UNITED
NATIONS

E

Economic and Social Council

Distr.
GENERAL

E/1997/41
16 April 1997

ORIGINAL: ENGLISH

Substantive session of 1997
Geneva, 30 June-25 July 1997
Item 10 of the provisional agenda*

REGIONAL COOPERATION

Summary of the survey of economic and social conditions in Africa, 1996

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97-10395 (E) 020597

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I. OVERVIEW

1. Africa's economic performance in 1996 maintained the upward trend started in 1994. Preliminary estimates indicate that the gross domestic product (GDP) of the region recorded the highest growth rate since the start of the decade, at 3.9 per cent in 1996, resulting in the first turn-around in per capita income in almost a decade (table 1). This performance compares very favourably with the revised growth rate of 2.7 per cent recorded in 1995 and with the population growth rate of 2.8 per cent.

Table 1. African economic indicators, 1990-1996

(Percentage change)

	1990	1991	1992	1993	1994	1995	1996
GDP growth	0.7	1.5	0.22	-0.05	2.02	2.74	3.96
Agricultural production, FAO index 1979-1981 = 100	27.9	135.9	134.0	139.9	143.1	143.0	..
Oil production (millions of tons)	321.4	336.4	345.46	338.11	335.35	353.33	368.58
Mining production index (1990 = 100)	1.0	-4.0	-7.6	-6.7	-1.2	0.1	0.1
Consumer price index (1990 = 100)	16.6	31.5	44.9	36.6	60.2	35.4	27.0
Oil prices, Brent crude (US$ per barrel)	24.0	20.0	19.3	17.0	15.8	17.1	20.65
Export prices index (1990 = 100)	12.4	-9.4	-0.2	-5.2	5.3	6.8	4.7
Import prices index (1990 = 100)	4.5	-0.1	3.4	-0.8	4.1	5.2	0.9
Terms of trade index (1990 = 100)	7.5	-9.3	-3.4	-4.5	1.2	1.5	4.6
Exports ($ billion)	99.2	95.0	92.9	87.3	94.3	107.9	116.1
Imports ($ billion)	91.6	90.1	93.6	92.7	98.3	116.1	125.1
Current account ($ billion)	-0.1	-1.7	-5.4	-8.5	-12.0	17.4	20.7

Source: ECA secretariat.

2. The improved performance has been fairly spread among subregions and countries (table 2). Subregionally, the highest growth was recorded in central Africa, at 4.5 per cent, while the lowest was 3 per cent for southern Africa. The 33 least developed African countries registered a growth rate of 4.5 per cent, which is slightly above the regional average of 3.9 per cent. It is gratifying to note that 11 countries either equalled the growth target of 6 per cent or succeeded in surpassing it in 1996 and that performance was negative in only two countries, which compares favourably to the six in 1995.

Table 2. Output share and growth rate by subregion and economic grouping

	Per capita GDP at 1990 $US	GDP percentage, regional share	Growth rate (percentage at 1990 prices)						
	1995	1995	1991	1992	1993	1994	1995	1996	1990-1995
Central Africa	444	8.5	-4.4	-1.9	-9.2	-1.3	5.0	4.4	-2.5
East Africa	193	6.8	-0.6	3.5	2.4	4.5	4.9	4.3	2.9
North Africa	1 237	39.8	2.6	0.8	0.5	1.8	1.8	4.4	1.5
Southern Africa	1 355	27.7	0.0	-2.1	1.5	2.5	2.5	3.0	2.4
West Africa	362	17.2	4.0	1.4	0.5	2.5	3.4	4.2	1.1
Sub-Saharan Africa	511	62.5	0.7	-0.3	-0.5	2.1	3.4	3.7	..
Sub-Saharan Africa without Nigeria and South Africa	363	..	7.4	8.2	-1.9	6.5	4.2	2.5	2.0
Sahel zone	374	6.0	3.0	3.7	-2.4	1.7	4.1	4.0	1.4
Oil exporters	882	46.2	2.1	0.6	-0.3	1.4	3.1	4.2	1.0
Non-oil exporters	538	53.8	0.4	-0.5	0.1	2.6	2.4	3.8	-0.1
Least developed countries	231	16.2	-0.8	1.2	-4.0	-0.7	4.0	4.5	0.6
Franc zone	574	10.9	-1.0	-0.4	-2.7	2.6	4.7	4.1	0.6
Mineral exporters	1 034	30.7	-1.1	-1.8	-1.6	2.1	2.8	3.0	0.0
Beverage exporters	260	10.3	0.1	2.3	0.0	1.0	5.8	4.8	1.8
All Africa	657	100.0	1.2	0.0	0.0	2.0	2.7	4.0	1.2

Source: ECA secretariat.

3. The factors explaining the relatively high performance this year include the positive effects of economic reforms and the deepening of market-based, private-sector-driven economic policies, favourable weather conditions in most subregions, and a significant rise in export revenue, particularly in the oil-exporting countries. Output in agriculture and the mining sectors increased appreciably, while there was significant deceleration in the manufacturing sector. Despite the upturn in overall economic performance in 1996, Africa's position in international trade and output remains insignificant. Africa's share of world output is about 2 per cent, and its trade share has fallen from a high of 5 per cent in 1980 to 2.2 per cent in 1996.

4. The total debt stock of the African countries increased by 4 per cent in 1996, to US$ 340.5 billion. Total debt service payment declined from $25.6 billion in 1995 to $24 billion in 1996. This reduction in debt-servicing is most probably due to the further accumulation of arrears. Despite the many reschedulings and arrangements to reduce the debt burden of the continent to a more manageable level, the overhang has by now grown large enough to threaten and impede the reform efforts aimed at the restoration of economic and socio-political viability in many African countries. In particular, the disproportionate increase in multilateral debt, which is usually more difficult to service and cannot be rescheduled, has intensified the problem of the debt overhang in the region and rendered the process of debt renegotiation more intractable, despite the latest initiative for the "highly indebted poor countries".

5. Despite the strong recovery, the human condition continued to be daunting, and the region is still the poorest in the world, the only part of the globe where poverty is projected to increase in the immediate future. The number of refugees and displaced persons also continued to increase.

II. SECTORAL PERFORMANCES

6. Agriculture recorded its highest growth rate, 5.2 per cent, since the beginning of the decade and was a strong factor behind the continued recovery in the region in 1996. In addition to the ongoing reforms, which have had a positive impact, the vigorous rebound was basically the result of the conducive weather that prevailed throughout the region. There were notable policy thrusts directed towards diversification and food self-sufficiency. An improved supply of modern inputs, such as seeds and fertilizer, and the privatization of state farms were measures enhancing agricultural output in 1996. Among the food groups, cereal production was the major contributor to the recovery. It was most noticeable in North and eastern and southern Africa where output increased considerably. In West Africa the results were positive but less spectacular because of inadequate rainfall and the infestation of locust and crickets in Mali and Niger. In central Africa cereal output stagnated, rendering the food supply critical. The production of roots and tubers, estimated at 135 million tons, was unchanged from the 1995 level. Output of coffee and cocoa, the two major sources of foreign exchange for many countries, was significantly higher than that of 1995. Cocoa production is estimated at 1.6 million tons, an increase exceeding 6 per cent over the 1995 level. In Côte d'Ivoire, the largest of the cocoa producers, a bumper crop increased

output to 0.86 million tons, from 0.81 million in 1995. Similar trends were observed both in Ghana and Nigeria. The production of both tea and tobacco remained relatively constant in 1996. The surge in the output of coffee and cocoa seems to have been stimulated by the recovery in their international prices in 1995. But such a reaction is bound to impose downward pressure on prices, and producing countries need to de-emphasize their reliance on these products and shift resources into non-traditional exports.

7. Value-added in the mineral sector increased substantially, from -0.2 per cent in 1995 to 6.6 per cent in 1996. The main impetus for the strong recovery emanated from the increase in prices for crude oil, gold, iron ore and phosphates on the international markets. Although the improvements in the world demand and prices provided the conditions for capacity and output expansion, production volumes remained virtually stable in 1996 except for crude oil, which enjoyed substantial recovery. In Ghana, South Africa and Sierra Leone, the mining industry was beset by internal constraints, decreasing the production of gold. In Ghana, the target of 1 million ounces was not attained, although output was slightly higher than in 1995. In South Africa gold output declined from 523 tons in 1995 to 505 tons in 1996, because of problems related to increased costs, declining productivity and shortages of working capital. In Sierra Leone production was disrupted because of the civil war. By contrast, in Zaire the copper mining industry is making progress in capacity utilization, despite the chronic economic and social difficulties. Copper output increased by 40 per cent, to 50,000 tons in 1996.

8. Crude oil enjoyed a substantial recovery in terms of both production and prices. Output increased from 353 million tons in 1995 to 369 million tons in 1996, reflecting expansion in new fields in the Congo, Algeria, Angola and Nigeria. In Equatorial Guinea, the latest member of the African Petroleum Producers Association (APPA), production jumped from 8,400 to 40,000 barrels per day while in Nigeria the increase was modest, at 8 per cent. Overall the OPEC African members increased their output by 5.3 per cent, to 245.2 million tons in 1996, despite slight decreases in the Libyan Arab Jamahiriya and the withdrawal of Gabon from membership. Low exploration and production costs, due to technological developments and the favorable conditions under which African countries offer concessions to oil companies, continue to encourage activities in the sub-sector.

9. Growth in value-added in the manufacturing sector (MVA) declined from a high of 4.6 per cent in 1995 to 2.5 per cent in 1996. Output of exportables such as textiles were stymied by the slowdown in the economies of Western Europe, the destination of 80 per cent of African exports and growing competition from other producers. While in the majority of African countries manufacturing output stagnated, strong performance was recorded for the northern and eastern subregions, with growth rates of 4.2 per cent and 5.3 per cent, respectively, sustained by strong domestic demand as well as buoyant inflows of foreign direct investment (FDI). In contrast, in central Africa growth declined by 6.4 per cent in 1995 to 1.6 per cent in 1996, owing to low performance in Rwanda, Burundi and Zaire. Although performance was unimpressive in the larger economies such as Cameroon, Egypt, Nigeria and South Africa, exceptional growth was recorded for Côte d'Ivoire (6.5 per cent) Tunisia (6.1 per cent), Botswana (5.7 per cent), Senegal (4.6 per cent) and Uganda (4 per cent).

10. The manufacturing sector continues to endure and operate under relatively high cost conditions, due to obsolescence entailing frequent stoppage for repair, high interest rates and declining external value of the domestic currencies. The reduction in tariff and resulting competition have limited capacity utilization to about a quarter.

III. THE EXTERNAL SECTOR

11. The terms of trade (TOT) registered a robust 4.6 per cent improvement in 1996, and the unit value index of exports increased by 4.7 per cent, against a 0.1 per cent increase in the unit value of imports. As a result, the purchasing power of exports reached its highest level since 1990, increasing by 8.8 per cent. Export receipt increased by nearly 9 per cent in 1996, spurred by a 4-per-cent rise in volume and a 5-per-cent increase in prices. On the other hand, imports grew more rapidly, at 10 per cent, of which 9 per cent was accounted for by increase in volume (table 3). The terms-of-trade effect is, however, still negative at 11.6 per cent of real exports, while GDP, adjusted for negative terms of trade, showed a loss of 2.6 per cent in GDP. There has been distinct dichotomy among different commodity exporters. Oil-exporting countries enjoyed the entire benefit, where receipts increased by 23.3 per cent, reflecting a 19-per-cent terms-of-trade improvement, while non-oil-exporting countries experienced a mere 1-per-cent increase in their TOT, with a 5-per-cent decline in export earnings. This was the result of a decrease of 17 per cent in beverage prices, 11 per cent in metals and minerals, and 3 per cent in agricultural raw materials.

12. The current account deficit was $17.4 billion, due to an excessively large negative balance of $15.8 billion in the service sector. The $20.8 billion external financing covered the overall deficit of $19.7 billion and increased the reserve by $1.1 billion.

13. Although Africa's external trade accounts for a small and declining share of global trade, exports and imports have continued to impose a significant influence on the region's economy, both in terms of magnitude and of product mix. With exports alone accounting for a quarter of regional GDP and imports providing a fifth of the domestic supply, Africa is now the most open of all the regions in the world except the East Asia and Pacific rim subregions. The extensive trade liberalization and exchange rate reforms that have been implemented across the continent since 1990 have yet to trigger a vibrant export base, reduce the current account deficits to a sustainable level or kick-start rapid economic growth.

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Table 3. Balance of payments, 1991-1996

(Billions of US$)

	1991	1992	1993	1994	1995	1996
Exports f.o.b.	95.0	92.9	87.3	94.3	107.9	116.1
Imports f.o.b.	90.1	93.6	92.7	98.3	116.1	125.1
Trade balance	4.9	-0.7	-5.4	-4.0	-8.2	-9.0
Services net	-10.7	-8.7	-10.1	-7.2	-7.0	-7.3
Unrequited transfers	17.7	19.5	18.8	15.0	15.2	14.7
Income net	-15.6	-13.6	-13.1	-15.7	-16.3	-15.8
Current account	-3.7	-3.5	-9.8	-12.0	-16.3	-17.4
Capital account, including errors	-1.2	-3.0	-4.2	-3.4	-1.8	-2.3
Overall balance	-4.9	-6.5	-14.0	-15.4	-18.1	-19.7
Change in reserves (- increase)	-9.7	-1.4	-4.8	-8.2	-3.2	-1.1
Net external financing	14.6	7.9	18.8	23.6	21.3	20.8

Sources: IMF, World Economic Outlook and International Financial Statistics (Washington, D.C.), various years, Economic Intelligence Unit; national sources; and ECA secretariat estimates.

IV. THE SOCIAL SECTOR

14. Despite attempts to reduce political instability and civil unrest, the overall social situation remains daunting in 1996. Two factors operating at cross purposes continued to worsen the social condition in the region. On the one hand, the population growth rate is twice the world global average (2.8 per cent against 1.5 per cent). On the other hand, the efforts of Governments to reduce their budget deficits has entailed disproportionate reduction in those activities that would have ameliorated the social situation. Cutbacks on expenditure on education and health reduced the capacity of countries to empower and graduate their people into productive work forces. However, some countries have started developing wide systems of social safety nets and specific pro-poor policies. The overall thrust of social policy formulation and implementation hinges on the local initiative, basic education and health for all and on putting women at the centre of the development enterprise. The decline in governmental investment reduced employment generation not only in the public sector but also in the private sector, due to its "crowding-in" effect. The ongoing programme of privatization pursued by several African countries may have helped generate employment to compensate for the governmental lay-offs of general service staff.

15. The economic and social crisis has not helped to reduce political tensions and civil unrest. The competition for declining resources has often exacerbated political instability and social conflict. The number of refugees and huge population movements not only disrupt an orderly development process in the source countries but impose heavy costs on those countries providing respite. Peace and stability are the primary prerequisites for attaining and maintaining high levels of growth and development. Though a number of countries are taking measures to create a conducive political environment through improved governance, more needs to be done to overcome the increasing plight of the people.

V. MAJOR POLICY ISSUES AND CHALLENGES

16. In 1996, African Governments persisted in reforming and re-engineering their economic environments, often at great social and political cost. Measures towards reinforcing a market-based private-sector-driven economy have been the cornerstone policy in many African countries. Many countries have by and large reduced the predominant role of the State in the production process; policies inhibiting the private sector have been replaced by more market-friendly regulations. Considerable efforts have been made everywhere in Africa to revitalize the social sector, minimize needless waste of human and natural resources, promote popular participation and democratic governance, focus world attention on the continent's needs for a more supportive international economic environment, and reinforce efforts at conflict prevention and resolution.

17. Still, there are genuine concerns about the region's socio-economic transformation and sustained development, in the medium term, given the persistence of anachronistic production structures and deep-rooted economic malaise. In addition to the many factors responsible for weak economic performance in Africa in the past, new forces have emerged as a result of growing global interdependence and competitiveness which needed to be taken into account in the course of developing appropriate policies to guide the economy into the twenty-first century. Among the inhibiting domestic structures and growth-constraining factors in Africa are the internal social disarticulation at almost all levels of production; weak and undiversified production base; economic delusion and fragmented domestic factor and product markets; low level of endogenous human resource development and capacity utilization; and weak physical, institutional and technical capacities. Sustaining and reinforcing the current growth momentum in the context of poverty alleviating strategies remains thus a major policy challenge to the African countries.

18. The heavy reliance of African economies on a narrow range of primary exports is a potent source of danger to its medium-term prosperity and long-term viability. For the generality of African countries, therefore, economic diversification is not a matter of choice but a necessity, given the risks associated with unpredictable fluctuations in export earnings and the need to attract FDI and acquire requisite technology for a dynamic economy. The creation of wider markets through regional and subregional economic integration remains a fundamental prerequisite for a viable economic diversification strategy in Africa, if only to make up for the small size of domestic markets

and to encourage the restructuring of national production systems to take advantage of complementarities in resource endowments and economies of scale.

19. With the decline in the external resource inflows to Africa and with little or no prospects for any major improvements in accessing external savings, particularly in the form of official development assistance (ODA), African Governments are now fully aware that effective mobilization of both domestic and external resources is crucial for long-term sustained development. They are also conscious of the need to redouble their efforts to redefine their strategies for resource mobilization. While the mobilization of external resources should target and tap into the growing non-debt-creating arrangements and particularly direct foreign investment (FDI), the domestic counterpart should seek to exploit the rich potential within both the urban and rural milieus. Closely linked with the renewed efforts to mobilize financial resources is the need to ensure efficient management and judicious allocation of those resources.

20. A compelling policy perspective relating to renewed resource mobilization efforts in African countries is the creation of a more enabling environment for the attraction of FDI, which has practically become the most dynamic form of external resource flow. Some of the difficulties in attracting increased flows of FDI to Africa stem from the lack of improved investment opportunities and business profitability in comparison with the other regions of the world and the relatively underdeveloped and undeveloped infrastructure and narrow markets in Africa. African Governments need to place themselves in such a way that they and the private sector will be able to mobilize the resources necessary to finance additional investment by reducing inefficiency and creating an environment conducive to the retention of savings, by reversing capital flight and, above all, by encouraging savings through appropriate policies and incentives and the necessary institutional mechanisms for their intensive mobilization.

VI. MEDIUM-TERM OUTLOOK AND PROSPECTS FOR 1997

21. There are modest grounds for optimism regarding growth prospects for Africa in 1997, though the sustainability of the growth remained fragile. Preliminary estimates indicate that the African economy could grow by 4.2 per cent in 1997. This estimate is based on the following assumptions:

(a) The weather in 1997 will be as conducive as it was in 1996;

(b) Prices of primary commodities in the world market will stabilize at their 1996 level or increase slightly;

(c) Relevant and development-oriented policy reforms will continue to be implemented in 1997 and beyond;

(d) The level of investment will increase from the current 21 per cent of GDP in 1996 to at least 25 per cent in 1997, driven mainly by intensive mobilization of domestic resources;

(e) Political instability and civil unrest will abate, allowing States to assume their developmental functions.

22. At the subregional level, the strong recovery in central Africa in 1996 is expected to continue in 1997, owing mainly to the mining sector, particularly oil, and the anticipated resolution of the political instability in Rwanda, Burundi and Zaire. Economic performance in East and southern Africa will critically depend on the weather and prices of primary commodities on the world market. The optimal weather condition which prevailed in 1996 extended into the first quarter of 1997. In addition, the revamping of the former East African Community, whose permanent tripartite Commission was inaugurated in March 1996, is expected to exert positive pressure on the economic activity of the subregion.

23. The apparent improvement in the weather and the turnaround in the prices of minerals, particularly of copper, gold and diamonds, are expected to maintain the economies of southern African countries in high gear in 1997. Basic indicators at the end of the first quarter are signalling a vibrant economy in that part of the continent. In West Africa, the weather, along with the prices of oil, coffee, cocoa and gold on the international markets, are the major determining factors, as is the case for most African countries. The signals so far have established a credible base for spirited growth.

24. In the North African subregion, conditions in Western Europe are as important as the weather and the prices of oil and potassium. The policy of dampened demand being pursued in Western Europe to meet the conditions for the single currency that is expected to commence in 1999 is expected to have a negative effect on the industrial sector, particularly with respect to textiles of the subregion.

25. Notwithstanding, this projected overall economic growth may be compromised by the clouds of uncertainties that are usually associated with other developments in the external front, such as the burden of debt and the persistence of low investment. However, with the recent improvements in growth performance and ongoing attempts at economic reform and successful experiments in democratic governance in many parts of Africa, the continent seems poised for increased FDI flows.
