business, August 1962.
Earnings percentages calculated from U.S. Department of Commerce data.

STATISTICAL APPENDIX
Table 6 f - 1962

U.S. Foreign Direct Investment1/ and Earnings2/ by Sector and Area and Percentage of Earnings on Total Investment in 1962

	Total			Mining and Smelting			Petroleum			Manufacturing			Other		
	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment
Total	37,145	4,245	11.4%	3,813	367	11.5%	12,661	1,716	13.6%	13,212	1,310	9.9%	8,089	852	10.5%
Africa	1,246	80	6.4%	307	34	11.1%	627	- 6	- 1.0%	141	32	22.7%	171	20	11.7%
Canada	12,131	833	6.9%	1,482	91	6.1%	2,834	121	4.3%	5,340	460	8.6%	2,475	161	6.5%
Other Western Hemisphere 3/	9,528	1,197	12.6%	1,275	230	18.0%	3,644	552	15.1%	1,940	174	9.0%	2,669	241	9.0%
Europe	8,843	851	9.6%	49	5	10.2%	2,365	72	3.0%	4,826	493	10.2%	1,603	281	17.5%
Asia	2,495	1,048	42.0%	29	2	6.9%	1,761	931	52.9%	348	49	14.1%	357	66	18.5%
Other 4/	2,902	237	8.2%	41	4	9.8%	1,430	47	3.3%	618	102	16.5%	813	84	10.3%

1/ Position at the end of period.
2/ Per year. Earnings is the sum of the U.S. share in the net earnings of subsidiaries and branch profits.
3/ Including "Other Western Hemisphere".
4/ Includihg Australia and New Zealand.

Source: U.S. Department of Commerce, Survey of Current Business, August 1963. Earnings percentages calculated from U.S. Department of Commerce data.

STATISTICAL APPENDIX
Table 6 g - 1963

U.S. Foreign Direct Investment[1/] and Earnings[2/] by Sector and Area and Percentage of Earnings on Total Investment in 1963
(million U.S. dollars)

	Total			Mining and Smelting			Petroleum			Manufacturing			Other		
	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment
Total	40,686	4,572	11.2%	3,369	359	10.7%	13,652	1,828	13.3%	14,937	1,529	10.3%	8,727	856	9.8%
Africa	1,426	170	11.9%	349	31	8.8%	702	65	9.3%	177	43	24.4%	198	31	15.9%
Canada	13,044	930	7.1%	1,549	94	6.1%	3,134	150	4.8%	5,761	544	9.5%	2,600	142	5.5%
Other Western Hemisphere	9,891	1,125	11.4%	1,303	219	16.8%	3,636	532	14.7%	2,203	171	7.7%	2,739	203	7.4%
Europe	10,340	992	9.6%	55	4	7.3%	2,776	67	2.4%	5,634	605	10.8%	1,876	317	17.1%
Asia	2,793	1,120	40.2%	32	2	6.5%	1,920	1,001	52.0%	430	52	12.4%	410	66	16.2%
Other	3,193	235	7.3%	82	8	11.4%	1,484	14	0.9%	723	115	15.8%	903	98	10.7%

1/ Position at the end of period.
2/ Per year. Earnings is the sum of the U.S. share in the net earnings of subsidiaries and branch profits.

Source: U.S. Department of Commerce, Survey of Current Business, August 1964 (Earnings) and September 1965 (Investments). Earnings percentages calculated from U.S. Department of Commerce data.

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Table 6 h - 1964

U.S. Foreign Direct Investment[1] and Earnings[2] by Sector and Area, and Percentage of Earnings on Total Investment in 1964
(millions of U.S. dollars)

	Total			Mining and Smelting			Petroleum			Manufacturing			Other		
	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment	Invest-ment	Earn-ings	% of Earn-ings to Investment
Total	44,343	5,118	11.54	3,564	505	14.17	14,350	1,860	12.96	16,861	1,816	10.77	9,567	936	9.78
Canada	13,820	1,104	7.99	1,671	191	11.43	3,228	170	5.27	6,191	565	9.13	2,730	177	6.48
Western Hemisphere	10,318	1,253	12.14	1,348	260	19.29	3,711	544	14.66	2,506	246	9.82	2,752	203	7.38
Europe	12,067	1,112	9.22	56	3	5.36	3,086	8	0.26	6,547	754	11.52	2,379	348	14.63
Africa	1,629	343	21.05	356	38	10.67	830	227	27.35	225	43	19.11	217	35	16.13
Asia	3,062	1,067	34.85	34	3	8.82	2,014	912	45.28	535	82	15.33	479	70	14.61
Other	3,447	239	6.93	100	10	10.00	1,482	- 6	- 0.40	856	126	14.72	1,009	104	10.31

1/ **Position at the end of period.**

2/ **Per year. Earnings is the sum of the U.S. share in the net earnings of subsidiaries and branch profits.**

Source: U.S. Department of Commerce, Survey of Current Business, September 1965 issue.

STATISTICAL APPENDIX

Table 7

SOUTH AFRICA: FOREIGN DIRECT INVESTMENT BY SECTOR OF INVESTMENT
(South African direct investments abroad)
(£ million)

	Grand Total		Official Sector		Private Sector Total		Mining	Manufacturing	Trade	Insurance	Other Financial Organizations	All Others
	1963	1956	1963	1956	1963	1956	1956	1956	1956	1956	1956	1956
U.K.	670.5 (54.0)	556.1 (14.0)	40.0 (1.0)	32.3	630.5 (53.0)	523.8	164.0 (1.9)	186.6 (1.8)	74.9 (1.9)	17.0	47.5 (3.4)	33.8 (4.6)
U.S.A.	120.5 (3.5)	126.3 (2.5)	2.0	1.1	118.5 (3.5)	125.2	54.0 (0.1)	36.2 (0.3)	28.7 (0.8)	0.6	1.2 (1.1)	4.4 (0.2)
France	40.5 (0.5)	24.2 (0.2)	2.5 -	2.4	38.0 (0.5)	21.8	12.2	1.4	5.0	0.6	1.5	1.1
Switzerland	28.5 (1.0)	17.0 (0.1)	0.5	0.2	28.0 (1.0)	16.8	4.3	8.4	1.0	0.6	1.7	0.9
Rhodesia/ Nyasaland	23.0 (154.5)	13.0 (94.8)	3.0	3.1	20.0 (154.5)	9.9	2.0 (24.3)	1.7 (28.6)	1.0 (16.9)	3.2	1.3 (12.2)	0.7 (12.4)
Netherlands	n.a.	9.9 (0.1)	n.a.	2.3	n.a.	7.6	0.3	5.6	0.5	0.5	0.3	0.4
Canada	n.a.	9.8 (0.1)	n.a.	0.1	n.a.	9.7	0.4	6.0	2.6	0.5	0.3	0.5
Grand Total including countries other than those identified above	985.0 (242.5)	809.0 (122.2)	56.0 (1.0)	46.9	929.5 (241.5)	762.1	242.5 (26.4)	265.7 (34.6)	119.1 (22.8)	28.4	61.2 (14.8)	45.0 (22.6)

Source: Data for 1956 are from the Final Results of the 1956 Census of The Foreign Liabilities and Assets of the Union of South Africa, published as a supplement to the December 1958 issue of the South African Reserve Bank's Quarterly Bulletin of Statistics. Figures for 1963 are from the December 1964 issue of the South African Reserve Bank's Quarterly Bulletin of Statistics.

N.B.: As the 1956 data are in South African Pounds (S.A.£ = \$2.8), the 1963 data are also shown in pounds although the figures published are in Rand. Figures shown within brackets indicate South African direct investments abroad. There is a small discrepancy of £1 million in the figures for South African investments abroad in 1963 which is probably the amount of direct investments in foreign public sector enterprises.

STATISTICAL APPENDIX

Table 8

Return on Foreign Direct Investments in South Africa

Year	Total Value of Direct Investment (Rand Million) (a)	Cumulative Total of Undistributed Profits (Rand Million) (b)	Undistributed Profits Invested During the Year (Rand Million) (c)	Transferred Profits & Dividends During the Year (Rand Million) (d)	Total of Undistributed Profits and Transferred Earnings (c+d) (Rand Million) (e)	% of Total Undistributed Profits and Transferred Profits & Dividends (e) to Value of Direct Investment (a) & Cumulative Total of Undistributed Profits (b)
1956	1618	558		105		
1957	1670	599	41	93	134	6.2
1958	1809	663	64	91	115	5.1
1959	1855	687	24	90	114	4.6
1960	1873	716	29	100	129	5.1
1961	1861	728	12	123	135	5.2
1962	1917	787	59	103	162	6.2
1963	1970	848	61	108	169	6.2

Source: Data for columns a, b & c are from Statement I on "Total Foreign Liabilities of South Africa, 1956-1963" from the Quarterly Bulletin of Statistics of the South African Reserve Bank for December 1964. Data for column (e) are from Table XXXIII A on Balance of Payments - Services and Transfers from the same publication. Figures in column (c) are derived by reference to data for (b) for any year to the preceding year's figure.

STATISTICAL APPENDIX
Table 9
FORMER BELGIAN CONGO

ESTIMATION DU CAPITAL INVESTI DANS LE SECTEUR PRIVE A FIN 1939

(En millions de francs or)

AUTEUR:
Van de Velde:

Total à fin 1935 y compris réserves incorporées au capital	2.245	
Plus, d'après les estimations de la Banque Nationale pour la période 1935 à 1939	76	
		2.321

Frankel:

Total à fin 1935	2.462	
Plus, d'après les estimations de la Banque Nationale pour la période 1935 à 1939	76	
		2.538

G. Verriest	2.350
Banque Nationale de Belgique (réserves exclues)	1.460

Ministère des Colonies:

Total de la période 1887 à 1953 en francs 1953	61.341	
sous déduction de:		
apports de 1948 à 1953 (réévalués d'après coefficients fiscaux	23.696	
apports de 1940 à 1947 (libérations en espèces et en nature d'après la Banque Nationale, réévalues d'après les coefficients fiscaux)	2.522	
Solde des apports de 1887 à 1939	35.123	
soit en francs or (d'après les coefficients fiscaux)		2.150

Malgré les différences existant au point de départ, les diverses évaluations évoquées ci-dessus conduisent, on le voit, à des résultats assez similaires qui situent aux environs de 2.350 millions de francs or l'evaluation des capitaux investis dans le secteur privé jusque fin 1939 au Congo Belge.

L'évaluation de la Banque Nationale, qui s'écarte le plus sensiblement de ce montant, ne porte que sur les seuls capitaux d'origine extérieure.

Source: Banque Centrale du Congo Belge et du Ruanda-Urundi, Bulletin, 4c Annee, No. 8, Aout 1955, pg.292.

STATISTICAL APPENDIX

Table 10

DIVIDEND RETURNS ON INVESTMENT IN THE CONGO

Year	Pourcentages des Dividendes aux Moyens Propres	Repartitions des benefices des enterprises Congolaises					
		Provisions pour amortissements	Impôts directs	Réserves	Dividendes tantiemes redevances	Total	Dividendes payes a l'étranger
	%		(In millions of Belgian Francs)				
1950		1,860	1,230	4,760	3,200	11,050	1,540
1951	12.09	2,260	1,310	6,770	3,660	14,000	2,020
1952	12.45	2,910	1,420	7,180	3,710	15,220	2,600
1953	12.02	3,870	2,040	4,840	4,070	14,820	2,610
1954	11.98	4,470	2,170	4,200	5,010	15,850	3,480
1955	11.68	4,930	2,250	3,730	6,200	17,100	4,700
1956	13.10	5,350	2,240	4,450	6,360	18,400	-

Source: Banque du Congo Belge et du Ruanda-Urundi, Bulletin, January 1958, page 15.

STATISTICAL APPENDIX

Table 11

LOANS ISSUED BY FRENCH AFRICAN COLONIES TO 1930[a]

(million francs)

	Issued Before 1900	Issued 1900-1914	Issued 1919-1930
A. O. F.	-	204	102
Togo	-	-	-
Cameroons	-	-	-
A. E. F.	-	21	408
Madagascar	26	75	-
Somaliland	-	-	-
Reunion	79	-	-
Total	105	300	510

a/ Figures given are amounts realized, not nominal value of issue.

Sources: Compiled by B.B. King from: Annuaire statistique des Possessions Francaises, annees anterieure a la guerre, 1944, Min. de la France d'Outre Mer.

STATISTICAL APPENDIX
Table 12

The French Colonial Loan of 1931

(million francs)

	Original Authorization	Issued up to 1939	Subsequent Authorization	Total Authorization	Total issued or advanced by 1946
A.O.F.	1,690	734	1,430	3,120	2,630
Togo	73	73	-	73	73
Cameroons	57	46	-	57	55
A.E.F.	1,513	1,104	-	1,513	1,513
Madagascar	735	709	100	835	764
Somaliland	44	41	-	44	37
Reunion	63	45	13	136	68
TOTAL	4,175	2,752	1,543	5,778	5,140

Note: Figures given are amounts realized, not nominal value of issue.

Sources: Compiled by B.B. King from: Annuaire statistique des Possessions Francaises, annees anterieure a la guerre, 1944, Min. de la France d'Outre Mer.
Inventaire de la Situation Financiere (1913-1946), 1946, Min. des Finances.
The Colonial Problem, 1937, R.I.I.A.

STATISTICAL APPENDIX

Table 13

The French Colonial Loan of 1931: Expenditure 1931-1938 in Major Colonies

(Million Francs)

	A.O.F.	A.E.F.	Madagascar	TOTAL
Railroads	179	719	272	1,170
Roads and bridges	33	...	57	90
Ports and rivers	171	179	176	526
Irrigation	207	-	-	207
Production	57	51	...	108
Social services	75	65	78	218
Miscellaneous	29	32	108	169
	751	1,046	691	2,488

Note: (i) Expenses given cover only actual projects; loan issue expenses etc. are excluded. The categories are quite possibly not comparable in some instances.

(ii) The three colonies tabulated account for some 80% of the expenditure during the period 1931-1938 (Indo-China excluded).

Source: Compiled by B.B. King from: Annuaire statistique des Possessions Francaises, annees anterieure a la guerre, 1944, Min. de la France d'Outre Mer.

STATISTICAL APPENDIX

TABLE 14

FOREIGN BONDS PUBLICLY-ISSUED IN VARIOUS MARKETS BY DEVELOPING COUNTRIES 1946-1964

(Nominal amounts in millions U.S. dollars)

Country	Capital markets									
	Total	Belgium	Canada	Germany	Luxembourg	Netherlands	Switzerland	United Kingdom	United States	Various /2
	BONDS OF, OR GUARANTEED BY, GOVERNMENTS AND POLITICAL SUBDIVISIONS									
Argentina	10.4	-	-	3.0	-	-	7.4	-	-	-
1961	10.4	-	-	3.0	-	-	7.4	-	-	-
Congo (Belgian)	70.7	-	-	-	-	-	55.7	-	15.0	-
1950	14.0	-	-	-	-	-	14.0	-	-	-
1952	13.7	-	-	-	-	-	13.7	-	-	-
1953	14.0	-	-	-	-	-	14.0	-	-	-
1956	14.0	-	-	-	-	-	14.0	-	-	-
1958	15.0	-	-	-	-	-	-	-	15.0	-
Ceylon	14.0	-	-	-	-	-	-	14.0	-	-
1954	14.0	-	-	-	-	-	-	14.0	-	-
Fed.Rhodesia and Nyasaland /1	347.0	-	-	-	-	-	-	341.0	6.0	-
1947	129.0	-	-	-	-	-	-	129.0	-	-
1948	20.2	-	-	-	-	-	-	20.2	-	-
1950	16.8	-	-	-	-	-	-	16.8	-	-
1951	14.0	-	-	-	-	-	-	14.0	-	-
1952	21.0	-	-	-	-	-	-	21.0	-	-
1953	28.0	-	-	-	-	-	-	28.0	-	-
1954	28.0	-	-	-	-	-	-	28.0	-	-
1955	28.0	-	-	-	-	-	-	28.0	-	-
1958	34.0	-	-	-	-	-	-	28.0	6.0	-
1959	28.0	-	-	-	-	-	-	28.0	-	-
Iceland	10.8	-	-	-	-	-	-	10.8	-	-
1949	5.2	-	-	-	-	-	-	5.2	-	-
1962	5.6	-	-	-	-	-	-	5.6	-	-

See footnotes at end of table.

FOREIGN BONDS PUBLICLY-ISSUED IN VARIOUSMARKETS BY DEVELOPING COUNTRIES 1946-1964 (CONT.)

(Nominal amounts in millions U.S. dollars)

Country	Capital markets									
	Total	Belgium	Canada	Germany	Luxembourg	Netherlands	Switzer-land	United Kingdom	United States	Various /2
BONDS OF, OR GUARANTEED BY, GOVERNMENTS AND POLITICAL SUBDIVISIONS (CONT.)										
Ireland	15.4	-	-	-	-	-	-	15.4	-	-
1951	15.4	-	-	-	-	-	-	15.4	-	-
Israel	665.6	-	29.0	-	-	-	-	-	636.6	-
1951	50.0	-	-	-	-	-	-	-	50.0	-
1952	41.0	-	-	-	-	-	-	-	41.0	-
1953	41.0	-	4.0	-	-	-	-	-	37.0	-
1954	38.0	-	3.0	-	-	-	-	-	35.0	-
1955	38.0	-	3.0	-	-	-	-	-	35.0	-
1956	48.0	-	4.0	-	-	-	-	-	44.0	-
1957	46.0	-	4.0	-	-	-	-	-	42.0	-
1958	41.0	-	4.0	-	-	-	-	-	37.0	-
1959	45.0	-	3.0	-	-	-	-	-	42.0	-
1960	46.0	-	4.0	-	-	-	-	-	42.0	-
1961	58.2	-	-	-	-	-	-	-	58.2	-
1962	46.4	-	-	-	-	-	-	-	46.4	-
1963	34.0	-	-	-	-	-	-	-	34.0	-
1964	93.0	-	-	-	-	-	-	-	93.0	-
Jamaica	25.7	-	-	-	-	-	-	13.2	12.5	-
1959	12.5	-	-	-	-	-	-	-	12.5	-
1963	4.2	-	-	-	-	-	-	4.2	-	-
1964	9.0	-	-	-	-	-	-	9.0	-	-
Malaya	14.0	-	-	-	-	-	-	14.0	-	-
1963	14.0	-	-	-	-	-	-	14.0	-	-
Mexico	100.0	-	-	-	-	-	-	-	100.0	-
1963	40.0	-	-	-	-	-	-	-	40.0	-
1964	60.0	-	-	-	-	-	-	-	60.0	-
Panama	16.8	-	-	-	-	-	-	-	16.8	-
1958	16.8	-	-	-	-	-	-	-	16.8	-

See footnotes at end of table.

FOREIGN BONDS PUBLICLY-ISSUED IN VARIOUS MARKETS BY DEVELOPING COUNTRIES 1946-1964 (CONT.)

(Nominal amounts in millions U.S. dollars)

Country	Capital markets									
	Total	Belgium	Canada	Germany	Luxembourg	Netherlands	Switzer-land	United Kingdom	United States	Various /2
	BONDS OF, OR GUARANTEED BY, GOVERNMENTS AND POLITICAL SUBDIVISIONS (CONT.)									
Portugal	20.0	-	-	-	-	-	-	-	-	20.0
1964	20.0	-	-	-	-	-	-	-	-	20.0
South Africa	194.2	-	-	-	-	13.2	39.3	76.7	65.0	-
1949	28.0	-	-	-	-	-	-	28.0	-	-
1950	16.8	-	-	-	-	-	-	16.8	-	-
1952	16.5	-	-	-	-	-	13.7	2.8	-	-
1953	8.4	-	-	-	-	-	-	8.4	-	-
1954	16.2	-	-	-	-	-	14.0	2.2	-	-
1955	38.2	-	-	-	-	13.2	-	-	25.0	-
1958	44.5	-	-	-	-	-	-	4.5	40.0	-
1959	25.6	-	-	-	-	-	11.6	14.0	-	-
TOTAL ISSUES	1,504.6	-	29.0	3.0	-	13.2	102.4	485.1	851.9	20.0
1947	129.0	-	-	-	-	-	-	129.0	-	-
1948	20.2	-	-	-	-	-	-	20.2	-	-
1949	33.2	-	-	-	-	-	-	33.2	-	-
1950	47.6	-	-	-	-	-	14.0	33.6	-	-
1951	79.4	-	-	-	-	-	-	29.4	50.0	-
1952	92.2	-	-	-	-	-	27.4	23.8	41.0	-
1953	91.4	-	4.0	-	-	-	14.0	36.4	37.0	-
1954	96.2	-	3.0	-	-	-	14.0	44.2	35.0	-
1955	104.2	-	3.0	-	-	13.2	-	28.0	60.0	-
1956	62.0	-	4.0	-	-	-	14.0	-	44.0	-
1957	46.0	-	4.0	-	-	-	-	-	42.0	-
1958	151.3	-	4.0	-	-	-	-	32.5	114.8	-
1959	111.1	-	3.0	-	-	-	11.6	42.0	54.5	-
1960	46.0	-	4.0	-	-	-	-	-	42.0	-
1961	68.6	-	-	3.0	-	-	7.4	-	58.2	-
1962	52.0	-	-	-	-	-	-	5.6	46.4	-
1963	92.2	-	-	-	-	-	-	18.2	74.0	-
1964	182.0	-	-	-	-	-	-	9.0	153.0	20.0

Footnotes at end of table.

FOREIGN BONDS PUBLICLY-ISSUED IN VARIOUS MARKETS BY DEVELOPING COUNTRIES 1946-1964 (CONT.)

(Nominal amounts in millions U.S. dollars)

Country	Total	Belgium	Canada	Germany	Luxembourg	Netherlands	Switzer-land	United Kingdom	United States	Various /2
					BONDS OF PRIVATE COMPANIES					
Fed.Rhodesia and Nyasaland	7.1	0.1	-	-	-	7.0	-	-	-	-
1955	7.0	-	-	-	-	7.0	-	-	-	-
1958	0.1	0.1	-	-	-	-	-	-	-	-
Ireland	0.8	-	-	-	-	-	-	0.8	-	-
1950	0.8	-	-	-	-	-	-	0.8	-	-
Israel	10.1	-	-	-	-	-	-	-	5.1	5.0
1957	2.5	-	-	-	-	-	-	-	2.5	-
1958	0.6	-	-	-	-	-	-	-	0.6	-
1961	2.0	-	-	-	-	-	-	-	2.0	-
1964	5.0	-	-	-	-	-	-	-	-	5.0
Mexico	8.0	-	-	-	-	-	-	-	8.0	-
1964	8.0	-	-	-	-	-	-	-	8.0	-
Peru	3.5	-	-	-	-	-	3.5	-	-	-
1952	0.5	-	-	-	-	-	0.5	-	-	-
1953	1.3	-	-	-	-	-	1.3	-	-	-
1955	1.7	-	-	-	-	-	1.7	-	-	-
Portugal	10.0	2.0	-	0.3	1.2	0.5	1.0	-	-	5.0
1961	5.0	2.0	-	0.3	1.2	0.5	1.0	-	-	-
1962	5.0	-	-	-	-	-	-	-	-	5.0
Spain	9.2	-	-	-	-	-	9.2	-	-	-
1963	4.6	-	-	-	-	-	4.6	-	-	-
1964	4.6	-	-	-	-	-	4.6	-	-	-
South Africa	68.8	-	-	11.9	-	-	42.9	14.0	-	-
1950	17.2	-	-	-	-	-	11.6	5.6	-	-
1952	5.7	-	-	-	-	-	5.7	-	-	-
1954	5.8	-	-	-	-	-	5.8	-	-	-
1955	8.2	-	-	-	-	-	8.2	-	-	-

See footnotes at end of table.

FOREIGN BONDS PUBLICLY-ISSUED IN VARIOUS MARKETS BY DEVELOPING COUNTRIES 1946-1964 (CONT.)

(Nominal amounts in millions U.S.dollars)

Country	Capital markets									
	Total	Belgium	Canada	Germany	Luxembourg	Netherlands	Switzer-land	United Kingdom	United States	Various /2
					BONDS OF PRIVATE COMPANIES (CONT.)					
South Africa (Cont.)										
1957	8.4	-	-	-	-	-	-	8.4	-	-
1958	11.9	-	-	11.9	-	-	-	-	-	-
1962	11.6	-	-	-	-	-	11.6	-	-	-
TOTAL ISSUES	117.5	2.1	-	12.2	1.2	7.5	56.6	14.8	13.1	10.1
1947	-	-	-	-	-	-	-	-	-	-
1948	-	-	-	-	-	-	-	-	-	-
1949	-	-	-	-	-	-	-	-	-	-
1950	18.0	-	-	-	-	-	11.6	6.4	-	-
1951	-	-	-	-	-	-	-	-	-	-
1952	6.2	-	-	-	-	-	6.2	-	-	-
1953	1.3	-	-	-	-	-	1.3	-	-	-
1954	5.8	-	-	-	-	-	5.8	-	-	-
1955	16.9	-	-	-	-	7.0	9.9	-	-	-
1956	-	-	-	-	-	-	-	-	-	-
1957	10.9	-	-	-	-	-	-	8.4	2.5	-
1958	12.6	0.1	-	11.9	-	-	-	-	0.6	-
1959	-	-	-	-	-	-	-	-	-	-
1960	-	-	-	-	-	-	-	-	-	-
1961	7.0	2.0	-	0.3	1.2	0.5	1.0	-	2.0	-
1962	16.6	-	-	-	-	-	11.6	-	-	5.0
1963	4.6	-	-	-	-	-	4.6	-	-	-
1964	17.6	-	-	-	-	-	4.6	-	8.0	5.0

See footnotes at end of table.

FOREIGN BONDS PUBLICLY-ISSUED IN VARIOUS MARKETS BY DEVELOPING COUNTRIES 1946-1964 (CONT.)

(Nominal amounts in millions U.S. dollars)

Year	Capital markets									
	Total	Belgium	Canada	Germany	Luxembourg	Netherlands	Switzerland	United Kingdom	United States	Various /2
	TOTAL ISSUES OF BONDS GUARANTEED BY GOVERNMENTS OR POLITICAL SUBDIVISIONS AND BONDS ISSUED BY PRIVATE COMPANIES									
	1,622.1	2.1	29.0	15.2	1.2	20.7	159.0	499.9	865.0	30.0
1947	129.0	-	-	-	-	-	-	129.0	-	-
1948	20.2	-	-	-	-	-	-	20.2	-	-
1949	33.2	-	-	-	-	-	-	33.2	-	-
1950	65.6	-	-	-	-	-	25.6	40.0	-	-
1951	79.4	-	-	-	-	-	-	29.4	50.0	-
1952	98.4	-	-	-	-	-	33.6	23.8	41.0	-
1953	92.7	-	4.0	-	-	-	15.3	36.4	37.0	-
1954	102.0	-	3.0	-	-	-	19.8	44.2	35.0	-
1955	121.1	-	3.0	-	-	20.2	9.9	28.0	60.0	-
1956	62.0	-	4.0	-	-	-	14.0	-	44.0	-
1957	56.9	-	4.0	-	-	-	-	8.4	44.5	-
1958	163.9	0.1	4.0	11.9	-	-	-	32.5	115.4	-
1959	111.1	-	3.0	-	-	-	11.6	42.0	54.5	-
1960	46.0	-	4.0	-	-	-	-	-	42.0	-
1961	75.6	2.0	-	3.3	1.2	0.5	8.4	-	60.2	-
1962	68.6	-	-	-	-	-	11.6	5.6	46.4	5.0
1963	96.8	-	-	-	-	-	4.6	18.2	74.0	-
1964	199.6	-	-	-	-	-	4.6	9.0	161.0	25.0

Note: Where country names have changed, the issues are shown under the name of the country at the time of issue (except in the case of Southern Rhodesia which is shown under the Federation).

/1 Bonds issued from 1947 to 1953 were issued by Southern Rhodesia, subsequent issues by the Federation.

/2 Amounts shown in this column are those bonds which are issued simultaneously in more than one market. The breakdown of amounts issued in specific markets is not available.

Statistics Division
IBRD-Economics Department
July 19, 1965

STATISTICAL APPENDIX

Table 15

DISTRIBUTION OF FLOW OF FINANCIAL RESOURCES FROM FRANCE (DISBURSEMENTS EST.) TO AFRICAN MALAGASY STATES

(millions of U.S. dollars)

Bilateral official assistance	1962	1963
A. Grants		
1. Capital expenditure	63.7	63.3
2. Technical assistance	132.2	136.4
3. Other	67.9	65.5
Total A	263.8	265.2
B. Loans (net)	22.1	28.4
Total bilateral official assistance	285.9	293.6
Private direct investment and other long-term capital	71.7	51.6

Source: OECD, The Flow of Financial Resources to Less-Developed Countries, 1956-1963, Paris, 1964, pp. 75, 76.

STATISTICAL APPENDIX

Table 16

GROSS FIXED CAPITAL FORMATION IN FRENCH-SPEAKING AFRICA FINANCED BY LOCAL PUBLIC FUNDS AND BY FRANCE

1946 - 1960

Country	Local Funds	France	Total
	--- in millions of U.S. dollars ---		
I. Former A.O.F. States			
Senegal	209	276	485
Mali	76	156	232
Mauritania	21	38	59
Ivory Coast	179	197	376
Upper Volta	46	63	109
Guinea	70	130	200
Dahomey	46	69	115
Niger	46	40	87
Not classified by country	69	171	240
Total Former A.O.F. States	762	1,139	1,901
II. Togo	19	45	64
III. Former A.E.F. States			
Congo	37	110	146
Gabon	19	159	178
Chad	33	83	116
Central African Republic	25	59	84
Not classified by country	17	74	91
Total Former A.E.F. States	130	485	615
IV. Cameroun	106	355	461
V. Madagascar	216	312	528
Not Classified, Africa & Madagascar	-	281	281
GRAND TOTAL	1,233	2,616	3,850

Source: Calculated from tables in Institut d'Etude du Developpement Economique et Social, Universite de Paris, Les Investissements Publics d'Origine Locale et d'Origine Exterieure dans les Pays Francophones d'Afrique Tropicale, 1946-1960, Vol. II, Tableaux Statistiques, Paris 1964.

STATISTICAL APPENDIX

Table 17

British Financial Aid to Africa, South of the Sahara
Public Bilateral Disbursements (Gross) By Country:
Financial Years
(in thousands of £ sterling)

	1963/64 Grants	1963/64 Loans	1963/64 Total	1964/65 Grants	1964/65 Loans	1964/65 Total
Basutoland	1,788	40	1,828	2,098	-	2,098
Bechuanaland	2,055	-	2,055	2,765	410	3,175
Cameroons	-	-	-	24	-	24
Congo (Leopoldville)	-	-	-	538	-	538
East Africa (Common Services)	89	1,524	1,613	260	2,831	3,091
Federation of Rhodesia and Nyasaland 1/	-	2,163	2,163	960	-	960
Gambia	1,217	33	1,250	874	65	939
Ghana	6	737	743	-	1,855	1,855
Kenya	4,171	7,147	11,318	4,554	10,239	14,793
Malawi	5,241	2,966	8,207	7,448	1,485	8,933
Mauritania	21	-	21	4	-	4
Mauritius	524	954	1,478	480	143	623
Niger	9	-	9	-	-	-
Nigeria	161	1,084	1,245	125	4,290	4,415
Rhodesia	1	3,855	3,856	2,250	-	2,250
Seychelles	222	-	222	291	-	291
Sierra Leone	500	2,060	2,560	-	830	830
Somalia	15	-	15	-	-	-
St. Helena and Tristan da Cunha	172	-	172	238	2	240
Sudan	-	285	285	-	1,315	1,315
Swaziland	1,122	331	1,453	2,409	1,851	4,260
Tanzania	1,547	3,396	4,943	1,350	3,058	4,408
Uganda	1,200	2,458	3,658	262	1,947	2,209
Zambia	112	2,952	3,064	3,682	800	4,482
Unallocated 2/	-	-	-	49	-	49
Grand Total	20,173	31,985	52,158	30,661	31,121	61,782

1/ Contributions to individual members of the former Federation of Rhodesia and Nyasaland are not identifiable.

2/ Includes grants to Basutoland, Bechuanaland and Swaziland which cannot be identified by individual recipient.

Source: Overseas Development: the work of the New Ministry; Ministry of Overseas Development; Cmnd. 2736 of August 1965.

STATISTICAL APPENDIX

Table 18

U.S. Official Economic Assistance to Less Developed Countries in Africa South of the Sahara
(millions of U.S. dollars)

COUNTRIES	Total Fiscal Years 1946/60: Net obligations Grants PL 480	Other	Loan Authorizations PL 480	Other	Total	Disbursements under For. Ass. Program	Fiscal Year 1960/61: Net obligations Grants PL 480	Other	Loan Authorizations PL 480	Other	Total	Disbursements under For. Ass. Program	Fiscal Year 1961/62: Net obligations Grants PL 480	Other	Loan Authorizations PL 480	Other	Total	Disbursements under For. Ass. Program
Burundi	-	-	-	-	-	-	-	-	-	-	-	-	3.5	-	-	-	3.5	-
Cameroon	0.1	-	-	-	0.1	-	0.1	2.0	-	-	2.1	*	0.1	3.7	9.2	-	13.0	0.6
Cen. African Rep.	-	-	-	-	-	-	-	*	-	-	*	-	-	0.2	-	-	0.2	*
Chad	-	-	-	-	-	-	*	0.1	-	-	0.1	-	*	0.3	-	-	0.3	*
Congo (Brazz)	-	-	-	-	-	-	-	0.1	-	-	0.1	-	-	1.2	-	-	1.2	0.1
Congo (Leop)	-	-	-	-	-	*	-	-	8.2	67.3	75.5	45.5	16.5	67.0	-	-	83.5	74.7
Dahomey	0.1	-	-	-	0.1	-	1.0	2.0	-	-	3.0	1.0	1.6	0.7	-	-	2.3	0.4
Ethiopia	5.8	38.6	-	13.0	57.4	29.3	3.0	9.3	-	29.1	41.4	9.0	2.0	6.8	-	-	8.8	17.6
Gabon	-	-	-	-	-	-	-	0.1	-	-	0.1	-	-	0.4	-	-	0.4	0.1
Gambia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ghana	1.3	2.7	-	-	4.0	2.0	1.0	1.4	-	20.0	22.4	1.0	0.7	2.4	-	127.0	130.1	1.0
Guinea	1.7	2.1	-	-	3.8	-	-	0.2	-	-	0.2	1.4	4.3	6.1	-	-	10.4	0.4
Ivory Coast	-	-	-	-	-	-	-	2.1	-	-	2.1	1.1	-	2.5	-	-	2.5	0.7
Kenya	0.5	4.6	-	-	5.1	4.1	1.5	0.3	-	-	1.8	0.4	6.7	3.2	-	-	9.9	1.4
Liberia	0.6	20.7	-	43.8	65.1	14.7	0.4	6.2	-	40.8	47.4	3.5	0.1	11.1	2.9	-	14.1	5.4
Malagasy Rep.	-	-	-	-	-	-	-	0.5	-	-	0.5	*	*	0.6	-	-	0.6	0.2
Malawi	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mali	-	-	-	-	-	-	-	2.5	-	-	2.5	0.2	-	2.5	-	-	2.5	2.3
Mauritania	0.1	-	-	1.4	1.5	1.4	0.1	-	-	-	0.1	-	0.1	-	-	-	0.1	*
Niger	-	-	-	-	-	-	*	2.0	-	-	2.0	1.0	*	1.2	-	-	1.2	0.6
Nigeria	0.2	5.0	-	1.0	6.2	2.0	0.1	10.0	-	4.3	14.4	5.6	0.2	22.8	-	2.0	25.0	6.4
Rhodesia & Nyasaland	*	0.2	-	32.4	32.6	10.0	-	0.6	-	-	0.6	0.4	-	2.8	-	-	2.8	0.4
Rwanda	-	-	-	-	-	-	-	-	-	-	-	-	-	0.8	-	-	0.8	-
Senegal	-	-	-	-	-	-	-	3.6	-	-	3.6	-	0.4	3.0	-	-	3.4	3.6
Sierra Leone	0.2	0.3	-	-	0.5	-	0.1	0.5	-	-	0.6	0.2	0.2	2.3	-	-	2.5	0.2
Somali Rep.	0.3	6.8	-	2.0	9.1	4.4	*	4.1	-	-	4.1	4.1	2.9	11.9	-	-	14.8	3.3
Sudan	*	34.1	-	10.0	44.1	20.2	-	7.0	-	-	7.0	14.6	1.2	7.8	2.3	2.0	13.3	11.0
Tanzania	0.1	0.1	-	-	0.2	-	1.7	0.6	-	1.9	4.2	0.4	9.3	2.8	-	*	12.1	0.7
Togo	0.5	-	-	-	0.5	-	0.3	1.1	-	-	1.4	0.3	2.5	1.3	-	-	3.8	0.5
Uganda	0.2	0.8	-	-	1.0	0.3	0.1	*	-	-	0.1	0.2	0.6	3.6	-	-	4.2	0.2
Upper Volta	-	-	-	-	-	-	*	2.0	-	-	2.0	1.1	0.1	0.9	-	-	1.0	0.9
Zambia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Africa Regl.	0.5	7.3	-	23.2	31.0	7.0	0.3	3.7	-	-10.7	-6.7	1.4	0.2	8.2	-	-	8.4	2.4
GRAND TOTAL ...	12.2	123.3	-	126.8	262.3	95.4	9.7	62.0	8.2	152.7	232.6	92.4	53.2	178.1	14.4	131.0	376.7	135.1

COUNTRIES	Fiscal Year 1962/63: Net obligations Grants PL 480	Other	Loan Authorizations PL 480	Other	Total	Disbursements under For. Ass. Program	Fiscal Year 1963/64: Net obligations Grants PL 480	Other	Loan Authorizations PL 480	Other	Total	Disbursements under For. Ass. Program	Fiscal Year 1964/65 (Preliminary): Net obligations Grants PL 480	Other	Loan Authorizations PL 480	Other	Total
Burundi	1.5	-	-	-	1.5	*	0.5	0.5	-	-	1.0	0.1	1.0	0.1	-	-	1.1
Cameroon	*	1.4	-	-	1.4	1.8	*	2.3	-	-	2.3	2.5	*	2.3	-	3.2	5.5
Cen. African Rep.	*	0.7	-	-	0.7	0.1	*	1.1	-	-	1.1	0.4	*	0.7	-	-	0.7
Chad	0.1	1.0	-	-	1.1	*	*	0.6	-	-	0.6	0.6	1.1	1.0	-	-	2.1
Congo (Brazz)	-	0.4	0.2	-	0.6	0.8	-	0.2	-	2.7	2.9	0.3	0.2	0.1	-	-2.7	-2.4
Congo (Leop)	37.2	37.8	-	-	75.0	22.5	21.8	19.8	-	-	41.6	15.6	5.2	0.9	4.4	15.0	25.5
Dahomey	0.3	0.7	-	-	1.0	0.2	0.7	0.5	-	-	1.2	1.0	0.3	0.6	0.2	-	1.1
Ethiopia	0.9	7.9	2.1	3.8	14.8	18.5	0.6	7.2	-	0.7	8.5	8.1	0.5	8.0	-	10.3	18.8
Gabon	-	1.1	-	-	1.1	0.2	-	1.7	-	-	1.7	0.6	-	1.1	-	-	1.1
Gambia	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-	-	0.1
Ghana	0.6	2.3	-	-	2.9	3.5	2.2	1.3	-	-	3.5	5.2	0.9	1.4	-	-	2.3
Guinea	-	9.4	3.6	3.1	16.1	3.5	-	10.0	9.3	-2.4	16.9	9.5	0.3	8.8	7.9	4.8	21.7
Ivory Coast	-	0.9	-	6.3	7.2	0.6	0.1	2.0	2.5	5.0	9.6	1.0	-	0.3	4.0	-	4.3
Kenya	0.8	2.6	-	2.2	5.6	1.7	0.4	3.3	-	-	3.7	1.9	0.9	3.9	3.8	0.6	9.2
Liberia	0.2	9.4	2.8	32.9	45.3	6.8	0.4	7.0	2.9	7.4	17.7	8.8	0.3	8.6	-	32.4	41.3
Malagasy Rep.	0.5	0.4	-	-	0.9	0.8	0.6	0.7	-	-	1.3	0.7	1.5	1.1	-	2.7	5.3
Malawi	-	-	-	-	-	-	-	-	-	-	-	-	0.1	3.1	-	-	3.2
Mali	-	1.7	-	2.1	3.8	1.0	-	1.8	-	1.1	2.9	1.7	0.9	0.9	*	*	1.8
Mauritania	0.1	0.1	-	-	0.2	*	0.7	0.2	-	-	0.9	*	*	*	-	-	*
Niger	-	0.7	-	0.5	1.2	0.6	0.2	0.6	-	1.8	2.6	0.8	-	1.4	-	-	1.4
Nigeria	0.3	17.2	-	12.0	29.4	9.3	0.6	18.4	-	31.4	50.4	14.1	1.4	18.1	-	13.8	33.3
Rhodesia & Nyasaland	*	2.1	-	-	2.1	0.7	-	2.9	-	-	2.9	1.4	-	*	-	-	*
Rwanda	*	-	-	-	*	-	-	0.5	-	-	0.5	-	0.1	0.1	-	-	0.2
Senegal	0.6	0.8	-	0.3	1.7	2.0	1.0	1.4	2.6	1.3	6.3	0.8	0.9	0.6	-	-	1.5
Sierra Leone	0.5	3.4	-	-	3.9	0.8	1.0	2.6	-	10.2	13.8	1.3	1.1	2.7	1.8	-	5.6
Somali Rep.	1.1	3.6	-	3.6	8.3	6.7	-	3.4	-	-	3.4	3.8	3.0	4.2	-	0.6	7.8
Sudan	1.5	1.6	3.0	3.8	9.9	5.7	1.7	1.9	3.3	*	6.9	4.0	1.4	2.9	3.3	-	7.6
Tanzania	3.1	2.1	-	6.9	12.1	1.9	1.7	3.6	-	3.9	9.2	1.6	2.6	4.1	-	0.2	6.9
Togo	0.2	0.8	-	-	1.0	0.6	0.7	1.2	-	-	1.9	1.1	0.4	1.0	-	-	1.4
Uganda	0.1	2.5	-	4.4	7.0	2.9	0.2	2.1	-	0.4	2.7	1.8	0.4	2.1	-	-	2.5
Upper Volta	0.5	0.4	-	-	0.9	0.7	0.5	0.3	-	-	0.8	1.1	0.5	0.5	-	-	1.0
Zambia	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.9	-	-	1.0
Africa Regl.	0.3	9.1	-	-	9.4	4.3	0.4	11.5	-	1.5	13.4	6.2	0.8	11.7	-	-	12.5
GRAND TOTAL ...	50.4	122.1	11.7	81.9	265.1	98.2	36.0	110.6	20.6	65.0	232.2	96.0	25.9	93.3	25.4	80.9	225.4

Source: Figures in the first five columns for each time period on net obligations in respect of PL 480 and other grants and data for loan authorizations under PL 480 and "other" are from the Special Report prepared by the U.S. Agency for International Development for the House Foreign Affairs Committee of the U.S. Congress entitled "U.S. Overseas Loans and Grants and Assistance from International Organisations; Obligations and Loan Authorizations, July 1, 1945 - June 30, 1964".

Figures for Fiscal 1964/1965 are from a preliminary tabular report prepared by the Statistics and Reports Division of the Agency for International Development entitled "Trend of U.S. Overseas Economic Loans and Grants, by Region - Net Obligations and Loan Authorizations, FY 1946-1965."

The above data for net obligations in respect of grants and loan authorizations relate only to U.S. bilateral assistance under Foreign Assistance Programs administered by the Agency for International Development plus assistance under the Food for Peace and the Peace Corps programs besides Export-Import Bank loans.

Authorizations data for Export-Import Bank loans, according to the source publication cited above, are for loans of five years or more maturity including loans by private financial institutions if guaranteed by the Export-Import Bank.

A minus figure under "net obligations" indicates deobligations or deobligations exceeding new obligations; a minus figure under authorizations indicates cancellations or cancellations exceeding new authorizations.

An asterisk mark is for amounts of less than $50,000.

Disbursements data are from a report published by the U.S. Agency for International Development entitled "U.S. Economic Assistance Programs administered by the A.I.D. and predecessor agencies, June 30, 1964." Data for Fiscal 1964/1965 are not yet available. Disbursements data given in this source, it must be noted, relate only to programs administered by the Agency for International Development under the U.S. Foreign Economic Assistance Acts.

STATISTICAL APPENDIX

Table 19

World Bank Group Operations in Africa

Through October 31, 1965

(in millions of dollars)

	No. Bank Loans	Bank Loans Net Amounts 1/	No. IDA Credits	Amount IDA Credits 1/
Bechuanaland	-	-	1	3.6
Burundi	1	4.8		
Congo, Democratic Republic of the	5	91.6		
Ethiopia	7	51.9	1	13.5
Gabon	2	47.0		
Ghana	1	47.0		
Ivory Coast a/	1	7.1		
Kenya b/	3	52.0	3	10.3
Liberia	2	4.3		
Mali a/	-	-		
Mauritania	1	66.0	1	6.7
Mauritius	1	7.0		
Niger	-	-	1	1.5
Nigeria	6	185.5	2	35.5
Rhodesia c/	3	87.0		
Senegal a/	-	-		
Sierra Leone	1	3.8		
Somalia	-	-	1	6.2
South Africa	10	221.8		
Sudan	3	74.0	1	13.0
Swaziland	1	4.2	1	2.8
Tanzania b/	1	24.0	2	18.6
Uganda b/	1	8.4		
Upper Volta a/	-	-		
Zambia	3	67.4		
Total	53	1,054.8	14	111.7

1/ Net of cancellations, refundings and termination.

Loans shared with other countries marked a/.
" " " " " " b/.
" " " " " " c/.

In essence, what I am saying is that an important ingredient in economic forecasts made by or for policy makers is that their objective is not only to foretell the future but to influence the future. The forecast is not therefore a purely disinterested scientific activity, neutral in its impact on the future; the variables, the period, the parameters are usually all chosen from some policy standpoint. The only economic forecasts or projections that are "neutral" in regard to their impact on the future and, therefore, perhaps could be regarded as "true" forecasts and not as instruments to influence the future are those forecasts that are disregarded by the people who make decisions. These "neutral" forecasts or projections are, of course, exactly opposite to what the objectives of the seminar on long-term economic projections are concerned with. (In jargon, what we are interested in is "intentional forecasts" that are based on "decision models" and not "on-looker" or "observer" projections.) The first question, therefore, in considering any projection or forecast is to ask what purpose is the forecast to serve? To what use is it to be put?

The theme of this paper has been set as "Global Long-Term Projections of Investment Requirements". Clearly "investment requirements" is a meaningless coupling of words if there is not defined or understood the answer to the question "requirements to do what"? There are several possibilities that are worth examining. One purpose for which one might try to make such a projection might be in order to try to ascertain what are the global investment requirements to enable each of the developing countries to achieve a given minimum growth rate. This, I believe, may be essentially what was in the mind of the organizer of this seminar when this theme was assigned to me to develop. But, is this a meaningful question?

Before answering this question one must first consider the prior question whether total investment (or capital) can be related to growth in the economy in some causal way. For people brought up on Harrod-Domar models this may seem a useless question and even an impertinent one. For these people it tends to be regarded as going without saying that capital is the major and crucial determinant of economic growth. In recent years, this view has been challenged in a number of quarters. People like C. Aukrust found the contribution of capital to Norwegian growth per capita so over-rated that he suggested Norway should reconsider its "... plans and policies and look into the possibilities of achieving greater gains by increasing our efforts in the field of research and education." (O. Aukrust, "Investment and Economic Growth", Productivity Measurement Review, February 1959.)

In a number of empirical studies of industrial countries, emphasis has been put instead on the contribution made by technological progress. Essentially, the model of the aggregate production function underlying these studies by Solow, Kendrick, Fabricant, Abramovitz, and Denison is of the type

$$Q = F(K, L, t)$$

where
Q = total output
K = capital in physical units
L = labor in physical units

and t = time

Introducing the factor t, where $\frac{dQ}{dt} > 0$ means that as time passes, with technological progress, output will increase even if K and L remain unchanged.

Included under the heading of technological progress are not only more efficient machines, more highly qualified labor but also the gains from division of labor and reallocation of resources as the market expands.

The emphasis that the advocates of the technological progress thesis have given to this element in growth has been important in bringing out the limits to the rate of growth in industrial societies. (This recognition was in fact implicit in the Harrod model all along, however.) (See K.J. Charles, "Capital Accumulation and the Developing Economies", Asian Economic Review, Feb. 1966.) Briefly, at any given time, the rate of growth is limited by the stage of technological progress and the supply of labor. Increase in the rate of investment can carry the economy up to these limits but investment beyond the optimum will have little effect on the rate of growth. The experience of countries like Germany, the Netherlands, France, Switzerland, has in fact demonstrated these limits in practice.

But, all this like much of the rest of modern macro-economics is not directly applicable to the developing countries. The point is that the developing countries are not at the limit of utilization of technological progress; in fact, of their few advantages, one is that there is so much technical knowledge available to them which they have not yet exploited. Their supply of labor, at least unskilled labor, is also not likely to be a limitation for most of the developing countries for a long period to come. But this does not mean that their economic growth depends only on the supply of capital. The truth is that the developing countries are subject to several other limitations which I have lumped together into a factor I call "economic management". This can be briefly described as the application of economic rationality to all use of resources - the ceaseless search for a way to employ resources more efficiently at lower cost. A fuller description of this factor is given below.

The aggregate production function for a developing country is, consequently,

$$Q = F\ (K, L, A)$$

where Q, K, and L are the same as in the Solow model, but A = the factor of economic management. It also means that where, if $\frac{dQ}{dA} > 0$, output will increase even if K and L remain unchanged. This is essentially the Schumpeterian model described below:

> "The slow and continuous increase in time of the national supply of productive means and of savings is obviously an important factor in explaining the course of economic history through the centuries, but it is completely overshadowed by the fact that development consists primarily in employing existing resources in a different way, in doing new things with them irrespective of whether those resources increase or not."
>
> Joseph A. Schumpeter, The Theory of Economic Development, Cambridge, Harvard University Press, pg. 68.

However, "economic management" covers considerably more than Schumpeter included in his role of entrepreneurship. In market industrial economies, as a working hypothesis, it is usually safe to assume that resources are being utilized in a reasonably efficient way and, consequently, this factor receives little attention by economists working in the industrial societies. Perceptive economists working on actual problems of the developing countries soon realize that the factor of "economic management" of individual enterprises, sectors, and of the economy as a whole is a dominant if not the dominant problem of development. This is, for example, I believe what A. O. Hirschman is dealing with when he talks of the economics of decision-making and advocates unbalanced development and what E.S. Mason emphasizes in his Economic Planning in Underdeveloped Areas (The Millar Lectures, N.Y.; Fordham University Press, 1958). One aspect of economic management is "absorptive capacity" - the ability of an economy to put additional capital resources from outside to work effectively, but it is broader than that since it includes putting the existing resources to work effectively.

The importance of economic management is real and it has led the World Bank Group, for example, to make improvement in economic performance one of the major elements in determining its lending policy in recent years. The emphasis on economic management is a central theme in the recent study prepared by the World Bank staff for UNCTAD, Supplementary Financial Measures, which outlines a scheme to provide the finance to make up unexpected short-falls in export earnings and so make it possible for developing countries which are members of the Scheme to carry out their development programs without interruption from this particular difficulty.

Among the many elements which determine the pace at which economic management can be improved are all the sociological and institutional factors (such as attitudes towards work, savings, use of capital, etc.) which are so important in this context.

In brief, to summarize this particular stage of the discussion, what I am saying is that for a given developing country, there is at any given time a maximum rate of economic growth, G_m, which is the maximum rate t the "economic management" and known natural resources (R) of the country would permit. That is, G_m - (R + A). This is a ceiling beyond which, at any given time, with the given economic management and the known natural resources, the economy's rate of growth cannot remain for long. Whether the economy will, in fact, attain this rate of growth will depend on whether the amount and quality of investment carried out achieves the optimum necessary to achieve this rate of growth.

This is, of course, a highly simplified model, but it brings out some useful conclusions. The first point is that both R and A cannot be regarded as fixed for all time. In fact, at any moment in time and in the short run, there is little elasticity of substitution among the scarce factors in a developing economy: skills, management, capital. Over the longer period, investment can be devoted to producing skills and management but in the short run, it can have little effect on these within the economy. Consequently, capital can be considered as the main variable with the other variables relatively limited in number and in the magnitude of the range of their variation. It is possible, therefore, to make an estimate of investment requirements by regarding most of the other inputs and the values of the parameters as remaining in a fairly limited range and coming up with a range of investment requirements (and corresponding growth rates) for the economy which are realistically related to the various possibilities open to the economy for action during the period in question.

(The corollary to this is that the more "backward" an economy is the more content there can be to long-range projections, or the longer the period over which projections can be made in a meaningful way. In customary society - which is practically a stationary state - long-range projections of output could be made with reasonable confidence over hundreds of years. As an economy moves up the scale of development, the less confidence one can place in detailed long-range projections, although it may be as one approaches the highly-developed industrial economies one comes into a realm where the law of large numbers takes over and longer-range forecasts take on meaning again.)

In a developing country which is serious in trying to make progress, quantum jumps in A over a period of years are to be expected. Depending partly on chance and partly on A, quantum jumps in R may also occur. Consequently, forecasts of investment requirements for a country are meaningful but only for a short period and within limits. They are meaningful because, in the short term, say, for 5 years (and up to around 10 years in some cases) it is possible for an individual country to arrive at ranges of estimates of investment requirements related to growth targets which are realistic. The estimates can be realistic because in this short term they can be made in the context of a set of given production functions; of a fairly rigid institutional structure, including habits, attitudes, and methods of work; and of an endowment of skills, which are not likely to change rapidly, and of known resources which likewise are not likely to change rapidly. All of these are relatively fixed over the short period.

Even this answer has to be handled very carefully, however, for a number of significant reasons. First, it must be appreciated that the total amount of investment required to achieve a given rate of growth may vary according to <u>how</u> the capital is supplied. For example, if an important part of the capital is supplied from outside by an agency that tries to and is able to persuade the country to improve the effectiveness with which it uses capital generally (i.e. the value of A is increased), the investment requirements related to given rates of growth may be considerably less than otherwise. The opposite may also be true: it is possible to conceive of cases, and there are some who would put names to this, where the provision of capital from outside has been so generous that the adoption of capital-wasting policies has been encouraged, the effectiveness with which capital was used within the country went down and consequently, the rate of growth was actually less than it would have been with a smaller investment provision.

Another important point is that while we, as a convention, accept the idea that it is possible to add investments together to get a total investment figure for an economy, we should never forget that our figures on "total investment" are to some extent meaningless. Adding the figures on individual investment to get a total is meaningful, as a sum at a certain point in time, but using the total for inter-temporal or cross-section comparisons is always dangerous. This point is especially worth bearing in mind, if what we are interested in, is the growth of GNP. For example, what we now do is to add together the sums of money used to build a sumptuous Presidential palace, to build a road opening up a new natural resource, to build a non-economic steel mill, to build an irrigation canal, etc. The composition of investment is, in other words, as important or more important than the total. If we could, instead for example, correct our total investment figure by calculating for each investment the sum of the present values of the streams of net benefits less costs discounted at a uniform cost of capital for the whole economy, such resulting total would be more meaningful. But, so far, we have not succeeded in making this type of calculation for a whole economy.

Another point is that certain types of investment have built-in certain cooperant factors. Foreign direct investment, for example, is usually an organic combination of managerial skill, technical know-how capital. Again, adding together merely the last element of the combination into some total investment figure leaves out what may be often the most productive part of the investment. With a different composition of total investment, in other words, certain crucial parameters in the equations would be different. An accurate total investment requirements figure should, therefore, carry with it, a statement of the assumptions as to the composition of the investment. (This is not a mere theoretical point. The magnitude of the transfer of technical knowledge and managerial skills involved in direct foreign investment is often not appreciated. It is in fact several times more important than all the technical assistance programs put together. One partial summary indication of this is the following: the total number of exports - excluding teachers - financed by the OECD countries providing bilateral technical assistance in 1963 was 40,000; the foreign technical and managerial personnel employed in foreign direct investment in developing countries was about 100,000 in 1962. -Angus Maddison, Foreign Skills and Technical Assistance in Economic Development, Development Centre of OECD, Paris 1965, pp. 33, 92.)

With all of these limitations and reservations, in my view, it still is meaningful to try to relate forecasts of investments to growth rates in a developing economy for the short-run: in essence, what my comments so far amount to is that the more abstract the basis on which the estimate is made the more likely it is to be meaningless. The more the forecast is made on the basis of detailed knowledge and experienced judgment of a particular economy, especially of the composition of investment and of detailed investment plans of the different sectors of the economy the more meaningful the forecast is likely to be. (A proposed methodology for making such forecasts will be referred to later.)

So far the discussion has been primarily directed to the short-term - which with my particular development banking bias I define as around five years and in some cases stretching to 10 years. Can meaningful forecasts of investment requirements for developing countries be made for longer periods? This I doubt very much for a number of reasons: The first is that the essence of development is change in structure and it is highly probable that the pace, character and outcome of the change simply cannot be foreseen with sufficient accuracy to provide any figure of investment requirements that is worth anything.

The second reason is that "economic management" will also change over time. Included in the appendix is a series of tables giving some of the major key data on the developing countries. At this stage of our knowledge and of our ability to quantify key aspects of the development process, it is impossible to derive from these figures any set of relationships which would give one confidence in being able to lay down what the structure is going to be as a country progresses in its economic development. I simply do not believe that at this point we know enough about this field.

For most of the developing world we do not have adequate statistical data for a sufficiently long period to have any basis to determine the trends, if any, and to estimate the parameters of the trends. We do know, moreover, that development, particularly if rapid, tends to proceed in jumps and the trends appear to differ from one level to another of development so that a trend determined in one period may not be relevant at all to a higher level. Recourse is, therefore, often taken to "international experience" to try to determine from the time series pattern of other countries whether there is some kind of "normal" pattern of development. This sometimes may provide useful clues but may, at least as often if followed blindly, be a potent source of misguidance.

Cross-section analysis of a number of economies likewise is useful in stimulating thought and understanding of a particular economy but it may be dangerous to proceed on the tacit assumption that all countries are following the same general path of development, with regard to a particular variable, and that the differences among the countries are due to the fact that they are at different stages along the path. A country further along then is taken to represent the future of the given country. There may be variables where cross-section analysis does not lead one too far astray as a technique for forecasting rather than as a technique for bringing out important problems. But more generally it is most useful not as the end but rather if it is used as a starting point for analysis. For example: Country A has X as value of the variable being studied, and Country B, 2X; why is it that there is this difference? But, not: Country A is at X, Country B is at 2X, therefore, Country A will move to 2X. In this latter case, the chances are the conclusions will be wrong, unless there are fixed technological coefficients or natural factors that render such a path of development inevitable - in which case, analysis should bring this out.

The developing countries are so different in size of population, area, natural resources, history, culture, relationships to the industrial countries, etc. that their number, 100-odd, is not great enough to provide meaningful statistical averages in many indicators of growth without margins of error that vitiate most of the context of the average. If you look at the tables in the Appendix what comes out of these selected economic indicators of growth is the lack of any coherent cross-section or time series set of relationships which can be fitted to a concept of stages of growth of the developing countries: the relationships among the growth rate, savings rate, investment rate, capital-output ratio vary from country to country and from time to time in the same country.

For the short period, in most cases, however, the chances are that the basic parameters and the fundamental set of equations are likely to hold good within reasonable limits. Even a spectacular natural resource discovery is not likely to transform the economy within five years. Even in the case of a large discovery of oil or gas, the period between the first strike and the date when oil or gas revenues begin to make a sizeable impact on the pace of development of the economy is more likely to be over than under five years. In the case of the discovery and exploitation of other rich resources, the time period may be considerably longer: it is taking around ten years just to prove the huge rich iron ore resources of the Gabon and to do the necessary engineering and economic studies of the mine, port and railway before a decision can even be taken as to whether it is economic to go ahead and to work out the financing and marketing problems. It takes from three to five years or longer for tree crops to begin to bear from the time the trees are planted.

But when one goes beyond ten years in a developing country that is developing and has the will to develop, any attempt at precise forecasting of investment requirements comes close to day-dreaming. Setting out a long-range outline of development strategy is sensible but it is not sensible to try to derive any forecast of total investment requirements from it that does not present so wide a range that the figures are practically meaningless. Let me be more explicit; it is possible to be more precise but it is a precision that represents a decision masquerading under the guise of economic analysis. The range of figures is bound to be great and there is no economic basis to narrow it down to meaningful limits. Consequently, it can only be done by deciding ahead of time on what result you want and, then, setting up the assumptions and equations to provide your pre-determined answer.

(My position on this should not be interpreted as being against long-term planning. I am not. Long-term planning or preparing a perspective plan is useful and desirable but it should be fully understood that a "perspective plan" is something quite different from an annual plan or a short-term (four, five or six year) plan. The latter plans, if they are worth anything, should be action plans, plans which are to be implemented in detail; they should be commitments to action on definite projects or in policy measures. They have to be clearly and closely related to good estimates of resources available. Perspective plans are not plans in this sense: they rather concentrate on development strategy. They come closest to being action plans in outlining the programs in those areas where very long gestation periods are necessary - education and manpower. Otherwise, they should rather present the long-range objectives of the economy - the direction in which the economy should move, major lines of development of the country - regions to be opened up, etc. The investment costs of these long-term projects,of the lines of development strategy should, of course, be estimated as far as possible. However, it should be fully understood that these are only partial estimates or guesses for a part of the economy, they should not be confused as being in any way comparable to the action forecasts that are made for the action development plan and which are closely related to the actual resources that will need to be mobilized.)

The next question to be considered is whether it is a worthwhile exercise to calculate investment requirements on the basis of what could be necessary to secure a uniform minimum rate of growth for all developing countries. A similar question was raised in a recent document prepared by the OECD/DAC Secretariat:

> "Should a gap calculation be based on a uniform rate of growth for all developing countries? Such a uniform growth target might appear equitable, in the sense of treating all developing countries alike. On the other hand, a uniform per capita growth target would aim at maintaining the existing proportionate differential between the poorest countries and those which are somewhat less poor, and this might be considered inequitable. Similarly, a uniform growth target for total income might appear inequitable in "penalising" the countries with high rates of growth of population."

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> "The main argument against a uniform growth target is that it leaves out of account all considerations of the relative efficiency with which different countries convert external assistance into economic growth. A uniform target rate of growth for all countries would demand more assistance per capita for the less developed countries than for the more developable. In this sense, it 'rewards' inefficiently, poor resource endowment, adverse geographical locations, and all the influence which make economic development costly in external assistance, and 'penalises' efficiency, etc."
> (Source: J.P. Hayes, "Gap Estimates - Calculation and Significance, OECD/DAC, Paris: 1964, mimeo.

An additional point to those made by Mr. Hayes in this quotation is that if capital were to be distributed on the basis of achieving uniform growth rates everywhere, it might well be an inefficient way of allocating capital world wide to get the developing countries to the stage of self-sustaining growth. If a developing country has reached the point where it can use a large amount of capital effectively and secure a rate of per capita growth of, say, 10% per year which would within one generation bring it, say, to a per capita level of around $800 (beginning at $100), why should it be held back so that some other country which is not yet ready to use capital so effectively absorb the capital that it could use?

There is also the real difficulty that in some countries the maximum rate of growth attainable may be below the U.N. minimum target of 5% growth of GNP, that is,

$$G_m < G_{5\%}.$$

Altogether, except for some purely illustrative purpose, an attempt to secure a world-wide estimate of investment required to get all the developing countries to a minimum growth rate is scarcely worth making.

The ideal estimate of the investment requirements for the developing countries would be based on a study carried out, somewhat as follows: one would have to work out what would be the equivalent of a perfect world market for capital based on perfect mobility of capital both in terms of the supply and demand with a single market for the whole world; the knowledge would be assembled on all the projects throughout the world on which capital might be invested including the information on the yield of these projects in terms of their social costs and social benefits. This would have to be true not only of the projects in the commodity producing sectors but also in the social services, administration and so forth. Then, on this basis, the demand and the supply of capital throughout the world would be in equilibrium at some rate of return, X. The supply of capital then that should be made available to the developing countries to invest in all projects whose rate of return is X% or more could be ascertained. This amount of capital could, then, be regarded as determining the capital requirements of the developing countries on purely economic grounds. If it were decided to accelerate the growth of the developing countries further, the decision could be taken to finance all projects in the developing countries whose yield was X-Y. "Y" could be given a different value in different countries if it were desired to even out the growth rates somewhat more than the purely economic factors would justify.

It is quite clear in merely sketching how an ideal exercise should be made that such an exercise cannot be carried out: we obviously do not begin to know enough about the world capital supply and demand situation to be able to do this kind of exercise.

There are other possibilities, of course, also: an estimate can be made on the basis of some sort of simple over-all model. Such simple models depend, of course, on the assumptions made and are highly sensitive to changes in the parameters. The United Nations Secretariat in a paper presented to UNCTAD in March-June 1964 (U.N. Proceedings of the U.N. Conference on Trade and Development, Vol. VI, pp. 91-102) made the hypothetical assessment that if (i) certain aggregate economic relationships observed during the period 1950-1960 for developing countries as a group were to continue to hold good during the decade 1961-1970; if, in addition, (ii) the aggregate rate of growth of the gross product of the developed countries were to continue at the trend rate of 3.7% per annum prevailing in the 1950's; and if (iii) developing countries were to raise their rates of growth so as to average an annual 5% rate of growth during the 1960's, there would be a gap on current account, at 1960 prices, of $20 billion in 1970 which would need to be covered by inflow of capital. If it is assumed, instead, that the developing countries reach the 5% growth rate only in 1970 and the rate of growth of the developed countries is taken at 5% - which it has been in the 1960's - instead of 3.7%, the gap becomes $13 billion.

Chenery and Strout made projections of assistance requirements for each of 50 developing countries based on a model with six parameters (target growth rate of GNP, maximum rate of growth of investment, incremental aggregate capital-output ratio, marginal gross savings ratio, marginal import ratio and annual growth rate of exports). (Hollis B. Chenery & Alan M. Strout, Foreign Assistance and Economic Development, Washington, 1965, mimeo). The values of the parameters selected for each country were primarily based on the historical experience of the country itself but the model also varied these based on various assumptions as to performance, growth and exports. Omitting the less likely combinations of assumptions, the indicated range of external capital requirements for these countries in 1970 came out as $10-17 billion compared to $6.6 billion in 1962.

Over the last year and a half the World Bank Group has also been making estimates of investment requirements in the developing countries. Over this period, the economic missions of the Bank Group have been instructed, as a part of their work, whenever it is at all feasible, to make a forecast of the investment requirements of the particular country for the following five years. Attached as Appendix B is a statement of the methodology currently employed in making these estimates. Essentially, these estimates are based on actual investment plans, vetted, as far as possible, project by project and sector by sector, and on the Bank appraisal of the economic development policies to be pursued. They are, if you wish, based on the cmmplex model of the economy itself. They include, among other things and in other words, an attempt to appraise investment needs bearing in mind the complex of factors included in my "A" of the simple model presented earlier in this paper.

In practice and in intent, the IBRD estimate for each country tries to forecast what the country can actually invest effectively over a period of the next five years. The development programs are screened to come out with a set of projects which are regarded as being economically justifiable, and the best estimates possible are made of private capital requirements as well. These country estimates are essentially based on the present; they are based on the projects that are underway and being carried out, new projects just being implemented, projects which have been prepared but not yet put into execution, and new projects that may be prepared and begun during the period. These new projects are limited, of course, by the project formation machinery which in a period of five years can only make marginal adjustments.

The estimate of the capital requirements that comes out of this approach is not an "optimum" capital requirement in the sense of the theoretically maximum growth rate (G_m). The estimate is very much earth bound, since it is inevitably influenced by the capital resources that were available to the country and the expectations of capital imports that the country hoped for when it was preparing its plan and its projects. The Bank appraisal usually reduces these figures somewhat in the process of screening out all but the economic projects but it may also find other justified investments not previously considered by the country. The bias is clearly a conservative one: it is much more difficult for a mission to come up with new project possibilities that the country has not considered than it is to cut out project proposals in the country's present list.

The Bank estimate, then, does not lead to an estimate of the optimum amount of capital which a developing country should invest to achieve its maximum growth rate. It is rather an estimate of what is the maximum economic amount of investment a country can invest in the light of the work that has been done on making investment plans in the recent past. It is, if you will, an estimate which assumes no financial constraint in the present but essentially accepts (because it has to) the fact that the country has had financial constraints in the past , which necessarily has affected its planning in the present.

In other words, a serious government and the enterprises in the private sector in making their investment plans may base themselves on an optimistic forecast of future capital resources but not a wildly optimistic forecast. They will not spend time and money on preparing project plans which seem to have little hope of securing finance no matter how attractive the yield might be. Therefore, except in those countries where the capability to carry out investment is already at or below the amount of capital available, the investment plans are likely to be below the size that would correspond to my G_m, the optimum practicable rate of growth.

The results of the Bank missions country-by-country estimates of the investment that could be effectively put to work within the next five years in the developing countries indicate that some $3-4 billion more per year, on the average, over the next five years of net foreign official capital could be effectively used than the developing countries now have available to them.

While I do not feel that I can mention individual country results in this paper, it might be worth while to mention some of the regional results of this study. In Africa, the study concluded that while many countries are clearly not in a position to be able to use more capital effectively than they are now receiving, several important countries are in such a position particularly because they have used up in financing development their reserves that had been built up. The biggest figure is, as one would suspect, in Asia where the ability to put more capital to work over the next five years than is currently available is measured in billions rather millions of dollars. The Latin America figure is next in size.

Probably for many countries for the next five years, the estimates of increased capital needs may not be far from the amounts that would make possible a maximum feasible rate of growth. But for some of the Latin American countries, however, there is probably a considerable difference between what they could effectively use over the next five years and the amounts that, if they could plan on over a longer period, would result in a maximum rate of growth.

Speech K

APPRAISAL OF COUNTRY ECONOMIC PERFORMANCE*

Andrew M. Kamarck
Director of the Economics Department

"I would with such perfection govern, sir,
To excel the golden age."

Shakespeare, The Tempest

One of the principal lessons that the World Bank Group has learned from 20 years of experience is that the economic development or growth of a country depends primarily on a continuing improvement in the effectiveness with which that country uses its economic resources. Research activities in universities apparently have led to similar conclusions. Articles by such economists as Aukrust, Denison, Domar, and Solow have pointed out that, although there are severe difficulties of measurement, an increase in the supply of capital and in labor of unchanging quality does not explain at a maximum more than one-half of the estimated growth of gross national product (GNP) in the many countries studied.

Simon Kuznets, in his latest book, goes so far as to say that

> .... while the results would clearly vary among individual countries, the inescapable conclusion is that the direct contribution of man-hours and capital accumulation would hardly account for more than a tenth of the rate of growth in per-capita product--and probably less. The large remainder must be assigned to an increase in efficiency in the productive resources--a rise in output per unit of input, due either to the improved quality of the resources, or to the effects of changing arrangements, or to the impact of technological change, or to all three. 1/

What this means is that improving "economic performance", or action to increase effectiveness in the use of resources, has to be the central focus of development policy. Economic development comes through making more effective use and improving the management of all resources--existing capital as well as new capital, manpower, land, and other natural resources. This does not mean that providing more capital is not important;

1/ Modern Economic Growth, Yale University Press, New Haven and London, 1966, pp. 80-81.

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in fact, it may be that a greater supply of capital is essential to make it possible to take the measures necessary to improve economic performance. (Kaldor and other economists maintain that new knowledge is introduced or infused into the growth process mainly through the introduction of new equipment.) The point is that concentration primarily on increasing the amount of capital as the central element in the economic growth process represents the wrong approach to achieving faster growth.

Now, how does the World Bank Group fit into this process? The contribution to development that is made by an agency like the World Bank Group is first of all in capital. This is an addition to the resources available to a country, but it is often more important than the sum of money involved would indicate. It may be more valuable than an equal amount of domestic resources if the country concerned is one where the "foreign exchange gap" is more important than the "savings-investment gap." I do not believe that this actually applies in most of the Latin American countries. But it certainly is true of most of the African countries, since the production structure there is much less flexible than it is in Latin America and the substitutability of domestic resources for foreign resources is very low within a reasonably short time period, i.e., within a year or two. 2/

The capital that comes from abroad is frequently much more mobile than domestic capital. It can often be more easily directed to the higher priority needs than the savings produced within the country which may be mobilized, for example, only for investment in real estate.

Fundamentally, improvement of economic performance is something that can be carried out only by the government and the people of the country concerned. It cannot be imposed from abroad. But capital from the outside can be used as an incentive to the government to take action to improve the country's economic performance. Or it can help the government to overcome some of the internal pressures and to take measures that it feels are necessary but is unable to introduce without this support from abroad. The World Bank, from its inception, has had as a principal objective helping countries to improve their economic performance. Although there has been an evolution in the methods used, in the scope of the area of the economy affected, and even in emphasis, the objective has remained unchanged.

2/ The amount of foreign exchange available to Ghana for the purchase of machinery and equipment abroad depends on how much cocoa is produced and sold abroad and how much of the foreign exchange is used to buy foreign consumer goods. How much Ghanaians save can affect the latter amount but will have very little impact on making more cocoa available for sale abroad. At the same time, having more savings for investment cannot result in immediately shifting labor from producing yams--for which demand falls because of increased saving--to producing generators, turbines or airplanes which the increased investment demand requires. But, of course, the labor that formerly produced yams can be used to plant more cocoa and, eventually, in three to five years time result in more cocoa exports.

World Bank Group Responsibilities in Development Finance

In international lending to governments prior to the organization of the World Bank, little attention was paid to the particular use that the borrower would make of the funds received. Defaults on international loans were widespread in the 1930s, and it was concluded that a principal reason for the defaults was improper use of the funds by the borrowers. Consequently, when the World Bank Charter was being written, a provision that Bank lending should be for projects was included. Essentially, this meant that the Bank should lend only for clearly defined and agreed purposes which would result in an increase in the productive capacity of the borrowing country, and that appropriate institutional arrangements in that country should exist or should be created to ensure that the purposes of the loan would be achieved. 3/

From the beginning, the Bank has used this technique of lending as a means of securing some progress in a more effective use of resources, both borrowed and domestic, in the recipient country. The improvement in performance sought concerns more than the actual piece of investment being financed; it often extends to an entire sector and to the building or improvement of institutions. An early example of this was the 1950 telecommunications loan to Ethiopia, the first loan made in Africa by the Bank. This loan financed the import of telecommunications equipment; but this,

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3/ How this worked out in practice is clearly explained by the following excerpt from an address by the Bank officer who was most intimately involved in this evolution of Bank policy:

"We began to discover the problem with our first mission to one of our underdeveloped countries, a mission which went to Chile in 1947 to examine a proposal that we finance a power project there. The presentation of this proposal had been made in a book handsomely bound in black morocco leather, and I remember that one of the senior people in the Bank at the time expressed a belief that we would be able to make a loan for the project in about a week. But when we opened the book, we found that what we had really was more of an idea about a project, not a project sufficiently prepared that its needs for finance, equipment and manpower resources could be accurately forecast.

We found it necessary to visit Chile several times to get information about the project and its economic setting--as I remember well, since one of these visits was one of the first missions that I ever undertook for the Bank. The loan--our first development loan, incidentally--was not made until more than a year had passed. In the meantime, members of the Bank staff had made suggestions about the financial plan, had contributed to the economic analysis of the scheme, had advised on changes of engineering and had helped study measures for improving the organization of the company which was to carry out the scheme. When we finally made the loan, the project had been modified and improved, the borrowing organization had been strengthened, and the foundation had been laid for a power expansion programme in Chile which has been proceeding steadily ever since." From S. Aldewereld, The Challenge of Development Aid, Stockholm, May 6, 1966.

while important, was only a small part of the real contribution. A new organization was created and built up over the years with the help of foreign experts. It is now able to run successfully the modern telecommunications system in Ethiopia. Indeed, the project enabled the Ethiopians themselves to become a source of technical assistance: when teams of technicians went to the Congo to help to restore the economic life of that country, one of these teams consisted of telecommunications personnel from Ethiopia. In the same way, a loan for a power project often involves improvement in the management of the existing power authority or the creation of a new agency. Likewise, a road loan may involve an overhaul of the whole road maintenance and building agency, or the establishment of a new one.

Over the years, therefore, even when the Bank made only a relatively small contribution to international capital flows, it made a significant contribution toward improving the management of resources in at least those parts of the economies that it was directly aiding. And the Bank continues to regard this as important. In fact, in a basic reorganization of the Bank in 1952, this function was built into the Bank administrative structure, and it has since remained unchanged: "...responsibility for judgments about the merits of individual projects was deliberately divorced from responsibility for judgments about the desirability of lending to particular countries or borrowers.... Divorcing project responsibility from country and borrower responsibility built into the internal organization of the Bank a limitation on the possibility that a defective or inadequately prepared project would be pushed through because there were felt to be overriding considerations arising out of the Bank's relations with a particular country. Conversely, a project could not be pushed through merely because it was fascinating. The Bank thus protected itself simultaneously against the technocrat and the diplomat." 4/

From its earliest years, the Bank has also contributed to improvement of economic performance through the process of economic analysis by the Bank--in cooperation with the government of the country concerned--of the country's development problems and needs. At times, this resulted from a formal invitation from a government for direct help in shaping its development policies or in preparing a development plan. Formal economic survey missions for such a purpose have been organized by the Bank for 25 countries. In other cases, missions of a lesser degree of formality have been charged with similar tasks. For example, a mission was sent to Mauritania in 1967 in response to a request for help in preparing a new development plan. Ireland joined the Bank 11 years ago, not because it was going to ask for any loans but merely because the government wanted to have a chance to discuss its development problems with the World Bank Group. A 1967 mission to New Zealand was requested for the same reason. There have been many other missions of a similar type. But probably the greatest contribution is made by the regular country economic missions of the Bank.

4/ J. H. Williams, International Bank for Reconstruction and Development, paper presented at Bretton Woods, 1967.

Even in the years when the Bank took a fairly limited view of its responsibilities, the process of investigation and discussion with a government inevitably had a positive effect in making a government more conscious of its development problems and the need to take action to cope with them. This process of country analysis is inevitably enlightening both for the Bank economists and for governments. A fairly common experience for Bank economists is to have a government official raise a particular or general problem in order to obtain the Bank economist's views. Sometimes the official will say, "We are planning to try such-and-such. Do you know of any experience with this? How do you think it will go?" This "dialogue" is always an important feature of the Bank's work.

In studying a particular country, fundamentally what has to be done is to make an adequate analysis of the way in which the national economy actually functions, to identify the constraints that influence its direction and rate of development and, finally, to identify what the government can do to improve the conditions for growth either directly or through policies that stimulate the economy. In other words, as Luis Escobar has suggested, what has to be done is "...to organize study and research with a view to formulating a diagnosis which I have defined as a 'national interpretation of economic development' ...i.e., an adequate interpretation of the way in which our national economies function." 5/

To do this work well, the development economist should know the country thoroughly. Specifically, he should start by acquiring a knowledge of its natural and human resources, its structure of production, its position in world trade and finance, its economic history. He should acquire an understanding and appreciation of the social and institutional infrastructure: the main constraints and critical preconditions to growth have to be identified. Based on this knowledge the analyst must appraise the government's development plan or if it does not exist, he must work out an implicit or explicit development strategy, or what in very rough terms might be called a long-range development plan. This must identify the short-term policies and measures that the government can take to carry out the longer-range development strategy. Finally, the government's current activities and its policy plans must be measured against what is needed for economic development. The major test of the development policy is, therefore, the assessment of the extent to which steps are actually taken as programs launched to remove or to reduce the main constraints to growth and to create and to improve the necessary conditions and institutions for growth. (This is not to suggest that the development economist should have a rigid approach. It is important that he should be willing to re-evaluate his findings if events and new facts show that this is necessary. What is important, however, is that government actions and plans should be judged with reference to the "development strategy" which is fully supported by the basic analysis.)

5/ Luis Escobar Cerda, "An Economist's View of the Role of Social Sciences in Latin America," in Bryce Woods and Manuel Diegues Junior, eds., Social Science in Latin America (Columbia University Press, New York and London, 1967), p. 58.

Specific questions that need to be answered when a particular country's economic performance is being evaluated would certainly include most of the following:

a) What is happening to the growth of production and income?

b) What is the extent of the mobilization of resources for development, and is the ratio of national savings to gross national product (GNP) growing?

c) How efficiently are existing financial resources being used?

d) How compatible is the social and institutional framework with development?

e) Is there a population growth problem? If so, what does it consist of and what, if any, effort is the government making to cope with it?

f) Is development being given appropriate emphasis compared, say, with defense?

g) How successful is the country in maintaining confidence in the currency and in the future value of savings?

h) How rapidly is import capacity increasing, i.e., what is the rate of increase of export and other foreign exchange earnings?

i) How efficiently is the country economizing on expenditures for imports?

j) How well is the balance of payments and the external debt managed; for example, does the country have an effective way of keeping track of and controlling debts incurred by government entities and enterprises?

k) How internally consistent are the development and financial policies?

What may be noted is that this list does not include, specifically, a "development plan." A good development plan would involve all of these factors. A country that scored high on all these points would be a country that would also have a good development plan explicitly or implicitly; such a plan is an embodiment of a set of good financial and economic policies; it is not a substitute for them.

In evaluating answers to the foregoing questions, it is not justifiable to apply a standard grading system to all countries. In my view, there is no standard pattern, no one royal road to development. Each country must make its own way. It is useful to know what other countries have done and are doing; but it would have to be a very special case if one country could follow exactly the same road that another had pioneered in the past or could fit into exactly the model applicable to another country. Consequently, what can reasonably be expected must differ from country to country.

The approach is not that of Procrustes. What must not be done is to take an actual or mental model that has been worked out for a developed country, apply it to the developing country and, where the developing country does not fit, prescribe the changes that will make it conform to the model. 6/ There is a song from an old musical which describes exactly what the approach of an economist coming from an industrialized country should not be. It goes as follows:

Our virtues continue to strike us
as qualities magnificent to see.
We know that you never can be like us,
but be as like us as you're able to be. 7/

It is also wrong to work out a set of quantitative tests and to grade all developing countries by how well they do in these tests. For example, it is useful, for analytical purposes, to have a set of comparative country statistics, such as capital/output ratios, the ratio of savings to GNP, the ratio of tax revenues to GNP, and so forth. But the temptation must be resisted to apply these measures mechanically and to conclude that, if a country falls below the average or the optimum levels, it is falling in economic performance. This approach is fundamentally wrong because it does not take into account the very different stages of development that countries are in, the very different natural resource endowments that they have, and the very different natural, historical, and institutional obstacles that they face.

There is also no unique role for government in fostering economic development. For instance, in Hong Kong, where there is a very creative and energetic private sector, the "right" government role may simply be to provide the basic utilities, and then to get out of the way and let the private economy boom. On the other hand, there may be cases, for example like Malawi in Central Africa, that are at the other extreme. The economy of Malawi is still largely a subsistence agricultural economy; there is little in the way of manufacturing and there is no mining. Economic development there depends almost entirely on the stimulus given by government through finding suitable crops and improving them through research, teaching farmers how to grow them and providing suitable incentives.

Other countries fall somewhere in between these two examples. It follows from this that, while the actual rate of growth of GNP is an

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6/ For a more comprehensive statement of this point, see in particular, Dudley Seers, "The Limitations of the Special Case," in Kurt Martin and John Knapp, eds. The Teaching of Development Economics (Frank Cass and Co. Ltd., London, 1967).

7/ The Belle of New York.

important indicator of economic performance, it is not the determining one. In some countries, with the best will in the world, the economy may still not be able to grow very rapidly. Malawi is again a good example. If government action and policies were perfect and no mistakes were made, the economy would still grow very slowly without external help. On the other hand, there are countries--particularly those where the structure of the economy and society is stable, or is changing very slowly and which have reasonably good natural resources--where the rate of growth of income and production may be a very good indication of how well the government is doing its job.

It is possible, however, that current statistics on a country may not indicate any perceptible growth, although a government may be doing an excellent job in changing, or facilitating a change in, the structure of the economy and the society in order to provide the necessary basis for growth in the future. An example of this situation might be Tunisia between 1956 and 1960. When Tunisia became independent in 1956, most of the modern sector (commercial farms, factories, public utilities, banking system) was essentially a foreign enclave--owned, controlled, and managed by foreign settlers. During the next four years, the Tunisians took over most of this sector, absorbing it into the Tunisian national economy. The fact that there was little or no growth evident during this period cannot be taken as a conclusive sign of bad economic performance.

Another example is a country that needs to carry through a fundamental land reform in order to provide the basis for future growth. Examples of this might be the Republic of China and, perhaps, Iran in recent years. If the GNP figures do not register growth during the period that such a fundamental transformation of the structure is taking place, this cannot be taken as prima facie evidence that the economy is not performing well. The focus, in other words, should always be on the particular country, its special problems, and its possibilities.

As the magnitude of the resources supplied by the World Bank Group has increased, and as other suppliers of capital have joined in a greater coordination of lending under the World Bank's consortia and consultative groups, the need to devote more and more attention to the use of an economy's resources outside of the particular sectors being directly financed by the Bank Group has become much more important. In a number of developing countries, the World Bank Group has become the principal lender and the leading supplier of external capital. And the number of consortia and consultative groups for the developing countries has increased to about a dozen. In these cases, even though the World Bank Group may not be the principal lender, it is called upon to chair the groups and to provide periodic analyses of the positions, prospects, and performances of the countries. These groups now account for more than 40 per cent of the total flow of capital from the industrial countries to the developing countries. At the same time, the World Bank Group has gradually discontinued lending to the higher income countries and has concentrated its activities on the developing countries alone.

World Bank Group Assistance in Country Economic Performance

Along with this growth of the greater responsibility of the World Bank Group in development finance, there has been growth in the sentiment for more positive action to obtain better country economic performance. In part, this has stemmed from the economic research in the universities, which was mentioned earlier, and in part from a feeling of disappointment in the progress made thus far by the less-developed countries and, consequently, from the desire to modify the way in which economic aid has been given.

A very important force in this evolution was the creation of the International Development Association (IDA) in 1960 to make capital available on soft terms--i.e., with a very large grant equivalent--to the poorer developing countries. As long as there was only the World Bank proper, it was easy to overlook the fact that Bank loans included a subsidy element (with the credit of the richer countries behind the Bank, the Bank was able to borrow and to lend at rates generally below what the developing countries would otherwise have had to pay). It was easy to be influenced by the feeling that the Bank was a bank, to overlook the Bank's practice of securing better performance in the projects and sectors financed, and to conclude that the economic performance of the borrower's economy was outside of the Bank's interest. With the creation of IDA and the provision by IDA of credits which, at present terms, are equivalent to a grant element of more than 80 per cent of the face value of the credit (calculated at a discount rate of 10 per cent), it becomes obvious that what is involved is something quite different from normal investment banking--that, in fact, the World Bank Group is engaged in development finance and inescapably must be concerned with the performance of the economy as a whole.

The justification for project and sector lending always included the hope that improvement in one project or sector would act as a leaven for wider areas of the economy. But it was also realized that "...the fundamental limitation on the effectiveness of project lending is that although investment consists of projects, in the sense of discreet decisions that have to be executed within some organizational framework, be it ministry or enterprise, investment does not consist only of projects. It certainly does not consist only of projects considered eligible by outside lenders and donors. There are in addition expenditures which are not identifiable as projects, or may not be readily identifiable at all. Total capital requirements moreover include one, often crucial, non-project item, namely debt service. Project financing, no matter how well conceived and executed, will thus always be incomplete as a means of financing development." 8/

The rational alternative is to base financing on total capital requirements, supporting a development plan for a period of years ahead. This the Bank has, in theory, been willing to consider. In the 1949/50 Annual Report, the statement was made that "...the Bank would prefer to go

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8/ J. H. Williams, op. cit.

further, wherever that is feasible, and base its financing on a national development programme, provided that it is properly worked out in terms of the projects by which the objectives of the programme are to be attained." But it has done this in only a few isolated cases. To some extent, one could interpret the consortia and consultative groups to be attempting to meet this objective. On the country side, the record has been that most plans so far which have been presented to the Bank have not consisted of the realistic well-worked out set of investment projects and appropriate development policies that would deserve blanket long-term support.

Another point that must be mentioned here is that economic development is a much broader field than the conventional economics of a developed society comprehends: a good development plan must be more than a list of investments. To ensure progress in a developing country, the government may have to devote considerable attention to such variables as reform of the civil service, enforcement of effective taxation, land reform, etc. It may also be true that more economic growth may come from parts of what is conventionally labeled "consumption" (i.e., government expenditure on agricultural extension workers or on the eradication of a debilitating disease) than from some of the items that are conventionally labeled "investment" (i.e., construction of a presidential palace).

Consequently, to obtain improvement in economic performance beyond the particular project or sector that happens to be externally financed, consideration must be given to picking out the strategic items in the whole spectrum of government policy that would have the most beneficial effect on growth and that are amenable to action. Essentially, the approach has to be pragmatic and directed as far as possible to what is most desirable and practicable.

In the last few years, there has been a further major evolution in Bank policy in that consistent and deliberate analysis of country economic performance has been made a major objective of the Bank Group's economic work. The earlier Staff Economic Committee, which tended to focus on questions of creditworthiness, has been replaced by an Economic Committee chaired by The Economic Adviser to the President. The main focus of this Committee has been on evaluation of economic performance and the formation of Bank policy to secure better economic performance, as well as on what should be the appropriate set of loan terms for the country. In this process, staff members of the International Monetary Fund also participate and contribute their experience and expertise. The Bank economic staff has also been considerably strengthened, but not yet sufficiently to make in most countries the kind of analysis described above as necessary for a proper understanding of what a country needs to do to achieve economic growth. Also, many corollary questions of policy have not yet been fully worked out.

The present position, therefore, is that in all of its lending the Bank Group (a) directly attempts--by attaching conditions to its loans--to improve the use of resources in those projects or sectors or institutions where its finance is directly involved; and (b) also tries to make a basic analysis of the economic problems and prospects of a country in cooperation with the country's government. Next--based on this analysis--it must

(i) ascertain, in cooperation with the government, what is holding up faster growth and what action the government is capable of taking to correct this situation, (ii) what steps the Bank Group can reasonably expect from the government toward attaining improved economic performance, concurrently with the extension of Bank Group assistance.

A word of explanation on the Bank Group's attitude on this latter point is required here. What is attempted is to give support to policies and actions that are conducive to growth; it is not to buy, with loans or credits, policies the Bank Group likes. The difference may appear subtle but it is enormously important. In the latter case, it would mean getting a policy decision that the executing government in reality did not believe in. What is sought instead is to give support to those elements and those policies that are helping growth and through the support strengthen them and thus encourage a more rapid rate of growth.

At one extreme, there are countries where the role of the Bank Group is very small. The reason for this may be that the country concerned has reached the stage where it needs very little help from abroad, or that the political or governmental situation is such that the government is relatively helpless to accomplish anything much in improving economic performance, or that most of its external capital comes from a source that is not interested in whatever conclusions the Group may reach in its economic analysis. In such cases, if anything can be done at all, the Group may have to limit itself to the influence of the basic economic analysis process or the improvement it can obtain through financing a particular sector or succession of sectors. At the other extreme are countries where the Bank Group is the predominant source of external capital and where sufficient elements in the government are both eager and capable of taking action to improve economic performance in a number of ways if they are supported by the Group in getting the government officially to agree to such measures. In these cases, the Group may agree with the country, in a more or less formal form, on a lending program in a number of sectors and on understandings of the policy actions that the government will take to improve performance in significant fields. Most countries would, of course, lie between these two extremes.

The measures to improve performance that are economically desirable and possible vary from country to country. As the focus is always on a particular country, its problems and its potential, the procedures that need to be emphasized vary from country to country, and from time to time in a particular country. The World Bank Group has to look at the entire development process; and in the course of the economic analysis, conclusions have to be reached as to which are the areas or sectors that are most important at the particular time and in which progress should and can be made. In some countries, the most important measure may be to have a more stable price level or a better monetary or fiscal policy. In these countries, the Bank Group works in parallel with the Fund, and what the Bank Group and the Fund try to accomplish may be identical or the work of one may supplement that of the other. In other countries, other measures in quite different sectors may be the strategic ones. For example, in one country in Africa the Group's analysis came to the conclusion that the most important immediate measure to be taken was to raise the price paid to the farmer for peanuts, the most important export of the country. Because the government had maintained at too low a level the price that its market board paid to the farmers, the farmers had cut down on production. The result was that the foreign exchange at the disposal of the government to be used for financing imports of equipment was too low. Here the most important item was the price of peanuts, and the Bank Group devoted its attention to that problem. In another country, the crucial improvement in policy that may be needed and feasible may well be general arrangements for the management of industry, the financing of public utilities or agriculture, etc.

The most effective way to extend external finance in relation to the particular improvements in policies and actions that are supported is still far from being fully understood. A few principles appear to be emerging from experience, however. For example, financing a road project can often help secure some needed improvements in policies affecting the whole highway sector as well as in policies affecting the whole economy. But, financing a road project can rarely help secure improvements in policies affecting the electric power sector. Basically, for improvements to be made, there has to be some direct identification on the part of the agency concerned with the financing being received. The impact on general policies comes from the identification of the interests of the Ministry of Finance, Central Bank, and Ministry of Economy or Planning Board with increasing the import of external resources. As the Bank Group has not made any program loans, it has not had any experience with the radius of effectiveness of this type of external finance.

Clearly, despite the experience of the World Bank Group in this field, which in some respects goes back for more than 20 years, there remain a number of open questions on which the World Bank and its member countries are still feeling their way. Another example is the very difficult problem of population growth. In the Bank analysis of an economy, the dynamics of population growth and the population policy of the government are now included as topics to be covered. The Bank has not, however, used population policy as a test of economic performance. A number of development economists definitely feel that this may be the most important test that could be applied. They point out that the rates of population growth in the developing countries are higher than any which the present industrial countries experienced at any period of their history. Also, they recall that the phase of rapid population growth in the industrial countries came only after the industrial countries had embarked on rapid economic growth and the process of industrialization; it came at a time when it was easy to handle and did not cut into the rate of per capita income growth as much as it does now in the developing countries. Moreover, when the European countries, in their phase of rapid economic growth, also had rapid population growth (although well below that of the developing countries today), their problems were mitigated by the fact that there was large-scale immigration to the United States and other countries, which helped them meet their population problem. The rate of population growth in the developing countries today is unique in the world's history and can hardly be described as a positive factor for economic growth; but how and in what respect an economic performance test could be applied to this is still to be worked out.

The trend of policy in the Bank and the needs of the developing countries both point to a further deepening of the cooperation between the World Bank Group and the governments of its member countries in trying to continue to improve the effectiveness of the use of resources in the member countries' economies. How this will evolve is still unclear, but it is obvious that many problems still have to be solved.

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"What's past is prologue; what to come,
Is yours and my discharge."

Shakespeare, The Tempest

(updated) Transcription of talk at Seminar for Brazilian Professors of Economics, Rio de Janeiro 18-22 Sept 1967

From "Some Aspects of Economic Philosophy of World Bank" Sept 1968

Jan. 1968 - Development Digest
f - Kamarck speech

PLANS AND PLANNING IN AFRICA

Andrew M. Kamarck

[At least in an African context, the priority that governments and international aid agencies have given to preparation of national plans is misconceived. The priority belongs to building up proper economic policy-making machinery and using it effectively. The first requirement is staffing and organizing the government to improve day-to-day economic management.]

Africa is the continent of economic plans. Every country in Africa (except South Africa) has had at least one since World War II, and most have had several.

The preparation of economic plans began under the colonial regimes and under the stimulus of the colonial powers. Perhaps the one point in colonial history upon which everybody now agrees is that these development plans were defective: they were prepared by administrators with little or no economic background; coordination of the investments in various sectors was largely non-existent; there was no consistent development strategy. In short, the plans were "no more than lists of projects." Yet, it must be said (nostalgically) that these plans did have one virtue: they were usually carried out.

In the era of independent African countries, the highest rate of economic growth may well have been reached in the production of plans—increasingly more "comprehensive" and sophisticated plans. The Plan has become a symbol of independence, and a great deal of public attention is devoted to, and incantation of praises made over, the Plan document.

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The planning process is in many countries depressingly similar: An expert or team of experts arrives to prepare a plan. They set to work to construct or fill in a model of the economy, build up intersectoral input-output tables, construct a system of equations, and present an internally consistent over-all development plan complete with capital/output ratios; marginal savings coefficients; import, consumption, and production functions; investment, savings, and import gaps. A plan is worked out for the whole economy which lays down a growth rate, sectoral targets and allocations of funds, a balance-of-payments projection showing the need for foreign aid. The plan is turned over to the government; the visiting experts depart. At that point, the government may simply file the plan away on a shelf (as Upper Volta did, in one case); or it may adopt it with great fanfare and a year or so later request someone else to prepare another one (as happened in Sierra Leone and Senegal); or, as in most cases, it may continue to give lip service to the plan but otherwise pay little or no attention to it.

But when the government tries to carry out the plan, it may find it to be of not much help. In Guinea, for example, the Three-Year Development Plan 1960-63, devised by two foreign advisers, had as objectives: decolonization and economic independence by restructuring the economy; accelerated growth as far as possible within the framework of collective ownership of the means of production, with the state sector and cooperatives playing a dominant role in all domains; amelioration of the standard of living of the population; etc. The plan was unrealistic, its stated goals completely out of line with the administrative capacity of the government and the existing information on the resources and problems of Guinea. The government tried valiantly to carry out the plan, however; with the help of substantial foreign aid, it got investment to well over 20 percent of the gross national product (GNP). But the GNP grew more slowly than the population, so that the per-capita standard of living went down; foreign aid and voluntary domestic savings were insufficient to finance the investments, so the central bank had to print money, resulting in a rise in prices and a discouragement to export; export earnings (outside of the foreign-owned mines) went down.

On the other hand, the plans in Kenya and the Sudan (and, in North Africa, Tunisia) have certainly been of help—perhaps, to greater or lesser degree, in other countries as well. But over all, an objective observer must conclude that for most of Africa the plans have so far made little or no contribution to economic development.

I would venture to say that a general consensus on planning has arisen among most economists who have had extensive experience in development planning. What matters most, they all say, is not whether a plan is well coordinated or internally consistent, although this is desirable, but whether it is based on good economic judgment and reasoning. A plan should be a focus, not a substitute, for decision-making.

In fact, an economic plan is nowhere near as important as the process by which a government makes economic and financial decisions. It is much better to have a good planning process in this sense than to have a good plan.

The pressure that international aid agencies have exerted on governments to prepare national plans and the priority that the governments have given these plans are, then, misapplied. The priority belongs to building up a proper economic policy-making machinery and using it effectively. It is really useless, for example, to produce a plan for a nation that has not yet succeeded in preparing and administering a proper government budget—as is true of one African country now launched on its Second Five-Year Plan.

The Misuse of Economists

Perhaps one of the biggest wastes in developing countries is in the way economists are used. It is not at all unusual to find the scarce economic talent available segregated in a planning office, working on a sophisticated macro-economic model, while policy decisions that are shaping the economic future of the country are made without the benefit of economic analysis or advice. What makes the whole matter worse is that the model and plan being constructed often bear little relation to reality. This is not a defect peculiar to Africa. If the time and effort spent on such unrealistic exercises were devoted to improving basic statistical and economic information, economic development in Africa would be speeded up.

In other words, an African government would be well advised to use its own and any available foreign economists as advisers in the Prime Minister's or President's office and the principal economic ministries, and in strengthening the statistical services—before it turns to the problem of building ultra-refined econometric models.

What is required is an economist who understands how the economy really works in the African context and what broad institutional forces affect it. Unfortunately, in today's scientific environment, governments too often believe that an economist-mathematician, if sufficiently incomprehensible, is the best planner. Plans are regarded as "magic"—pointed to with pride, expected to result in growth, but not regarded as a guide to action.

Aside from the misuse of economists, the planning process should be realistic in regard to what is administratively feasible in the country concerned. As Edward S. Mason, of Harvard, has said:

> A due regard for these considerations would limit the size of the public investment sector in a development program to dimensions capable of effective administration; it would consel against the imposition of controls whose implementation lies outside the competence of existing public services; it would emphasize the importance of training programs and of necessary changes in government procedures.

In addition, planners all too often spend their time on the aggregates and never get to the sectors or projects. For development to occur, concrete investment plans for individual projects must have been prepared—investigating technical feasibilities, computing the costs and benefits, and dealing with problems of administration and management. It does no good to be told that investment of "x" amount is necessary on roads. What roads, going from where to where, what quality, costing how much, saving how much in road-user costs and conferring how much in development benefits?

The tendency to administer the economy by directive has been inherited by the independent African governments, and it is reinforced by an easy perversion of "comprehensive" planning, which is always believed more desirable than something that sounds as incomplete as "partial" planning. In any case, it does make sense to prepare plans for the public sector in terms of and within a framework of comprehensive estimates and forecasts for the structure and evolution of the entire economy; it also makes sense to include the policy plans and instruments the government intends to use to help, persuade, and induce the private sector to develop. But it is easy to go too far, especially among the African governments whose neo-colonialist tendencies to indulge in government by directive are strong, and to attempt also to plan the private sector in detail. This is not an ideological mistake, but simply a matter of ineffective development tactics. As we now know, bureauçratic planning can secure growth for a time but with such inefficiency and sacrifice that eventually they are insupportable.

Where Macro-economics Fails

For the African countries to achieve a satisfactory rate of growth will not be easy. It is much more difficult than in developed countries, where growth may be stimulated or induced by manipulating the macro-economic variables—increasing the rate of investment by appropriate tax measures, or increasing total gross national expenditure by a budgetary deficit, or shifting the relationship between the domestic cost-price structure and the international one by changing exchange rates, etc. One is able to rely on the law of large numbers and, therefore, on the statistical equations that describe economic behavior and the relationships in the economy. But to use this approach in Africa, and to use it as the main analytical policy guide, leads to meaningless and irrelevant conclusions.

Successful development in Africa will consist in large part of discontinuities—not of even movement along a curve but of kinks in the curve, jumps from one production function to another. It will proceed not so much in the form of small increases in industrial output, for example, but of a whole new industry getting started, or a new mineral resource suddenly becoming economic. Even in agriculture, where progress is more likely to be slow, jumps will occur—when the answer is found to a plant pest or a new hybrid is developed. (In Ghana, cocoa production, after remaining stable for a quarter of a century, shot up by 50-70 percent in the early 1960s.)

Macro-economic models imported from the developed world also suffer from another defect as far as Africa is concerned: they emphasize investment. Obviously, investment is important and necessary but often a greater contribution to development can be made by governmental economic policies. In Ethiopia, for example, reform of the feudal land-tenure system, which would give farmers the incentives to improve agricultural practices, would increase the national income more rapidly than the various power and road projects, etc., now under way—even though these latter may be economically justifiable. The very important role of the government in African economies notwithstanding, most economic activities take place outside the public sector. Economic growth in Africa can to some extent be measured by the shrinkage of the public sector's importance as agricultural, industrial, and mineral production grows. It is, therefore, of prime importance for governments to maintain policies that encourage private investment. It helps greatly, too, if a government provides the environment for growth: honest and efficient housekeeping of its own affairs and finances, political and legal security for private investors and producers, etc.

Macro-economic models often rest on the rather questionable assumption that capital/output ratios (or capital coefficients) or the technical coefficients of an input-output table remain stable in a developing economy. But much of the problem of development is precisely to increase the output per unit of capital per worker. The model will be even more questionable if the parameters are often not even taken from the economy in question but imported from other quite different ones. (Again, this does not mean they are not useful rule-of-thumb checks; but to rely on them is dangerous.) A more relevant model for African economies would emphasize not capital/output ratio but a coefficient that measured the effort made to raise the general level of skills and broaden the average African's horizons in relation to output—including recurrent government expenditures on education, extension services, radio, libraries, and some part of the political party expenditures, etc.

Another danger of building economic plans in a developing country mainly on macro-economic models is that it has an anti-economic effect in the real sense of the word "economics." It ignores or does not emphasize to governments that it is most important to make the most efficient possible use of scarce resources. The implication of a macro-economic approach is that any investment will produce output, whereas what really matters to a development plan is that some investment will have a much higher yield than others—that some, indeed, may have a negative yield. The main problem is to find and take advantage of high-yield opportunities, not to ensure that all input requirements in the model have been accounted for and that there is an exact matching of domestic resources and requirements and of foreign exchange requirements and capabilities.

Lastly, it should be emphasized that, in Africa, non-economic factors are at least as important as purely economic ones in the achievement of economic development. Yet the more "advanced" and rigorous a mathematical model is, the less it is likely to take into account the non-economic factors. Planning which excludes such factors or throws them into a simple variable is simply not relevant, for economic development in Africa depends on the transformation of a society, and this must always be kept fully in mind.

What Reforms are Needed

In conclusion, then, the first importance is in staffing and organizing the government to improve day-to-day economic management of the government and the economy. Any plan for development should flow out of and be based on this work, with the following points firmly adhered to:

1. The planners—with a thorough understanding of the economy's resources and problems, including the main institutional, sociological, anthropological, and political factors involved—should study the impediments and opportunities for growth, sector by sector, and the international market possibilities.

2. Inventory should be made of the costs and benefits of public-sector investment projects already under way, and as much information as possible should be gathered on private investment under way or planned.

3. A rough forecast of how the economy will grow without further action should be prepared.

4. A policy program should be prepared of recommendations for action required to stimulate a faster rate of growth, sector by sector and over-all. Where possible, the costs and yields of each should be calculated.

5. Based on a rough financial forecast, which should include the fiscal impact of the plan and be governed by an estimate of administrative capacity (and, where applicable, the constraints of construction or contracting capacity) and by a realistic growth assumption, a public-sector program should be prepared. The projects in it would not need to be fully worked out at first, but one should have a rough idea of their costs and benefits. The program should include projects and programs affecting the private sector (e.g., provision of capital to industrial or agricultural development financing agencies, industrial estates) but not the projects of the private sector. A check should then be made of the private sector, where appropriate, to see how its plans would be modified by the proposed public-sector policies. The program would then be reworked to be made internally consistent.

6. The decision in each sector to accept projects should be made on the basis of a partial equilibrium model. That is to say, it should be based on a calculation of the costs, forecasts of demand and prices (in the light of a realistic forecast of GNP growth), and calculation of yield. The latter would be the determining factor. No attempt should be made to screen projects on the basis of capital/output ratio, input-output matrixes, or any other kind of general equilibrium model.

7. The resulting economic plan should be regarded as a working plan, a stage in a process and not a blueprint. It should be reviewed constantly and revised periodically.

[Excerpted from The Economics of African Development. New York: Praeger, 1967, pp. 209-221.]

FUTURE OF THE PLANNING COMMISSION

Arthagnani

["Dr. D. R. Gadgil, the new head of the Planning Commission, has indicated that India may abandon not only her current five-year plan but also the device of five-year planning itself. He said in an interview that he intended to promote a re-examination of its basic aims and methods to rescue the reputation of Indian planning, which has been badly damaged at home and abroad by the failures of the Third and Fourth Plans.... The ambitious Fourth Plan, in fact, is still in its draft form although the five-year period it covers is nearly one-third over. Most analysts agree that it had become hopelessly irrelevant." The New York Times, September 17, 1967.]

The decline of planning has to be traced mainly to the unwieldy, unplanned evolution of the Planning Commission. In many respects, the original conception of the Planning Commission, its organisation and functions, was on right lines. As originally conceived, the Planning Commission was expected to be a small, elite body which was to be concerned with problems of broad structural changes in the economy. To provide for the necessary flexibility (and prevent undue interference from Parliament), the Commission was set up by a resolution of the Government. Moreover, its terms of reference were widely set to afford the necessary freedom of action.

Many factors can be held responsible for setting off the process which led to the decline of the Planning Commission. First, ministers were inducted as part-time members into the Commission. Pandit Nehru's presence had been essential, to lend prestige to the new body and to shield it against attacks by suspicious

"Arthagnani" is a pseudonym, which in Hindi means "Knowledgeable in the Art of Economics."

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The Appraisal of Country Economic Performance*

Andrew M. Kamarck
International Bank for Reconstruction and Development

> I would with such perfection govern, sir,
> To excel the golden age.
> Shakespeare, *The Tempest*

One of the principal lessons that the World Bank has learned from twenty-three years of experience is that the economic development or growth of a country depends primarily on a continuing improvement in the effectiveness with which a country uses the economic resources it possesses. The research in the universities has apparently come to similar conclusions. A series of articles by economists like Aukrust, Denison, Domar, and Solow has shown that an increase in the supply of capital and in labor of unchanging quality does not appear to explain at a maximum more than one-half the estimated growth of GNP in the many countries studied.

Simon Kuznets, in his latest book goes so far as to say that "while the results would clearly vary among individual countries, the inescapable conclusion is that the direct contribution of man-hours and capital accumulation would hardly account for more than a tenth of the rate of growth in per-capita product—and probably less. The large remainder must be assigned to an increase in efficiency in the productive resources—a rise in output per unit of input, due either to the improved quality of the resources, or to the effects of changing arrangements, or to the impact of technological change, or to all three."[1]

What this means is that improving "economic performance," or action to increase effectiveness in the use of resources, has to be the central

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[1] Simon Kuznets, *Modern Economic Growth* (New Haven, Conn.: Yale University Press, 1966), pp. 80–81.

focus of development policy. Economic development comes through making more effective use and improving the management of all resources—existing capital as well as new capital, manpower, land, and other natural resources. This does not mean that providing more capital is not important; in fact, it may be that a greater supply of capital is essential to make it possible to take the necessary measures to improve economic performance. (Kaldor and other economists maintain that new knowledge is mainly introduced or infused into the growth process through the introduction of new equipment.) The point is that concentration on increasing the amount of capital as the central element in the economic development process represents the wrong approach to getting faster growth.

Now, how does the World Bank Group fit into this? The contribution to development of a country that is made by an agency like the World Bank Group which is usually emphasized is its contribution of capital. The loan or credit is an addition to the resources available to a country, but it is often more important than the sum of money involved would indicate. It may be more valuable than an equal amount of domestic resources if the country concerned is one where the "foreign exchange gap" is more important than the "savings-investment gap." I do not think this actually applies in many of the Latin American countries. But it certainly is true of most of the African countries, since there the production structure is much less flexible and the substitutability of domestic resources for foreign resources is very low, within a reasonably short time period, that is within a year or two. (The amount of foreign exchange available to Ghana for the purchase of machinery and equipment abroad depends mainly on how much cocoa is produced and sold abroad and how much of the foreign exchange is used to buy foreign consumers goods. A sudden increase in Ghanian saving can affect the latter amount but will have very little immediate impact on making more cocoa available for sale abroad. At the same time, having more savings for investment cannot result in immediately shifting labor from producing yams—for which demand falls because of increased saving—to producing generators, turbines, or airplanes, which the increased investment demand requires. But, of course, the labor that formerly produced yams can be used to plant more cocoa, and in three to five years result in more cocoa exports.)

The capital that comes from abroad is also often much more mobile. It can be more easily directed to the higher priority needs than the savings produced within the country which may be mobilized, for example, only for investment in real estate. However, probably the most important role for the capital that comes from the outside is that it can be used as an incentive to the government to take action to improve economic performance in the economy, or it can help the government by making it possible for the government to take measures that it would like to take and feels necessary to take but is not able to without this additional support from abroad.

Fundamentally, improvement of economic performance of an economy is something that can only be carried out by the government and the people of the country concerned. It is not something which can be imposed from abroad, but the help from abroad can be used to facilitate or encourage the government to take actions that otherwise could not or would not be taken. The World Bank, from its inception, has had as a principal objective helping countries improve their economic performance.[2] There has been an evolution in the methods used, the scope of the area of economy affected, and even in the emphasis given to this, but not in the existence of the objective.

International lending to governments, prior to the organization of the World Bank, paid little attention to the particular use that would be made of the money by the borrower. The defaults on international loans in the 1930s were widespread, and it was concluded that a principal reason for them was improper use by the borrowers of the funds they had received. Consequently, when the World Bank charter was being written a provision was put in that Bank lending should be for projects. Essentially, this means, as was explained in the 1949/50 Annual Report, that the Bank should lend only for clearly defined and agreed purposes that would result in an increase in the productive capacity of the borrowing country, and that appropriate institutional arrangements in the recipient country should exist or should be created to ensure that the purposes of the loan would be achieved.

How this worked out in practice is clearly explained in the following excerpt from an address by the Bank officer who was most intimately involved in this evolution of Bank policy.

> We began to discover the problem with our first mission to one of our underdeveloped countries, a mission which went to Chile in 1947 to examine a proposal that we finance a power project there. The presentation of this proposal had been made in a book handsomely bound in black morocco leather, and I remember that one of the senior people in the Bank at the time expressed a belief that we would be able to make a loan for the project in about a week. But when we opened the book, we found that what we had really was more of an idea about a project, not a project sufficiently prepared that its needs for finance, equipment, and manpower resources could be accurately forecast.
>
> We found it necessary to visit Chile several times to get information about the project and its economic setting—as I remember well,

[2] "Economic performance" can be taken to mean the behavior of certain national economic indicators (such as the rate of growth of gross national product, savings as a ratio of GNP, export earnings) or the actions the government takes to influence or direct the economy. It is in the latter sense of economic management that the term "economic performance" is used in this paper.

> since one of these visits was one of the first missions that I ever undertook for the Bank. The loan—our first development loan, incidentally—was not made until more than a year had passed. In the meantime, members of the Bank staff had made suggestions about the financial plan, had contributed to the economic analysis of the scheme, had advised on changes of engineering, and had helped study measures for improving the organization of the company which was to carry out the scheme. When we finally made the loan, the project had been modified and improved, the borrowing organization had been strengthened, and the foundation had been laid for a power expansion program in Chile which has been proceeding steadily ever since.[3]

From the beginning, the Bank has used this technique of lending as a means of securing some progress in a more effective use of resources—both borrowed and domestic—in the recipient country. The improvement in performance sought concerns more than the actual piece of investment being financed—it often extends to an entire sector and to the building or improvement of institutions. An early example of this was the 1950 telecommunications loan to Ethiopia, the first loan made in Africa by the Bank. This loan financed the import of telecommunications equipment but this, while important, was only a small part of the real contribution involved: A new organization was created and built up over the years with the help of foreign experts. It is now able to run successfully the modern telecommunications system now existing in Ethiopia. Indeed, the project enabled the Ethiopians themselves to become a source of technical assistance: When teams of technicians went to the Congo to help to restore the economic life of that country, one consisted of telecommunications personnel from Ethiopia. In the same way, a loan for a power project often involves the creation of an effective power authority or improvement in the management of the existing agency. A road loan may involve an overhaul or creation of the whole road maintenance and building agency.

Over the years, therefore, even when the Bank made only a relatively small contribution to international capital flows, it made a significant contribution in improving the management of resources in at least the areas of the economies that it was directly aiding. And, the Bank continues today to regard this as important; it was in fact built into the Bank administrative structure in a basic reorganization of the Bank in 1952 which has since remained unchanged. "Responsibility for judgments about the merits of individual projects was deliberately divorced from responsibility for judgments about the desirability of lending to particular countries or borrowers. Divorcing project responsibility from country and borrower responsibility built into the internal organization of the Bank a limitation on the possibility that a defective or inadequately prepared project would be pushed through because there were felt to be overriding

[3] S. Aldewereld, "The Challenge of Development Aid," May 6, 1966.

considerations arising out of the bank's relations with a particular country. Conversely, a project could not be pushed through merely because it was fascinating. The Bank thus protected itself simultaneously against the technocrat and the diplomat."[4]

From its earliest years, the Bank has also contributed to improvement of economic performance through the process of Bank economic analysis in cooperation with the government of the country of the development problems, needs, and possibilities for improvement of an economy. At times, this resulted from a formal invitation from a government for direct help in shaping its developmental policies or in preparing a development plan. Formal economic survey missions for such a purpose have been organized by the Bank for twenty-five countries over the years. In other cases, missions of a lesser degree of formality were charged with similar tasks. A mission to Mauretania in 1967, for example, was sent in response to a request for help in preparing a new development plan. Ireland joined the bank twelve years ago not because it was going to ask for any loans, but merely because the government wanted to have a chance to discuss its development problems with the World Bank Group. A 1967 mission to New Zealand was requested for the same sort of reason. There have been many other missions of a similar type. But, probably the greatest contribution in this way comes from the regular country economic missions of the Bank.

Even in the years when the Bank took a fairly limited view of its responsibilities, the process of investigation and discussion with a government of its development problems inevitably had a positive effect in making a government more conscious of its problems and the need to take action to cope with them. This process of country analysis is inevitably enlightening both for the Bank economists and the government. It is a fairly common experience for Bank economists to have an official raise a particular or general problem that had not been discussed in order to get the Bank economists' views on it. Sometimes the official will say, "We are planning to try such and such. Do you know of any experience with this? How do you think it will go?"

This "dialogue" is always therefore an important feature of the Bank work. What does it consist of?

In studying a particular country, fundamentally what has to be done is to make an adequate analysis of the way in which the national economy actually functions, to identify the constraints which influence its direction and rate of development, and finally, to identify what the development objectives of the government are and what the government can do to improve the conditions for growth either directly or through policies that stimulate the economy. In other words, as Luis Escobar has suggested in

[4] J. H. Williams, "International Bank for Reconstruction and Development" (Paper presented at Bretton Woods, 1967).

a recent article, what has to be done is "to organize study and research with a view to formulating a diagnosis which I have defined as a 'national interpretation of economic development,'" that is, "an adequate interpretation of the way in which our national economies function."[5]

To do his work well, the development economist should know the country thoroughly. Specifically, he should start by acquiring a knowledge of the economic geography of a country: its natural and human resources, its structure of production, its position in world trade and finance, its economic history. He should acquire an understanding and appreciation of the social and institutional infrastructure: the main constraints and critical preconditions to growth have to be identified. Based on this, the analyst must identify an implicit or explicit development strategy or what in very rough terms might be called a long-range development plan. This must identify what are the policies and measures in the short term that the government can take to carry out the longer range development strategy. Finally, what the government is doing and its policy plans must be measured against the analysis of what the economy requires for development. The major test of the development policy of a government is, therefore, the assessment of the extent to which steps are actually taken or programs launched to remove or to reduce the main constraints to growth, and to create and to improve the necessary conditions and institutions for growth. (This is not to suggest that the development economist should have a rigid approach. It is important that he should be willing to reevaluate his findings if events and new facts show that it is necessary. What is, however, important is that government actions and plans should be judged with reference to the "development strategy" that is fully supported by the basic analysis.)

In evaluating a particular country's economic performance, among the specific questions that would need to be answered, most of the following would certainly be included: (*a*) what is happening to growth of production and income; (*b*) what is the extent of the mobilization of resources for development and is the national savings ratio to GNP growing; (*c*) how efficiently are existing financial resources being used; (*d*) how compatible is the social and institutional framework with development; what policies are being undertaken to improve this; (*e*) is there a population growth problem; if so, what does it consist of and what, if any, effort is the government making to cope with it; (*f*) is development being given appropriate emphasis compared, say, to defense; (*g*) how successful is the country in maintaining confidence in the currency and in the future value of savings; (*h*) how rapidly is import capacity increasing, that is, what is

[5] Luis Escobar Cerda, "An Economist's View of the Role of Social Sciences in Latin America," in *Social Science in Latin America,* ed. Bruce Woods and Manuel Diegues, Jr. (New York and London: Columbia University Press, 1967), p. 58.

the rate of increase of export and other foreign exchange earnings; (*i*) how efficiently is the country economizing on spending for imports; (*j*) how well is the balance of payments and the external debt managed, for example does the country have an effective way of keeping track of and controlling debts incurred by government entities and enterprises; (*k*) how internally consistent are the development and financial policies?

What may be noted is that in this list there is no specific inclusion of a "development plan." To a large extent, of course, a good development plan would involve all of these factors. A country that scored high on all these points might well be a country that would also have a good development plan: a good development plan is a result of a set of good financial and economic policies; it is not a substitute for them.

In evaluating the answers to the foregoing questions it is not justifiable to apply a standard grading system to all countries. In my view, there is no standard pattern, no one royal road to development. Each country must make its own way. It is useful to know what other countries have done; it is useful to know what other countries are doing; but it would have to be a very special case where one country could follow exactly the same road that another had pioneered in the past, or fit into exactly the model applicable to another country. Consequently, what one can reasonably expect of a country must differ from country to country.

The approach is not that of Procrustes. What must *not* be done is to take an actual or mental model that has been worked out for a developed country, apply it to the developing country and, where the developing country does not fit, prescribe the changes that will make it conform to the model.[6] There is a song from an old musical *The Belle of New York*, which describes exactly what the approach of an economist coming from an industrialized country should *not* be. It goes as follows:

> Our virtues continue to strike us
> as qualities magnificent to see.
> We know that you never can be like us,
> but be as like us as you're able to be.

It is also wrong to work out a set of quantitative tests and grade all developing countries by how well they do in these tests. For example, it is useful to have, for analytical purposes, a set of comparative country statistics such as capital/output ratios, the ratio of savings to GNP, tax revenues to GNP, and so forth. But, the temptation must be resisted to apply these mechanically and to conclude that if a country falls below the average or the optimum levels that it is falling in economic performance. This approach is fundamentally wrong because it does not take into account

[6] For a more comprehensive statement of this point, see Dudley Seers, "The Limitations of the Special Case," in *The Teaching of Development Economics*, ed. Kurt Martin and John Knapp (London: Frank Cass & Co., 1967).

the very different stages of development that countries are in; it does not take into account the very different natural resource endowments that they have, and the very different natural, historical, and institutional obstacles that they face.

There is also no unique role for government in fostering economic development. There are cases like that of Hong Kong, where there is a very creative and energetic private sector. The "right" government role in a country like Hong Kong may simply be to provide the basic utilities and, then, get out of the way and let the private economy boom. On the other hand, there may be cases, for example like Malawi in Central Africa, that are at the other extreme. In Malawi, the bulk of the population is still largely in a subsistence agricultural economy; there is little in the way of manufacturing, and no mining. In Malawi, economic development depends almost entirely on the stimulus given by government through finding suitable crops and improving them through research, teaching farmers how to grow them, and providing suitable incentives.

Other countries fall somewhere in between. It follows from this that while in some circumstances the actual rate of growth of GNP may be an important indicator of economic performance it is not necessarily so. In some countries, even with the best will in the world, the economy may not be able to grow very rapidly. Malawi is again a good example. If government action and policies were perfect and no mistakes were made, without external help the economy would still grow very slowly. On the other hand, there are cases, particularly countries that have a stable structure of the economy and society (or one that is changing only very slowly) reasonably suitable for economic growth, and that have a reasonable good natural resource endowment, where the rate of growth of income and production may be a very good indication of how well the government is doing its job.

But, in most developing countries, development entails changing the structure of the economy. It is perfectly possible that a government may be doing an excellent job in changing or facilitating a change in the structure of the economy and the society to provide the necessary basis for growth in the future, but in the meantime, no perceptible growth may be seen in the statistics. In such a case, even though economic statistics may show no growth, one could reasonably conclude that the performance of the government is optimum.

An example of this might be that of Tunisia between 1956 and 1960. When Tunisia became independent in 1956, the bulk of the modern sector (commercial farms, factories, public utilities, banking system) was essentially a foreign enclave—owned, controlled, and managed by foreign settlers. During the next four years the Tunisians took over most of this sector, absorbing it into the Tunisian national economy. The fact that there was little or no growth shown in the economic indicators during this period cannot be taken as a conclusive sign of bad economic performance.

Another example of the same type is the case where a country needs to carry through a fundamental land reform to provide the basis for future growth. Examples of this might be the Republic of China on Taiwan and, perhaps, Iran in recent years. If during the period that such a fundamental transformation of the structure is taking place the economy does not register growth in its GNP figures or other purely economic indicators, this cannot be taken as prima facie evidence that the economy is not performing well. The focus, in other words, should always be on the particular country, its special problems and possibilities.

As the magnitude of the resources that the World Bank Group disposes of has increased, and as other suppliers of capital have joined in a greater coordination of lending under the World Bank's consortia and consultative groups, the need to devote more and more attention to the use of resources in an economy outside of the particular sectors directly financed by the Basic Group has become much more important. In a number of developing countries the World Bank Group has become the principal lender and the leading supplier of external capital. The number of consortia and consultative groups for the developing countries has now increased to around a dozen. In these cases, even though the World Bank Group may not be the principal lender, it is called on to chair the group and to provide periodic analyses of the position, prospects and performance of the country. These groups now cover over 40 percent of the total flow of capital from the industrial countries to the developing countries. At the same time, the World Bank has gradually discontinued lending to the higher income countries, and its activities have become concentrated on the developing countries alone.

Along with this growth of the greater responsibility of the World Bank Group in development finance, there has also been growth in the sentiment for more positive action to secure better country economic performance. In part, this has stemmed from the economic research in the universities that was mentioned earlier; in part, from a feeling of disappointment in the progress made by the developing countries so far, and consequently, the desire to modify the way in which economic aid has been given.

A very important force in this evolution was the creation of the International Development Association (IDA) in 1960 to make capital available on soft terms, that is, with a very large grant equivalent, to the poorer developing countries. As long as there was only the IBRD proper, it was easy to overlook the fact that the World Bank loans included a subsidy element (with the credit of the richer countries behind the Bank, the Bank was able to borrow and to lend at rates generally below what the developing countries would otherwise have had to pay). It was easier, therefore, to be influenced by the feeling that the World Bank was a bank and, overlooking the practice of securing better performance in the projects and sectors financed, conclude that the economic performance of the borrower's economy was outside of the World Bank's interest. With the addition of IDA and the provision by IDA of credits which at the present terms are equivalent to a grant element of 80 percent of the face value of the credit (calculated at a discount rate of 10 percent), it becomes very obvious that what is involved is something quite different from normal investment banking—that, in fact, the World Bank Group is engaged in development finance, and inescapably must be concerned with the performance of the economy as a whole.

The justification for project and sector lending, in fact, always included the hope that improvement in one project or sector would act as a leaven for wider areas of the economy. But it was also realized that "the fundamental limitation on the effectiveness of project lending is that although investment consists of projects, in the sense of discrete decisions that have to be executed within some organizational framework, be it ministry or enterprise, investment does not consist only of projects. It certainly does not consist only of projects considered eligible by outside lenders and donors. There are in addition expenditures which are not identifiable as projects, or may not be readily identifiable at all. Total capital requirements moreover include one, often crucial, non-project item, namely debt service. Project financing, no matter how well conceived and executed, will thus always be incomplete as a means of financing development."[7]

The rational alternative is to base financing on total capital requirements, supporting a development plan for a period of years ahead. This the Bank has in theory been willing to consider. In the 1949/50 annual report, the statement was made "the Bank would prefer to go further, wherever that is feasible, and base its financing on a national development program, provided that it is properly worked out in terms of the projects by which the objectives of the program are to be attained." But it has done so in only a few isolated cases, and one could interpret the impact of the consortia and consultative groups as also being equivalent to this to a partial extent. On the country side, the record has been that most plans so far have not consisted of the realistic well-worked set of investment projects and appropriate development policies that would deserve blanket long-term support.

Another point that also must be mentioned here is that economic development is a much broader field than the conventional economics of a developed society comprehends. To secure progress in a developing country the government may have to devote considerable attention to such noneconomic variables as reform of the civil service, enforcement of effective taxation, and land reform. It may also be true that more economic growth may come from parts of what is conventionally labeled as "consumption" (i.e., government expenditure on agricultural extension work-

[7] Williams, "International Bank for Reconstruction and Development."

ers or on the eradicatation of debilitating disease) than from some of the items that are conventionally labeled "investment" (i.e., construction of a presidential palace).

Consequently, when one thinks of securing improvement in economic performance beyond the particular project or sector that happens to be externally financed, consideration must be given to picking out the strategic items in the whole spectrum of government policy that would affect the most important constraints on growth and that are amenable to action. In a few cases, this might affect a whole investment program of a government; in most cases, it would be something quite different. Essentially, the approach has to be pragmatic and directed as far as possible to what is most desirable and practicable.

As a result, in the last few years, there has been a further major evolution in bank policy in that consistent and deliberate analysis of country economic performance has been made a major objective of the Bank Group's economic work and the Bank's lending program has been more specifically and more deliberately designed to help countries improve their economic performance.

The earlier Staff Economic Committee, which in large part tended to focus on credit worthiness questions, has been replaced by an Economic Committee, chaired by the Economic Advisor to the President, which has directed its main focus to evaluation of economic performance and formation of bank policy to secure better economic performance. In this process, the staff of the International Monetary Fund now also participate and contribute their country experience and expertise. The Bank economic staff has also been considerably strengthened, but not yet sufficiently to fully attain the objective set. There are also still many corollary questions of policy which have not yet been fully worked out.

The present position, therefore, is that in all of the World Bank Group's lending: (*a*) the Bank directly attempts to improve the use of resources in those projects or sectors or institutions where Bank finance is directly involved through attaching conditions to the loans; (*b*) it also always tries to make a basic analysis of the economic problems and prospects of a country in cooperation with the government of a country. (*c*) The next step is the most difficult one. It varies from country to country depending on (i) ascertaining what it is that is holding up faster growth and that the government, by appropriate action within its capability, could correct, on the one hand, and (ii) what the World Bank Group can reasonably expect to achieve with the government in securing improved performance in this respect, on the other.

At one extreme, there are countries where the role of the World Bank Group is very small. This may be because the country concerned has reached the stage where it needs very little help from abroad, or because the political or governmental situation is such that the government is relatively helpless to accomplish anything much in improving economic performance, or because the bulk of its external capital comes from a source that is not interested in whatever economic conclusions this group may come to in its economic analysis. In such cases, if anything can be done at all, the World Bank Group may have to limit itself to the influence of the basic economic analysis process or the improvements it can secure through financing a particular sector or succession of sectors. At the other extreme, there are countries where the Bank Group is the predominant source of external capital, and there are sufficient elements in the government who are both eager to and capable of taking action to improve economic performance in a number of ways if they are supported by the World Bank Group in getting the government officially to agree to such measures. In these cases, the World Bank Group may agree with the country, in a more or less formal form, on a lending program in a number of sectors together with understandings on the policy actions the government will take to improve performance in significant fields. Most countries would, of course, lie between these two extremes.

What measures to improve performance are economically desirable and possible vary from country to country. As the focus is always on the particular country, its problems and its potential, what needs to be emphasized consequently varies from country to country and from time to time in a particular country. The World Bank Group has to look at the whole of the development process, and in the course of the economic analysis conclusions have to be reached as to which are the areas or sectors which are most important at the particular time in which progress should and can be made. In some countries, the most important measure may be to have a more stable price level or a better monetary or fiscal policy. In these countries, the Bank works in parallel with the Fund, and what the World Bank and the Fund try to accomplish may be identical or supplement each other. In other countries, other measures in quite different sectors may be the strategic ones. In one country in Africa, for example, the Bank analysis came to the conclusion that the most important immediate measure to be taken was raising the price paid to the farmer for peanuts, the most important export of the country. Because the government had maintained the price its market board paid to the farmers at too low a level, the farmers had cut down on their production. The result was that the foreign exchange at the disposal of the government to be used for financing imports of equipment was too low. Here the most important item was the price of peanuts, and this is what the World Bank Group devoted its attention to. In another case, the crucial policy improvement needed and feasible may be the general arrangements for management of industry, the financing of public utilities or agriculture, etc.

In spite of the experience of the World Bank Group in this area, which in some respects goes back for over twenty-three years, there remain a number of open questions on which the World Bank and its member countries are still feeling their way. Take, for example, the very difficult problem of population growth. In the Bank analysis of an economy, the dynamics of population growth and the population policy of the government are now included as topics to be covered. The Bank does not, however, use population policy as a condition of lending. There are quite a few development economists who would definitely feel that population policy may be the most important test that one could apply to a country's economic performance. They point out that the rates of population growth in the developing countries are higher than anything the present industrial countries experienced at any period of their history. Second, that the phase of rapid population growth in the industrial countries came only after the industrial countries had embarked on their rapid economic growth and the process of industrialization. It came at a time when it was easier to handle and did not cut into the rate of per capita income growth as much as it does now in the developing countries. In the European countries, moreover, when in their phase of rapid economic growth they also had rapid population growth (although well below that of the developing countries today) their problems were mitigated by the fact that there was large-scale emigration to the United States and to other countries, which helped them meet their population problem even more easily. The rate of population growth in the developing countries today is unique in the world's history, and one can hardly argue that it is a positive factor for economic growth; but how and in what respect an economic performance test could be applied to this is still to be worked out.

The trend of policy in the Bank and the needs of the developing countries both point to a further deepening of the cooperation between the World Bank Group and the governments of its member countries in trying to continue to improve the effectiveness of the use of resources in the member countries' economies. How this will evolve is still unclear, but it is obvious that there are still many problems in this process which will have to be solved.

What's past is prologue; what to come,
In yours and my discharge.
Shakespeare, *The Tempest*