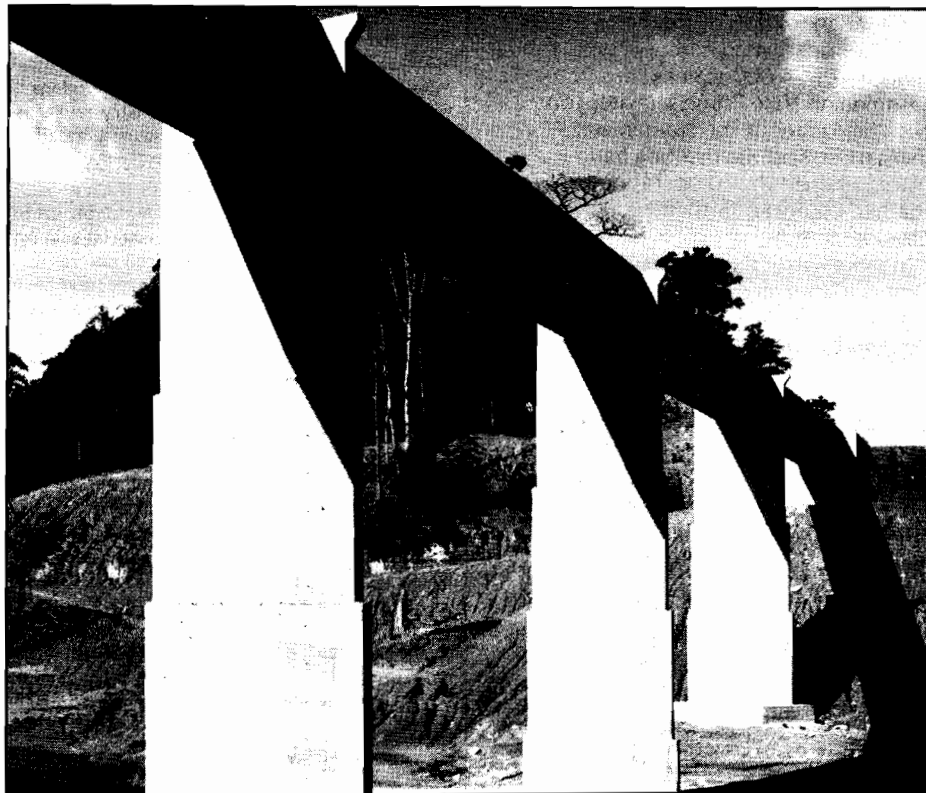


UK & AFRICA

MEPHA



The Transgabon railway should provide further business for UK firms

The UK government has finally given its consent to a plan that will help British corporate competitiveness in bidding for Third World contracts. As AED went to press, Trade & Industry Secretary Leon Brittan announced that British banks were going to offer longer-term and lower-interest loans to developing countries. Using a plan that has already been adopted in several other industrialised nations, British banks will be given top-up grants by the government to cover the cost of reducing their interest charges. These grants will be processed by the Overseas Development Administration and will come out of the aid and trade provision budget. AED looks at the background of determined lobbying by UK contractors that led to this move

Aid policies come under fire

UK aid policies are coming under mounting attack from British contractors who say the government is not doing enough to help them compete for contracts in the Third World — especially in Africa.

Time and again, they say, they are beaten to major contracts by companies from France, Japan, West Germany, Canada and, to a lesser extent, the US, whose governments move quickly to offer recipient nations long-term soft loan subsidies to make their companies' bids more attractive.

British contractors, they argue, are hamstrung by a long-winded and cumbersome government aid machine which sticks doggedly to the direct grant concept and is slow to respond when it does decide that a project is worthwhile.

The issue has been highlighted and brought to public attention by the recent failure of eminently qualified British contractors to win the Bosphorus bridge contract in Turkey, which went instead to Japanese firms that were promptly backed by attractive Japanese

government funds. But Africa has its own examples.

Earlier this year, a consortium of British Shipbuilders, Marples International and A & P Appledore was widely expected to win a \$23 million contract to build a 10,000-tonne floating dock in Douala, Cameroon. But, at the last minute, the British government refused to back the scheme on grounds that it was not "aid worthy" and the contract went instead to West German, French, Dutch and local companies.

The contractors' attack on government policy has not yet been as concerted as it might be. It has been waged largely through informal lobby groups in parliament, questions in the House of Commons, evidence given to a House of Lords select committee on overseas trade and supposedly private company reports leaked to the press.

Reeling under the onslaught, the government has promised certain changes for what the contractors would see as the better. But there is a widespread feeling that the changes hinted at will not go far enough and, while of possible benefit to companies operating in China and Indonesia, it is felt they will have little impact on the African scene.

The contractors' lobby has so far failed to produce any one unchallenged, authoritative spokesman or any generally accepted manifesto spelling out their basic demands in bald language. These appear to be four in number:

- ☐ move away from the direct grant concept and use the money instead to soften loan terms in firmly tied mixed credit packages;
- ☐ downgrade the primacy of developmental value in selecting projects for backing and give more weight to their commercial value to British business interests and the British economy as a whole;
- ☐ do not wait for another government to offer subsidies for a project before agreeing to back it, but allow UK contractors to go out and initiate projects with aid money behind them in an aid-trade free-for-all;
- ☐ reduce Britain's commitment to multilateral assistance through such agencies as the World Bank and the European Development Fund (EDF) and increase bilateral tied aid.

If these four basic demands are met, the companies say, the whole aid-trade machine will be radically streamlined and more funds will be released specifically to help UK contractors compete.

The trouble is that each one of these demands strikes at the very heart and philosophy of the Overseas Development Administration (ODA), the body which administers the funds in question, the aid and trade provision (ATP).

The ATP, which now runs at £66 million (\$95.3 million) a year, was set up in 1978 to counter what was then seen as the iniquitous practice of other governments of offering aid

UK trade with Africa, 1983-85

(£ million)

| | IMPORTS | | | EXPORTS | | |
|--------------------------|----------------|----------------|-------------------|----------------|----------------|-------------------|
| | 1983 | 1984 | 1985 (Jan-Aug) | 1983 | 1984 | 1985 (Jan-Aug) |
| Algeria | 157.6 | 274.2 | 187.3 | 233.4 | 272.4 | 187.3 |
| Angola | 45.7 | 158.6 | 122.3 | 22.8 | 35.6 | 30.2 |
| Benin | 2.9 | 2.1 | 7.4 | 10.6 | 6.8 | 4.6 |
| Botswana | 21.7 | 14.9 | 14.6 | 3.3 | 9.0 | 4.5 |
| Burkina Faso | 1.5 | 3.7 | 0.2 | 3.0 | 2.1 | 1.3 |
| Burundi | 3.5 | 1.9 | 2.5 | 3.2 | 1.7 | 1.1 |
| Cameroon | 52.5 | 132.5 | 69.3 | 26.4 | 23.3 | 21.8 |
| Cape Verde | 0.1 | 0.2 | 0.4 | 1.2 | 1.2 | 1.9 |
| Central African Republic | 0.9 | 0.4 | 1.4 | 0.5 | 0.7 | 0.9 |
| Chad | — | 0.6 | 1.0 | 2.2 | 3.5 | 1.5 |
| Comoros | 0.3 | 0.2 | 0.2 | 0.6 | 0.3 | 0.5 |
| Congo | 4.3 | 2.0 | 2.2 | 9.6 | 6.2 | 7.6 |
| Djibouti | 0.2 | 0.1 | 0.3 | 7.7 | 8.9 | 17.7 |
| Egypt | 79.8 | 164.9 | 111.5 | 370.5 | 427.7 | 332.8 |
| Equatorial Guinea | — | 0.6 | — | — | 0.6 | 0.2 |
| Ethiopia | 12.1 | 13.7 | 9.6 | 34.1 | 63.4 | 51.2 |
| Gabon | 66.1 | 70.8 | 38.9 | 18.8 | 20.5 | 19.7 |
| Gambia | 3.8 | 3.4 | 2.6 | 13.3 | 10.2 | 7.8 |
| Ghana | 58.2 | 61.6 | 79.0 | 82.2 | 82.9 | 77.2 |
| Guinea | 0.7 | 1.2 | 3.2 | 7.2 | 6.5 | 7.4 |
| Guinea-Bissau | 0.9 | — | — | 0.5 | 0.5 | 0.6 |
| Ivory Coast | 79.3 | 93.9 | 83.2 | 25.6 | 25.3 | 21.6 |
| Kenya | 128.5 | 203.2 | 156.7 | 111.2 | 176.1 | 106.4 |
| Lesotho | 0.2 | 0.1 | 0.2 | 2.1 | 1.6 | 1.7 |
| Liberia | 7.2 | 7.0 | 4.6 | 13.9 | 31.0 | 11.1 |
| Libya | 224.1 | 155.3 | 220.2 | 274.2 | 246.5 | 157.8 |
| Madagascar | 3.7 | 4.5 | 4.4 | 4.9 | 6.9 | 7.5 |
| Malawi | 42.1 | 65.3 | 70.8 | 18.2 | 23.0 | 13.0 |
| Mali | 3.8 | 5.6 | 3.6 | 15.9 | 5.5 | 5.4 |
| Mauritania | 6.0 | 10.3 | 5.1 | 1.7 | 2.7 | 1.1 |
| Mauritius | 128.4 | 160.0 | 82.3 | 22.5 | 24.4 | 19.3 |
| Morocco | 75.6 | 79.7 | 53.4 | 99.7 | 79.9 | 63.2 |
| Mozambique | 9.2 | 8.6 | 5.3 | 28.6 | 15.7 | 7.4 |
| Niger | 6.9 | 0.4 | 0.3 | 9.7 | 10.7 | 9.5 |
| Nigeria | 388.0 | 375.8 | 468.9 | 798.3 | 768.5 | 695.2 |
| Rwanda | 2.9 | 7.8 | 2.8 | 2.3 | 2.4 | 3.0 |
| Sao Tome & Principe | 0.2 | 0.5 | 0.2 | 0.6 | 1.0 | 0.4 |
| Senegal | 22.3 | 23.8 | 15.1 | 13.2 | 15.8 | 9.3 |
| Seychelles | 0.6 | 0.6 | 1.4 | 7.5 | 7.5 | 6.2 |
| Sierra Leone | 17.7 | 26.0 | 14.7 | 13.7 | 19.5 | 16.5 |
| Somalia | 0.7 | 1.6 | 1.0 | 19.0 | 14.2 | 5.5 |
| South Africa | 764.9 | 725.6 | 702.9 | 1,109.0 | 1,205.1 | 714.6 |
| Sudan | 18.6 | 16.9 | 16.1 | 133.4 | 95.6 | 67.8 |
| Swaziland | 24.0 | 41.8 | 26.0 | 3.5 | 2.4 | 1.4 |
| Tanzania | 46.5 | 43.2 | 33.5 | 62.1 | 60.4 | 54.4 |
| Togo | 2.2 | 3.2 | 3.7 | 12.2 | 12.2 | 12.0 |
| Tunisia | 18.1 | 21.1 | 33.6 | 44.7 | 47.1 | 30.5 |
| Uganda | 29.6 | 46.8 | 34.1 | 21.1 | 29.3 | 27.5 |
| Zaire | 11.2 | 7.7 | 30.6 | 21.1 | 36.3 | 22.0 |
| Zambia | 50.2 | 48.1 | 24.0 | 55.5 | 66.7 | 59.9 |
| Zimbabwe | 68.4 | 74.1 | 63.9 | 64.7 | 68.6 | 44.2 |
| Total | 2,693.9 | 3,166.1 | 2,816.5 | 3,861.2 | 4,085.9 | 2,973.2 |

Source: Department of Trade Overseas Trade Statistics

subsidies to recipient nations to make their own companies' bids more competitive.

The ODA puts out a glossy prospectus which defines ATP as "an allocation within the bilateral aid programme to provide financial support for British contract bids for developmentally sound projects in countries with an income per head not exceeding \$3,000 in 1981 where other donors are offering concessional finance."

There are several crucial phrases in that thumbnail sketch of what ATP is; one of them is "where other donors are offering concessional finance." The contractors are arguing that what was seen as an iniquitous or unfair practice in 1978 is now widely accepted. The time has come, they say, to do as the Romans do.

In a supposedly private study, reported at

length by the London daily Financial Times, the Hawker Siddeley Group blames the government for failing to match the generosity and flexibility of other governments in offering soft loans and tied aid in support of their own exporters' tenders.

In a review of 29 contracts for locomotives worldwide, Hawker Siddeley says its subsidiary, Brush Electrical Machines, "definitely" lost five orders for lack of matching financial help from the government.

In 11 cases, the company was not even invited to tender because other governments had the customer "sewn up" with a soft credit package.

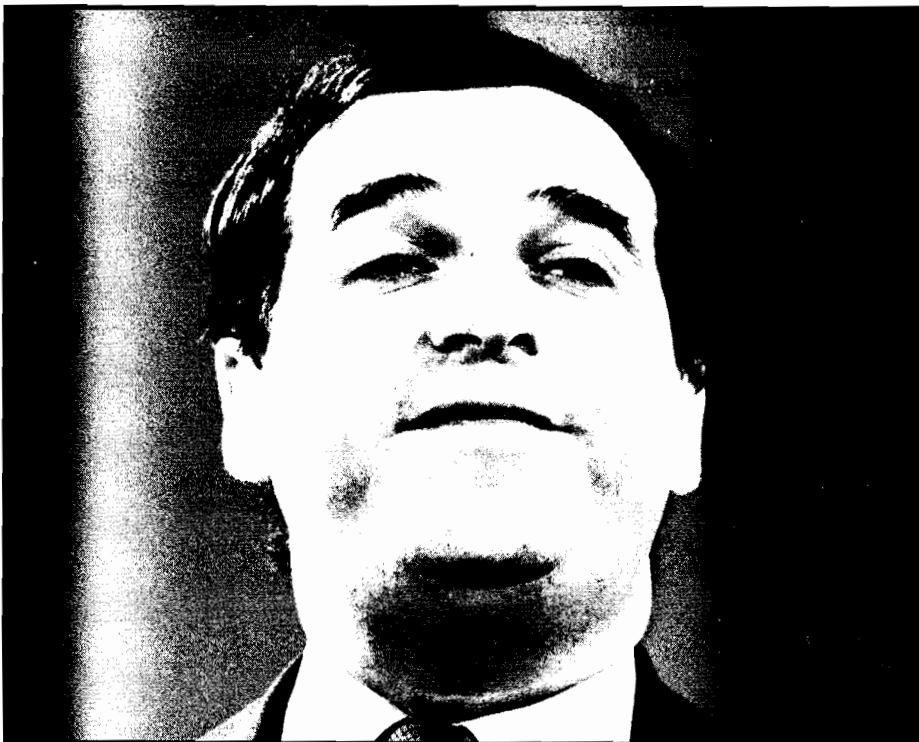
Hawker Siddeley managers say they believe France, West Germany and Canada have "a specific policy to support their railway

industries" and go on to identify those three countries as principal suppliers of tied aid to win orders in Africa.

The paper concludes that the way the UK government uses its bilateral and aid-and-trade programmes "effectively precludes British companies from a number of markets."

The idea that ATP funds should be used more aggressively also received support from the House of Lords select committee in its report. "It was also felt that the whole ATP system was too reactive," the report said. "The system was incapable of taking initiatives and could only match the offers made by competitor countries in support of their candidate in the field. This put British contractors at a disadvantage."

Elsewhere, the Lords remarked, "there was



Leon Brittan — persuaded of the need for soft loans

Financial Times

Paul Channon — no inhibition about aid and trade provision

Financial Times



a strong feeling among a number of witnesses that the British government is too ready to adopt a 'holier than thou' attitude in sticking literally and rigidly to the rules when faced by other countries bending or breaking them."

In fact, ODA spokesman John Murphy says ATP funds are used to initiate projects in what he calls "spoiled markets." And Trade Minister Paul Channon said in the House of Commons on July 18: "We are delighted to initiate ATP in suitable cases and there is no inhibition about that."

Nonetheless, contractors working in Africa say they are not aware of any mechanism by which they can apply to the ODA for ATP funds to initiate projects in which they are interested.

Another key phrase in the ODA's definition of ATP is "developmentally sound." Even this cornerstone of UK aid philosophy is now under attack.

The Lords themselves lent some support to the notion that aid benefits can form a two-way street. "The giving of aid is not incompatible with the supply of British goods and services in return for that aid," they wrote. "Indeed, this already happens."

In a report entitled 'Aid, Trade & Survival,' Peter McGregor of the Export Group for the Constructional Industries goes further. "There is no evidence that designing aid programmes to help the poor, however worthy, has anything to do with development rather than charity," he writes. "It might be appropriate to the creation of subsistence economies, but not to the creation of modern economies or to the scale of problems faced by the developing countries. . . ."

"The ODA would say. . . that it is no part of its job to worry about getting contracts for UK firms. This is a questionable doctrine, since if UK firms get no contracts there will be no aid."

There is a lot of support for boosting the amount of money available for ATP, not least from the House of Lords select committee. "The government's policy is to try and phase out ATP and its equivalents by international agreement," the committee reported. "The committee are not at all in sympathy with this view. . . ."

"There is a strong case for using more bilateral aid as ATP, in the manner of competitor countries. From the point of view of overseas aid, ATP is highly efficient. So long as it is in the interests of the British economy and so long as other countries continue to give ATP-type assistance, the committee think that the government should take more account of the amounts spent by these other countries on

this type of assistance when they determine the level of funds available for ATP."

The Lords were cooler to the idea of increasing bilateral at the expense of multilateral aid, however. The ODA's Murphy reports that the UK's 1984 multilateral contributions of £370 million (\$534 million) was matched by procurements for UK companies of about £435 million (\$628 million).

"Nevertheless, the committee think that the government needs to be continually vigilant in order to ensure that the ratio of procurement benefits to contributions...compares well with those of competitor countries," the Lords said. "Whenever Britain's share is unsatisfactory then every consideration should be given to moving in favour of bilateral assistance."

The one area in which the government does seem to be responding to the growing pressures on it is the soft loan concept in ATP funding. Member of Parliament Kenneth Carlisle raised the issue in a question to Trade & Industry Minister Leon Brittan in the House of Commons on 23 October.

"Is he aware," Carlisle asked, "that in the experience of most exporters...the flexible use of soft loans is one of the best weapons in securing large overseas contracts, rather than our previous excessive reliance on direct grants?"

"Both will be needed," Brittan replied. "Different mechanisms will be appropriate for different projects. We are, however, persuaded of the need for soft loans and it is for

exactly that reason that I hope, in the not too distant future, to announce the details of the scheme on which we have been working."

Despite that promise of change in the offing, contractors involved in Africa are gloomy about the prospects of seeing any of that soft loan money in their patch.

"They'll use that approach in China and Indonesia," one executive said. "But I don't think they have anything like the same intention as regards Africa, where governments are much poorer. They're loth to give loans in Africa because they figure they'll end up having to write them off anyway."

FRANCIS ARTHUR