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Summary of the survey of the economic and social situation in Africa, 1997

Executive summary

Economic performance in Africa in 1997 demonstrated once again the fragility of the recovery, and emphasized the predominance of exogenous factors in the determination of the out-turn. The rate of growth was estimated at 2.9 per cent, as against 4 per cent in 1996. This was due to a combined effect of low oil prices and weather conditions that affected agricultural output in southern and northern Africa subregions. Assuming a rate of population growth of 2.8 per cent, the overall regional per capita income posted a positive growth rate of 0.1 per cent.

On the external front, trade maintained a positive growth rate in 1997. However, debt overhang continued to pose a major obstacle to the recovery and sustainability of high economic growth, particularly for highly indebted poor countries.

Some of Africa’s perennial social problems continued to be exacerbated, and malnutrition, hunger, disease, ill-health and lack of shelter were still widespread. In addition, a crisis of governance encompassing such well-known shortcomings as political accountability and transparency, policy and institutional weaknesses remained pervasive.

Policy preoccupation in 1997 focused on three distinct but interrelated and cross-cutting areas of concern to African Governments: mitigating the impact of unfavourable weather conditions on the agriculturally dependent population; maintaining the growth momentum of the last three years; and continuing to implement policy reform measures. Economic diversification and financial resource mobilization received active policy support in most countries.

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Reduction and eventual eradication of poverty continued as the overarching policy challenges facing African Governments in the foreseeable future. To that end, policy makers in Africa face the challenges of developing modalities that would make possible the attainment of high and durable growth, expansion of employment, equitable income distribution in an environment of stable prices and a sustainable balance of payments position.

The growth of the African economy is forecast to rebound to between 4.0 and 5.0 per cent in 1998. The upper bound is based on the assumption of better weather conditions, improvement in trade prices, and the prevailing of peace and stability in the region. The lower bound would be obtained if either of those three conditions fail to materialize.

The implementation of the development-oriented structural adjustment programmes in Africa, integration and globalization, foreign direct investment and the business environment in Africa are the major policy challenges that Africa will face in the immediate future.

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I. Overall performance

1. Economic Commission for Africa (ECA) revised estimates indicate that regional output increased by 2.9 per cent in 1997, compared to 4 per cent in 1996 and 2.7 per cent in 1995 (table 1). Despite that reduction in the overall rate of growth in 1997 relative to 1996, per capita income managed to increase by 0.1 per cent.

2. The aggregate mean, however, conceals the large variation in growth across a continent that is very diverse in nature. Overall, African countries' gross domestic product (GDP) in 1997 ranged between a low of -8.7 and a high of 12.7 per cent. In 31 of 53 countries, economic growth was well above population growth rates. Three countries had negative growth rates in 1997, compared to two in 1996. Nine countries posted growth rates in excess of the United Nations New Agenda for the Development of Africa in the 1990s mandate of 6 per cent. For the least developed countries, the 1996 momentum was not sustained and GDP growth decreased from 4.5 per cent to 2.4 per cent in 1997.

3. The decline in the regional growth rate was reflected in all subregions without exception (table 2). Among the subregions, growth was lowest in southern Africa, at 2.4 per cent, followed by North Africa, at 2.8 per cent. The highest rate was recorded in Central Africa, at 3.8 per cent followed by West Africa's 3.7 per cent and eastern Africa's 3.5 per cent. Relative to their 1996 performance, the largest decline was recorded for North Africa, from 4.4 per cent to 2.8 per cent, a fall of 36 per cent; followed by the southern Africa subregion, where growth for 1997 was 80 per cent of what it was in 1996.

Table 1
African economic indicators, 1993-1997
(Percentage growth rates)

	1993	*1994*	*1995*	*1996*	*1997*
GDP growth, Africa	0.0	2.0	2.7	4.0	2.9
Oil-exporting countries	-0.3	1.4	3.1	4.2	3.6
Non-oil exporting countries	0.1	2.6	2.4	3.7	2.3
Least developed countries	-4.0	-0.7	4.0	4.5	2.4
Sectoral growth rates					
Agricultural output	0.9	3.9	1.5	5.2	1.7
Mining value added	-0.5	-0.5	-0.2	6.5	3.8
Manufacturing value added	-0.8	2.9	4.5	2.5	2.5
Exports unit value[a]	-7.0	0.5	7.3	-0.9	-2.1
Imports unit value[a]	-5.6	1.0	8.7	-2.9	-1.0
Oil price (Brent crude $/b)	16.8	23.9	20.5	22.1	20.0
Non-oil commodity price[a]	2.8	22.1	5.9	-6.3	7.6
Consumer prices[a]	29.5	38.7	33.1	25.1	28.3
Terms of trade index (1990=100)	-4.5	1.2	1.5	4.6	-0.5
Purchasing power of exports	10.8	20.0	-3.4	-9.0	-8.3
Africa's share in world trade (percentage)	2.4	2.4	2.2	2.0	1.9
Current account deficit (US$ billions)	-9.7	-11.9	-16.2	-9.6	-9.4

Source: ECA secretariat.

[a] Percentage changes over previous year.

4. Inflation crept up from 25.1 per cent in 1996 to 28.3 per cent in 1997, due mainly to food prices increases and/or political instability in some countries. For example, it jumped to double digits – the highest level in recent years – in Kenya and Uganda, two countries that had earlier reduced inflation to single-digit levels, and remained high in Angola, Burundi, the Democratic Republic of the Congo, the Congo and the Sudan, where political factors disrupted production and distribution of goods. However, in the Democratic Republic of the Congo, the new Government initiated bold measures to stabilize the economy, as a result of which a 1 per cent growth rate was recorded.

Table 2
Subregional growth rates, 1993-1997[a]

	1993	*1994*	*1995*	*1996*	*1997*
North Africa	0.5	1.8	1.8	4.4	2.8
West Africa	0.5	2.5	3.4	4.2	3.7
Central Africa	-9.2	-1.3	5.0	4.4	3.8
Eastern Africa	2.4	4.5	4.9	4.3	3.5
Southern Africa	1.5	2.5	2.5	3.0	2.4
Africa	0.0	2.0	2.7	4.0	2.9

Source: ECA secretariat.

[a] Weighted average.

II. Sectoral performances

5. The strong recovery of *agricultural* output in 1996 was not sustained in 1997. Agricultural production decelerated to 1.7 per cent in 1997, after bumper crops had raised output by a record rate of 5.2 per cent in 1996. That was essentially due to the weather conditions that affected production in major producer nations and the dearth of modern technology that continues to constrain productivity. The production of major export commodities in 1997 fell below its 1996 levels, an adverse outcome that was particularly notable for cocoa and coffee. Poor harvests were particularly recorded in North, East and southern Africa subregions due to unfavourable weather conditions. Given the significance of agriculture in the African economies, smaller harvests had adverse consequences on income and on the performance of the processing industries.

6. Poor rainfall and drought in Morocco reduced its GDP growth for the fourth time in the last six years, and necessitated higher cereal imports. The El Niño-induced weather condition in southern and some parts of eastern Africa provoked critical food shortages, eliciting urgent calls for international food aid in some countries that had achieved food self-sufficiency in 1996, such as Ethiopia, Eritrea, Somalia, Rwanda, Sudan, the United Republic of Tanzania and Uganda. Modest growth was nevertheless recorded in West and Central Africa subregions, although severe food shortages were reported in Burundi, the Congo, and the Democratic Republic of the Congo. In addition to the erratic changes in weather conditions, civil strife also played a significant part in accentuating the region's food supply difficulties. According to data from the Food and Agriculture Organization of the United Nations, cereal production fell by about 10.5 per cent from 126 million tons to 113 million tons in 1997. Fruits, jute and vegetables production were slightly lower relative to 1996, while the production of pulses increased.

7. The *industrial sector* broadly defined increased by 3.3 per cent in 1997, well below the 1996 rate of 5.4 per cent, mainly due to the slowdown in the mining subsector (3.3 per cent in 1997, against 6.5 per cent in 1996). Manufacturing industries maintained their 2.5 per cent growth. The expanding industrial activities in 1997, as in recent years, were construction (5.4 per cent) and energy and water (3.1 per cent).

8. Performance indicators of the African *mining industry* in 1997 repeated results observed in 1996 despite the surge in investment. Production of 15 main minerals representing over 90 per cent of the sector's total output show that with few exceptions, output either declined or stagnated in 1997. The overall mining production index (excluding oil) remained virtually unchanged in 1997 as compared to 1996, increasing marginally by 0.6 per cent. Gold production in Ghana for the first half of 1997 increased by 10 per cent, but despite that early surge in output, production was estimated to have remained unchanged at 44.4 tons for 1997, due to considerable slowdown during the second half of the year. Some of the key factors behind that performance include power disruptions, equipment failures and the fall in the world prices. In South Africa, most mines continue to face significant productivity problems associated with working conditions, dwindling reserves and slender margins. Output in the sector fell by 0.5 per cent in the first quarter of 1997. Gold production was particularly affected due to the declining quality and quantity of ore milled. Production in 1997 is estimated at 484 tons, down from 495 tons in 1996, a decline of 2.2 per cent. The increase in copper production in Zambia was overshadowed by the steep decline in the Democratic Republic of the Congo, as a result of which regional output remained at the 1996 level.

9. The *oil sector* continued to pursue dynamic developments. The favourable conditions under which

African countries offer concessions to oil companies, coupled with low exploration and production costs due to technological developments, has continued to encourage oil activities in the region. Important new oil discoveries were reported, particularly in Algeria, Angola, Egypt and Equatorial Guinea, and exploration and drilling activities have been booming across the region. Crude oil production in Africa increased from 368.42 million tons in 1996 to 378.40 million tons in 1997. Production from members of the Organization of Petroleum Exporting Countries (OPEC) increased marginally to 252.10 million tons, 2.8 per cent more than in 1996, due to the quota system imposed on member countries by the organization. Production from non-OPEC producing countries rose to 126.30 million tons in 1997 from 123.40 million tons in 1996. The new investment in the sector is expected to boost the region's output in the years ahead.

III. External sector

10. Positive developments in the external sector were recorded in 1997. The value of exports increased by 5.9 per cent due to an 8.0 per cent growth in volume. Imports continued on their upward trend at a rate of 7.6 per cent, of which 6.3 per cent was due to a welcome increase in volume and 1.3 per cent was accounted for by increase in prices. The terms of trade marginally declined by about 1.0 per cent.

11. The trade balance maintained a positive value at US$ 8.3 billion in 1997, made up of the surplus of US$ 32.9 billion of the oil exporters and the deficit of US$ 24.6 billion for the non-oil countries (table 3). Despite the regional positive trade balance, the current account deficit increased from US$ 8.6 billion of 1996 to US$ 9.5 billion in 1997. The major factors behind the persistent current account deficit is the balance on services made up of interest payments on external debt, trade-related financial services (banking and insurance), and transport (mainly shipping) services.

12. Volume of oil exports increased as a result of growth in production, particularly by the non-OPEC countries. Other exports of minerals maintained their previous years quantity of exports. Despite unfavourable weather conditions and the decline in output of agricultural exportables, export volume nevertheless increased by depletion of stock held over from previous years.

13. The debt overhang continued to impose a major obstacle to recovery and sustainability of high economic growth, particularly of the highly indebted poor countries. The overall external debt of African countries rose from US$ 340 billion in 1996 to US$ 349 billion in 1997, an increase of nearly 3 per cent. The difficulties in meeting debt service obligations are reflected by the accumulation of arrears and the strong demand for their rescheduling.

14. The alleviation of debt burden continued to be a major item on the agenda of the African policy makers and their development partners. Among those efforts, the debt initiative for the heavily indebted poor countries (HIPC) came as a welcome development since it is expected to reduce the burden of the 32 poor and highly indebted African countries. Uganda and Burkina Faso were beneficiaries of the HIPC initiative in 1997 whose debt stock was reduced by 15 to 20 per cent. Côte d'Ivoire and Mozambique are expected to be the next beneficiaries. Indeed, the World Bank and the International Monetary Fund (IMF) announced in the first quarter of 1998 that Côte d'Ivoire qualified for debt relief funding under the HIPC initiative.

Table 3
Balance of payments, 1995-1997
(Billions of United States dollars)

	1995	*1996*	*1997*
Exports	98.3	108.6	115.0
Imports	97.7	99.2	106.7
Trade balance	0.6	9.4	8.3
Services (net)	-10.7	-10.7	-10.5
Balance of goods and services	-10.1	-1.1	-2.2
Current account balance	-16.1	-8.6	-9.5
Total external financing	19.5	16.8	15.9
Non-debt creating flows (net)	5.1	7.0	11.6
Net external borrowing	14.4	9.8	4.3
Official creditors	6.2	3.2	0.5
Banks	-3.7	-2.5	-1.4
Other	11.9	9.1	5.2
Errors and omissions	-1.9	-2.4	-1.2
Changes in reserves	-1.4	-5.9	-5.2

Source: Compiled from International Monetary Fund data.

IV. Social sector

15. 1997 witnessed a further exacerbation of some of Africa's perennial problems: destruction, death and displacement. Although the ingredients for those deteriorating social and human conditions differ from one African country to another, the results are depressingly similar. Over and above this, in many African countries a crisis of governance encompassing such well-known shortcomings as popular

participation, political accountability and transparency, and policy and institutional weaknesses, remained pervasive.

16. Between 1996 and 1997, the population of Africa is projected to have grown from 738 million to 759 million, currently accounting for 13 per cent of the world population. That annual increase of 2.8 per cent represents the fastest rate of population growth, with Africa being the only region of the world where population is still growing at more than 2 per cent per annum. As a result of that high population increase, the dependency ratio in Africa is the highest in the world. The population of children aged 0-14 constitutes almost 50 per cent of the total population. Africa's high dependency burden, at 92 per cent, compares unfavourably with 68 per cent in Latin America, 61 per cent in Asia, 51 per cent in North America and 50 per cent in Europe. One consequence of a heavily youthful, non-productive population in Africa is the pressure exerted on already overstretched social infrastructure and facilities, especially in the health, education and housing sectors.

17. Access to health care continued to be generally poor. Rapidly rising population levels, high rates of urbanization and the escalating threats to public health widened the gaps between supply and demand for health services. It is estimated that 90 per cent of deaths worldwide traceable to malaria have occurred in Africa, and that of the world's 23 million people living with the HIV/AIDS epidemic nearly two thirds (some 14 million) live in sub-Saharan Africa. The dearth in health and nutritional standards has brought Africa back to its 1960s levels of life expectancy. Only four countries – Algeria, Botswana, Cape Verde and Mauritius – have recorded levels above the targets in the WHO strategy "Health for All by the Year 2000".

18. The general overview of the state of education in the region in 1997 points to the following severe and persistent problems: (a) low enrolment rates; (b) wide gender and regional disparities, which increase the higher one ascends the education ladder; (c) doubts about the relevance of the curriculum; (d) poor school infrastructure (school furniture and textbooks are insufficient, libraries lack books, teachers are not motivated and so on); and (f) the lack of resources even though member States make relatively high budgetary provisions for education.

19. Although employment figures tend to be incomplete and unreliable in most African countries, available evidence suggests that the employment situation did not improve for most countries in 1997. The development of productive employment has not kept pace with the increased labour supply. The average labour force is growing at about 3 per cent per annum, and there are declining or stagnating levels of wage employment, decreasing real wages and deteriorating working and living conditions. Recent data for most countries estimated urban unemployment rates to be in the 20 to 30 per cent range, underemployment rates in the 25 to 50 per cent range, youth unemployment rates in the 25 to 40 per cent range and women's unemployment range at twice the national average. Unless determined and improved employment and development policies are implemented, the employment crisis is likely to aggravate up to the end of the first decade of the new century, with labour force growth rising to about 2.8 per cent and outpacing the annual employment growth rate of 2.3 per cent.

20. Good governance is an important antecedent to long-term socio-economic development. In 1997, the African continent continued its struggle to institute good governance practice in the form of the democratization drive started in the mid-1980s, which has gained greater momentum in the 1990s. In 1997, the struggle for good governance was manifested in some countries, including Algeria, Liberia, Kenya and Morocco. In the region as a whole, the struggle for good governance, however, is still plagued by a number of uncertainties.

21. In recent years the democratization process, albeit fragile, has gained significant grounds in Africa. In 1997 alone, there were elections in a number of African countries, including Algeria, Liberia, Kenya, Mauritania and Morocco, and a transition process to a democratic government was initiated in Nigeria. But a lack of appropriate mechanisms for transition to democratic governance, involving civil societies, underpins the fierce civil wars, internal strife and widespread political instability that are currently engulfing a number of African countries, such as Rwanda, Burundi, Somalia and the Sudan.

22. Within the framework of the Organization of African Unity (OAU) Mechanism for Conflict Prevention, Management and Resolution, OAU, along with the Economic Community of West African States, sent observers from various member States and the OAU general secretariat to observe the conduct of the elections in Algeria and Liberia. In the same year, OAU was also involved in peacemaking missions in Rwanda, Burundi, the Comoros, the Democratic Republic of the Congo (former Zaire), the Congo, Sierra Leone, Somalia, Liberia, and the Central African Republic.

V. Major policy issues and challenges

23. The main policies pursued in 1997 and during the medium term to achieve macroeconomic goals of stability, growth and employment creation remained the core objectives. The set of reform policies included financial

policies (fiscal and monetary), structural reforms and social policies. Economic diversification and financial resource mobilization received active policy support in most countries.

24. In order to achieve the above objectives, Governments set themselves financial policies, including tight monetary policy, and adopted a cautious expenditure policy. Structural reforms were mainly focused on measures to promote privatization, encouraging private-sector development, reforming the agricultural sector and encouraging sustainable agricultural development, export diversification, and improving and strengthening the civil service. Almost all countries that developed programmes for social needs have focused on combating poverty by increasing social sector spending in order to improve the supply of basic health services through preventive health care and expand primary education.

25. The overarching policy challenges facing African Governments in the foreseeable future would be the reduction and eventual eradication of poverty. To that end, policy makers in Africa face the challenges of developing modalities that would make possible the attainment of high and durable growth, expansion of employment, equitable income distribution in an environment of stable prices and a sustainable balance of payments position.

26. That is a daunting task: at current estimates, close to 50 per cent of the population subsist in absolute poverty, a proportion that is expected to continue increasing into the first decade of the twenty-first century. To restrict poverty to current levels, African countries would at the minimum need to match the GDP growth rate with their population growth. Assuming that the labour force increases at the rate of population growth of 2.8 per cent per annum, they would need to create new jobs at the annual rate of 17 million just to stabilize the rate of unemployment at current levels, which are already unacceptably high.

27. During the past decade and a half, African countries have gone through the phase of adjusting their economies with the support of IMF and the World Bank. Authoritative and candid evaluation of the Enhanced Structural Adjustment Facility (ESAF) programme shows that the results were disappointing relative to programme targets and compared to the performance of non-ESAF countries.

28. Interest in and efforts at economic integration in Africa have a long history and certainly predate the current wave of globalization. Despite the commitment at the highest levels at both regional and subregional venues and the plethora of economic groupings, their performance and economic impact has remained weak, and has certainly failed to match the enthusiasm with which they were created. Factors behind the poor performance of integration schemes in Africa include undefined and/or multiple objectives, overlapping membership, supranational integrative institutions without the power to compel members to live up to their acknowledged commitments and obligations; lack of political will to cede some portion of national sovereignty; unfair distribution of gains; exclusion of the private sector in the design and implementation of these schemes; policy reversals, particularly due to balance of payment problems and revenue losses from reduced taxes; weak institutions; diverse and incongruent policies.

29. However, there is an emerging consensus that promotes economic integration as a necessary stimulus to resuscitate and reinforce the process of economic recovery and socio-economic development, and some encouraging developments have been initiated to that end. The fiscal and customs reform initiated by the Central African Customs and Economic Union is now being fully implemented. The main provisions of the reform concern excise, common external tariffs, the generalization of the preferential regime and the turnover tax levied on imports, which are being gradually applied by all member States. In West Africa, the West African Monetary and Economic Union vigorously pursued its integration programme as approved by a summit of heads of State in May 1996. That programme will result in the implementation of a common external tariff, thus achieving a customs union.

30. Despite the huge volume of foreign direct investment, Africa has failed to attract sizeable inflow compared with other developing regions. Furthermore, what limited inflows there are are concentrated in a small number of countries, including Angola, Egypt, Ghana, Morocco, Nigeria and Tunisia, and target the extractive industries.

31. There are four factors that explain the slow growth of business in Africa: lack of openness to trade, high-risk environment, low level of social capital and poor infrastructure. Those factors are attributable to some extent to government behaviour, including corruption, and tax regulation and/or high taxes. Therefore, high priority should be given to eliminating corruption and regulating taxes in all African countries in order to help business to flourish.

VI. Medium-term outlook and prospects for 1998

32. In the foreseeable future, the major determinants of the African economic performance would continue to rest on the out-turn in a number of exogenous factors: weather conditions and development in the external economic environment, the

pursuit of consistent economic reforms, and progress on peace and political stability in the domestic arena.

33. Under different assumptions, the African economy is forecast to rebound to between 4.0 and 5.0 per cent in 1998, with a mean projection of 4.5 per cent. The lower and upper ceilings are based on the possible outcome of the two major determinants. The upper bound projection is based on the assumption that conducive weather conditions will prevail and trade prices will improve. The lower bound of 4.0 per cent will be obtained if either of those two conditions fail to materialize i.e., if either agricultural output or world prices turn out to be unfavourable.

34. Given the 7-to-10-year El Niño cycle, weather conditions are expected to be more favourable in 1998 than the 1997 out-turn, and therefore a considerable turnaround in agricultural output is assumed: it is expected to enjoy a 7 per cent growth rate.

35. Developments in the external sector are derived on the basis of possible out-turn in three major factors of importance to African economies. The first and the most important is world prices for Africa's exportables and importables. In addition to the global supply and demand (the usual determinants of world prices), another important factor is the possible effect of the currency crisis in East and South-East Asian countries, which in recent years have become important trading partners of Africa, as well as major competitors in the world market. The depreciation of the currencies in those countries is bringing a slowdown in their growth, in view of which, global demand for some of the major export items of interest to Africa may decline. The most important export products that may feel the impact are oil, gold and industrial minerals, such as copper. The Asian slowdown, as well as the increased output from the huge investment targeting the production of those commodities in Africa and elsewhere, are expected to exert a downward pressure on prices.

36. The second major external factor impinging on Africa's economic performance is the debt overhang. The excessive debt burden has been an important factor behind the low volume of investment, a fact acknowledged by African countries as well as the international community at large. Although the HIPC initiative is a welcome development, it nevertheless needs to be placed on a fast track to entail an effective and observable outcome. The assumptions here are that debt relief measures will prevail and that the volume of foreign exchange required to service debt will not exceed the 1997 level of US$ 33 billion.

37. The third important external component is the inflow of resources. Although the expected positive development on the debt front should contribute to the reduction of the drain on foreign exchange, it is deemed insufficient to boost investment, particularly for the non-oil exporting countries. It is expected that net transfer from bilateral and multilateral sources will at least maintain 1997 levels.

38. On the domestic front, the higher growth scenario assumes that African Governments will continue to implement growth and development-friendly macroeconomic policies, with emphasis on reducing the rate of inflation and increasing employment. Such medium-term measures will have to be consistent with the long-term objectives of reducing mass poverty, meeting the basic health, housing, educational and social needs of the population, reducing income inequality, protecting the environment, and promoting diversified and sustainable development.

39. All the above assumptions and caveats render forecasting of economic outcome hazardous. But the built-in conditions for the projected out-turn of the African economies are unexceptional and are expected to obtain.