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INTERNATIONAL PROCUREMENT AND DEVELOPMENT  
OF INTRA-AFRICAN TRADE

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FOREWORD

The Third Joint Meeting of the ECA Working Party on Intra-African Trade and the OAU Expert Committee on Trade and Development has recommended that ECA should investigate "some practical arrangements whereby at least in their official purchases African Governments could give preference to African suppliers". <sup>1/</sup> This paper is the first response to this recommendation. It depicts the situation in Africa in the field of international procurement, reviews trends and policies of main donor groups and suggests some measures which may strengthen the African position in procurement on foreign markets, as well as direct the procurement itself towards African markets and thus stimulate the expansion of intra-African trade.

The paper was originally submitted to a regional seminar on international procurement, sponsored by the United Nations Institute of Training and Research (UNITAR) and financed by the Swedish International Development Authority (SIDA) held in Nairobi in March 1972 for English-speaking African countries. The seminar discussed inter-alia, the role of international procurement in the promotion of intra-African trade and some obstacles to this promotion. The paper also incorporates the recommendations and suggestions made by the participants.

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<sup>1/</sup> Dec. E/CN.14/449 - E/CN.14/WP.1/15 - OAU/TRAD/14, 18 January 1969.

THE ACTUAL SITUATION IN AFRICA IN THE FIELD OF  
INTERNATIONAL PROCUREMENT

1. Developing African countries are at a great disadvantage in the field of international procurement as buyers in the international markets. First, because of their inadequate technical, commercial and legal knowledge. Secondly, because they apply or are guided by certain established international conditions which were written into trading contracts to meet an entirely different set of circumstances. Thirdly, because most of them lack sufficient reserves of foreign exchange, and are too dependent on foreign sources of finance for international procurement, with the result that they have no control over the policies and decisions of donor countries.
2. The skills of purchasing, inspection, shipping and insurance, including that of negotiating contracts have been neglected. Developing African countries have therefore tended to rely on certain established international procurement agents:
3. Established international procurement agents, such as the Crown Agents, act as financial and commercial agents for Governments, and as a general rule, do not act for individuals or commercial concerns in the private sector. Some of the older establishments not only undertake procurement but also keep the accounts required in connexion with loans made by certain countries.
4. International procurement agents perform a wide range of functions for the various developing countries. Much of the publicized functions of these agents fall under five main heads:
  - (a) The purchase, inspection, shipment and insurance of stores, material, plant and equipment of all kinds;
  - (b) The negotiation of contracts for design, printing under security control, and supply of currency notes and postage stamps, the supply of coins for collectors;
  - (c) The provision of specialists - particularly engineering - advice and practical assistance;
  - (d) Financial and banking services including the management of funds, the provision of current and deposit accounts on behalf of their principals;
  - (e) Personnel services, such as the recruitment of staff, the booking of sea and air passages and the payment of salaries and pensions.

5. International procurement agents buy on behalf of their "Principals"<sup>1/</sup> through competitive tendering. Under normal circumstances, competition is on an international basis, and when appropriate includes suppliers in the countries of the Principals. However, it is rather difficult to establish the extent to which suppliers in the countries of the Principals (in developing Africa) have been able to win any major contracts under international procurement.
6. The extent to which many of the international procurement agents have been able to appreciate the impact of certain trends in the economic activity within developing Africa is also difficult to establish. The trend now in developing Africa is a growing shift from what used to be a limited government activity to an increased degree of participation by the State in commercial activities through the establishment of parastatal commercial enterprises.
7. Developing African countries are searching on many fronts for ways of cushioning their vulnerable economies against adverse world trends. Intra-African trade is likely to offer considerable assistance in this search for solutions if certain practices of international procurement can so be transformed as to facilitate the promotion of intra-African trade.
8. There is already a visible degree of awareness in all the countries of developing Africa for the need to establish and maintain a centralized co-ordinating authority to supervise, control, advise and give guidance on matters affecting supply.
9. A common practice in many developing African countries with regard to procurement for the Government has been to establish a controlling body which often operates as a Division within the Ministry of Finance, or which is closely associated with the Ministry of Finance and that of Works and Transport. The body takes the name of either Supply Division or that of a Supply and Tender Board.
10. A primary function performed by such a body has been to exercise central control and co-ordinate supply activities. Experience has shown that a completely centralized supply system is too unwieldy to operate with the desired flexibility. Hence, it has been observed that a small measure of decentralization is introduced in the case of certain specialized government purchases. For instance, the Ministry of Health or the Ministry of Works, as the case may be, is responsible for the purchase of their respective stores.

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<sup>1/</sup> The term "Principal" (defined under General Conditions of Contract for Purchase of Goods (1972) by the Crown Agents) means the Government, Organization or Administration for which the contract is made (and the existence of the Principal as a party to each such contract is hereby disclosed whether or not his identity has also been disclosed) and whether the Principal has dealt direct with the Contractor at any stage or only through the Crown Agents.

11. Procurement agents or bodies in general in developing African countries are governed by government regulations. Most government regulations require that purchases in excess of a specified amount shall be supported by a written contract, subject to prior public advertisement. Government regulations have also been used at times to direct purchases that favour certain suppliers.

12. Two possible arguments have been advanced in support of this. The first one stems from the Government's wish to ensure that the lowest price is obtained for good quality. The second reason is from a desire to ensure impartiality.

13. Other noticeable trends in the field of international procurement relate to the commercial activities of some of the parastatal corporations in many of the developing African countries. Many of these bodies are beginning to dispense with the services of overseas agents in their procurement. A number of parastatal bodies have established their own offices abroad. Such as the Governments of Uganda and Sudan, the Supply Commission of Ghana, the Electricity Corporation of Nigeria and the State Trading Corporation of Tanzania. What remains to be seen is whether similar bodies will emerge, charged with the responsibility of procurement from within developing Africa itself.

#### THE VOLUME OF INTERNATIONAL PROCUREMENT

14. To visualize the magnitude of the problem it is useful to draw attention to some statistical data on imports to Africa of manufactured goods, in particular machinery and equipment.

15. The share of manufactured goods in total imports of developing countries amounted in 1968 to 68.7 per cent. Machinery and equipment accounted for 33.0 per cent of total imports and amounted to US\$15,120 million. For African developing countries these proportions were much higher. The share of all manufactured goods in their imports accounted in 1969 for about 74 per cent, of which machinery and equipment for 36.4 per cent. Main sources of African imports of manufactured goods were Europe (EEC + EFTA + CPE) and the USA which in 1969 accounted for some 74 per cent of such imports, whereas the share of Africa in this kind of imports to Africa was less than 2 per cent. <sup>1/</sup>

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<sup>1/</sup> In 1968 the total value of African imports of manufactured goods from Africa amounted to some \$125 million.

## TRENDS AND POLICIES OF ASSISTANCE OF MAIN DONOR GROUPS

DAC countries<sup>1/</sup>

16. Finance from DAC countries towards developing countries takes three forms:

- official bilateral assistance
- other official aid
- private capital flows.

17. Official bilateral assistance as recorded by OECD statistics consists of three components; grants and grant-like contributions, loans on concessional terms, and contributions to multilateral agencies. The two first parts are directly extended to the developing countries on the basis of bilateral inter-governmental agreements between donor and recipient countries. This form of aid is guided more by political or historical reasons than profit considerations and is intended to support public or government development projects or programmes through technical assistance; food aid; budget assistance; and project and programme lending. Loans extended under official bilateral assistance are much softer than those available from private sources on the international capital markets. In 1969-1970 the average maturity for official loans from DAC countries was above 28 years, average grace period above 6 years and average interest rate below 3 per cent per year. The conditions offered by particular DAC member countries differ considerably.

18. "Other official aid" comprises various forms of financial flows to developing countries, such as portfolio transactions mainly consisting of purchases of the securities of multilateral agencies by Central Banks on market term, some debt relief and equity investment. The United States, Canada, Germany (Fed. Rep), Italy and Japan also register under this item their official export credits extended to the buyers in developing countries. Because of the lack of data it is difficult to pinpoint the policies of major donor countries in this field. The most important form of the financial flows singled out under "other official aid" is official export credits. All major donor countries foster national systems of official export credits. In contrast to private export credits (or so-called supplier's credits) official export credits - also known under the term of buyer's credits - are made available by a system of national financial institutions or consortia of financial agencies whose role it is to promote national exports or consortia of financial agencies whose role it is to promote national exports through facilitating the procurement of capital goods by foreign buyers.

<sup>1/</sup> DAC member countries account for about 99 per cent of the total finance flowing from all market economy countries.

19. Buyer's credits offer several distinct advantages. Firstly, the buyer is no longer tied to a particular supplier and can explore all available sources of supply in a given market. Secondly, he can approach various suppliers on the basis of cash purchases. Thirdly, buyer's credits extended through a national credit system charge lower interest rates and mature later than those obtainable under supplier's credits. The reason for these advantages is that buyer's credits are used as instruments of government policies and efforts aimed at promoting a country's exports of capital goods and at the same time, solving the problems resulting from the excessive financial liabilities borne by suppliers up to now. In some countries there are special financial institutions entrusted with extending those credits, e.g. the Exim-bank in the USA; the Kreditanstalt für Wiederaufbau in the Federal Republic of Germany; and the Instituto Centrale per il Credito à Medio Termine (Medio-credito Centrale) in Italy.

20. Private capital flows take the form of direct investment, portfolio investment and export credits. The policies ruling those flows are guided for the most part by the profit prospects of the respective investment ventures or export transactions.

21. All big donor countries apply tying policies to the procurement financed under their bilateral official loans. Such tying policies result in most cases in higher costs of procurement to the recipient countries either due to lack of international competition or because of high production cost in some donor countries.

22. The DAC member countries made extensive use of the practice of tying financial aid in the 1960s. Almost 80 per cent of official bilateral aid provided by DAC countries in 1968 was tied <sup>1/</sup>. The purpose of aid tying by donor countries is obvious, by requiring the procurement of goods financed by aid in their own markets they avoid the outflow of foreign exchange and deterioration of their balance-of-payments position. Thus, US regulations in force in 1970 required that no less than 90 per cent of the value of a product financed by US aid should be of US origin. Regulations of the Federal Republic of Germany require that the outside import content should not exceed 50 per cent of the value of the product. France allows aid financed procurement only in countries belonging to the French Franc Zone. Recently, many donors have tended to ease their tying practices (e.g. Italy and Canada, and the United States with respect to Latin American products <sup>2/</sup>).

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<sup>1/</sup> 1970 Review, Development Assistance Efforts and Policies of the Development Assistance Committee.

<sup>2/</sup> The United States admits for finance under their official aid to Latin American products which include inputs procured in Latin America up to 50 per cent of the value of finished products.

23. Aid may be tied by source of procurement or by end-use i.e. through the specification of goods or projects. Sometimes both methods are applied simultaneously. The latter case is typical for project aid given under bilateral clearing trade and payments arrangements. Most developed market economy countries tie their assistance by source only, i.e. they require that the recipient country use all or a certain proportion of granted aid for purchasing goods in the market of the donor country. The tying by source can be achieved by several ways such as formal commitments; informal restrictions; or indirect methods of tying. Formal commitments consist of a contractual obligation on the part of the recipient country to spend all or some portion of aid funds to purchase goods or services in the market of the donor country. Formal tying requires identifiable imports the source of which can be ascertained to ensure that the procurement is effected from the designated source. Some donor countries have also imposed formal restrictions on shipping services to be used for transporting aid financed imports and stipulate that their own ships be used for this purpose.

24. Aid can also be tied by source through informal restrictions. The recipient country is often told that any use of aid for imports from outside, i.e. from a non-donor country, may have a serious impact on the continuation of aid in the future. In this way the recipient country is warned against any departure from a de facto tying of its procurement. A more subtle form of directing aid financed purchases of a recipient country to the market of the donor country is achieved by integrating the aid flow into the over-all trade pattern, as it is the case under the bilateral clearing trade and payments agreements concluded by the socialist countries of Eastern Europe. Another indirect method is to couple the aid with provisions under which the aid must be spent for imports from the donor country which for its part, commits itself to purchase certain commodities from the recipient country on a preferential basis. This method of indirect aid tying underlies the entire trade and monetary arrangements of the French Franc Zone, and also exists in trade-aid relations between the United States and Latin American countries.

#### The socialist countries of Eastern Europe and Asia

25. No data are published by the socialist countries of Eastern Europe and Asia regarding their lending policy and conditions. Loans are accorded to a few selected countries, in many instances on the basis of political considerations. They are mostly directed to the public industrial sector and are tied by source and often by project. The terms usually include a maturity period of 10-12 years and interest rates from 2.5 to 3.0 per cent.

26. One advantage offered under credit extended by the socialist countries of Eastern Europe and Asia is the possibility of reimbursement of the incurred debt with products manufactured in the recipient country. Some of the socialist countries of Eastern Europe and Asia are also participating in joint ventures with developing countries.

The World Bank Group

27. The lending policies of the World Bank Group are laid down by the Charters of the respective institutions. Some shifts in the Bank policies as regards sectoral priorities have become noticeable recently under the pressure of developing countries. However, the fundamental principles guiding the Bank loan policies remain unchanged:

- the loans should be for specific projects and only in very exceptional cases for programmes;
- priority is to be given to productive projects;
- the Bank should abstain from lending where finance, on reasonable terms, can be obtained from other sources;
- loans should normally cover only the foreign exchange component of the project;
- repayment prospects of a loan should be given high attention;
- loans are to be tied only by projects and not by source;
- loans are to be made to or with the guarantee of the Government of recipient country.

RECOMMENDATIONS

28. Starting from the actual situation in Africa in the field of international procurement and the assistance policies of the main donor groups a number of measures could be taken to improve African procurement services and to translate the procurement process into an efficient tool for the promotion of intra-African trade.

Measures at the national level

29. Procurement services in African countries need detailed guidelines on the payments aspects of loans from the various external financial sources, and the various terms of delivery of goods open to them. Such guidelines should take into consideration not only the actual payments situation of the country concerned but also:

- (a) the present and future adequacy of their foreign exchange reserves for various categories of international procurement;
- (b) detailed and continually up-dated estimates on the available volume of financial external resources from various sources and areas as well as information of average terms and conditions required by potential donors and their lending policies;
- (c) priorities to be accorded to particular market of procurement;
- (d) priorities to be accorded to particular shipping lines and insurance companies in cases when f.o.b. terms of delivery are possible.

Measures at the regional, sub-regional or economic grouping level

30. To transform international procurement into an instrument for the promotion of intra-African trade, African economic groupings could establish a special system of preferences to be granted to the bids of would-be-suppliers from inside the grouping. Under such a system bids for procurement presented by domestic suppliers and suppliers from member countries of a regional grouping could be eligible for a margin of preference vis-à-vis bids from third countries. This preferential margin would consist of adding a certain percentage to third countries' bids in order to ensure a fair degree of competitiveness to the bids of domestic suppliers and suppliers from the economic grouping. The magnitude of this margin should be such as to offset differences between prices of third countries and those acceptable to domestic suppliers and suppliers from inside the grouping. On the other hand, the preferential margin charged on third countries' bids should not be so high as to jeopardize the efficiency of the project. Application of a preferential system would result in higher costs of procurement for African buyers who would have to accept bids from his domestic suppliers or suppliers from the respective economic grouping at prices higher than those in the world market. However, it may be said that this would be the price to be paid for future benefits accruing to each member of the grouping due to the expansion of trade and economic co-operation.

31. Developing African countries could stipulate conditions under which branches of international procurement agents would continue to work in their respective countries. They could for instance be required to maintain contact with industries within the region with export potential and capacities, and they could also be called upon to facilitate the investigation of investment opportunities in the region.

32. Multilateral and bilateral aid agencies could assist in the promotion of intra-African trade by making maximum use of firms in developing African countries by sub-contracting for supplies to other developing African countries. In this way they would stimulate the expansion of trade in parts and components, particularly in manufactures and semi-manufactures.

33. An institutional step which could assist in the promotion of intra-African trade is the creation of an "African Purchasing and Supplies Association" recommended by the regional seminar on international procurement in Nairobi in March 1972. One of the more important functions of the Association could be to collect and disseminate information to its members on African sources of supply, thereby reinforcing efforts made by Chambers of Commerce and Export promotion bodies in African countries. Another function could be to issue periodical surveys of the costs and charges of various non-African procurement agents to serve as a guide for African procurement services.