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ECONOMIC AND SOCIAL SURVEY OF AFRICA 1995-1996

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PREFACE

This edition of the Economic and Social Survey reviews the main trends in African economies in 1995 against the background of developments in the world economy. It focuses in particular on those issues which reflect how Africa is responding or failing to respond to the challenges of the new international economic environment. Efforts to implement fundamental domestic reforms in Africa have been intense and wide-ranging, but the medium-term prospects for the region have continued to be threatened by the feeble response to the profound changes in the world economy. In particular, the weak competitiveness of African economies on the global scene, the endemic problems of external indebtedness and the continuing rigidity of domestic economic structures all continue to retard the pace of Africa's adaptation to the rapid changes in the world economy, leaving the region with all but a little leverage on its terms of trade, the volume of external resource flows and technological innovation and adaptation. This is why the Economic and Social Survey, 1995-1996, explores two of the most critical issues of Africa's economic and social development -- mobilization of domestic financial resources and social security reform -- as well as revisits the overarching question of economic diversification strategies for Africa. This is a focus and renewed emphasis that is not only timely; it is one that should earnestly commend itself to the attention of African governments and their development partners.

EXECUTIVE SUMMARY

OVERVIEW OF DEVELOPMENTS IN 1995

The African economy recorded in 1995 its second highest annual growth rate since the beginning of the decade. Gross domestic product (GDP) for the region increased by 2.3 per cent, compared with a revised figure of 2.1 per cent for 1994 and 1.8 per cent in 1993. Another indication of the improving economic performance and recovery in the region was the positive growth (2.4 per cent in 1995) in the GDP of the 33 African least developed countries, following three years of consecutive decline. Despite the modest recovery evidenced by faster growth in GDP, per capita income has yet to reverse its declining trend and many countries in Africa were still at the lower end of the growth spectrum, given the persistence of structural constraints.

The improvement in overall regional growth rate masks significant variations in economic performance among Africa's subregions and individual countries. In 1995 the West, and Eastern and Southern African subregions registered growth rates in excess of the regional average owing to the improved performance in the agricultural and mining sectors. In West Africa, which experienced a strong rebound, GDP grew by 4.1 per cent in 1995, compared to an increase of only 1.0 per cent in 1994; while in Eastern and Southern Africa it grew by 3.3 per cent as against 2.9 per cent in 1994. GDP growth remained weak in Central Africa, growing by a mere 1.1 per cent, while it decelerated from 2.9 per cent in 1994 to 1.0 per cent in 1995 in North Africa.

On the domestic front, the modest recovery in regional output was mostly associated with the good performance in the manufacturing and the mining sectors. The improvements in the mining sector was attributed to capacity expansion, following extensive reform and retooling, and an upturn in world prices, while growth in manufacturing was due mainly to better supply of domestic inputs and improvement in the importation of raw materials. African agriculture, the mainstay of the African economy, did not perform well in 1995. Its value added growth rate decelerated from 4.2 per cent in 1994 to 1.5 per cent in 1995, rendering the food situation more precarious, especially in those parts of the continent afflicted by drought or prolonged civil war.

On the external front, there were improvements in exports earnings which increased by 11.1 per cent in 1995 as against 4.9 per cent in 1994. Despite the continued upturn in export revenue, Africa's share in world trade continued to decline, from 3.1 per cent in 1990 to 2.2 per cent in 1995. The loss in market share as a whole was due to the excessive dependence on a narrow range of primary commodities with weak global demand, a declining trend in world prices, as well as keen competition from producers outside the region. Most African countries continued to rely on the same primary commodities as they did since the 1960s; with undiversified export structures impacting negatively on their foreign exchange earnings as well as on market shares. Thus, to regain and expand their market shares and turn exports into an engine of growth, it is imperative for African countries to diversify their production base and graduate output into processed and manufactured goods.

The problem of Africa's external indebtedness grew worse in 1995, with the total stock of debt increasing by 4.1 per cent to reach US$322.4 billion in 1995. Foreign direct investment (FDI) to Africa did not increase significantly, even though the rate of return was one of the highest in the world; while the scope for resource inflows on portfolio account remained limited due to the severe constraints on equity investment and the underdevelopment of African capital market. It is increasingly clear that the resolution of Africa's debt overhang is a pre-requisite for the revitalization of investment and the sustenance of a high growth rate of GDP. To this end, African governments should. along with the creditor nations and institutions as well as the active support of its development partners, pursue vigorously the search for meaningful and lasting solutions.

The crisis in the social sector grew more desperate in 1995, relative to earlier years. Rapid increase in population relative to economic growth, widespread unemployment, particularly among the young and educated, and cutbacks in public expenditures in real terms, particularly in education, health and social welfare continued unabated. Public expenditure on education in sub-Saharan Africa is one of the lowest in the world, with the most severe spending cuts in recent years falling on capital expenditure for new construction, equipment and laboratories, and for repair and maintenance. To revive and sustain a robust economic performance, African governments need to target the development of human capital, paying due regard to gender sensitive expansion in basic education, training and health care, and the creation of opportunities for proper use of skills.

The number of refugees and displaced persons in Africa remains extremely high. About 7 million people are directly categorized as refugees. Some of these have been integrated within the host society but this has not offered a lasting solution. Rapid repatriation and reintegration of refugees into their own communities, the only sustainable solution to the refugee problem, can take place only voluntarily and when conditions in the countries of origin permit. The governments of *home* countries of refugees, with the support of the international donor community, need to rapidly recreate an enabling domestic environment that will permit the repatriation of their people from the neighbouring countries.

Africa has in general lagged behind other developing regions, despite improved performance in a few countries. Economic growth remains constrained by structural rigidities and the very weak physical, human and institutional infrastructure for development. Furthermore, a significant number of African countries are mired in civil war and political instability, with little room for implementation of serious economic reforms and development.

The dramatic growth in world trade in the past few decades has largely by-passed the Africa Region. Between 1960 and 1990, world exports increased at an annual average rate of 12 per cent, while the growth in Africa's trade averaged a mere 3 per cent. Africa has not benefited from the remarkable transformation in the structure of world production as it continued to concentrate on low value-added primary products with relatively stagnant external demand and uncertain long-term prospects. In 1993, African countries earned approximately 80 per cent of their foreign exchange from primary commodities compared with 93 per cent in 1980, while domestic consumption of manufactured goods remained heavily dependent on imports, absorbing 74 per cent of import expenditure in 1993 compared with 72 per cent in 1980. While the volume of primary commodities in world trade declined from 36 per cent in 1970 to 19 per cent in 1994, the structure of Africa's exports has remained more or less the same, with primary commodities accounting for around 64.4

per cent of Africa's exports. The relatively static structure of Africa's exports has reduced Africa's share of world exports from 10 per cent in 1950 to 2.2 per cent in the 1990s. Countries of Asia and Latin America have now become major competitors in the world export market for some of Africa's staple export products, such as coffee, tea, cocoa, timber and minerals, while they have been able at the same time to expand their exports of manufactures, intermediate products and a wide range of services. Although world trade is expected to increase by US$ 210 billion annually in the post-Uruguay trading environment, of which 30 per cent will be shared among developing countries, Africa stands to benefit least, and may indeed lose up to US$ 30 billion annually, especially in the medium-term, owing to its weak supply capacity, low responsiveness to export opportunities in the new international trading environment, and the persistence of production structures that do not readily adapt to global competitiveness.

In order to address Africa's commodity problems in a comprehensive manner, African Ministers responsible for Trade, Regional Cooperation, Integration and Tourism, meeting in Addis Ababa from 14 to 16 February 1996, adopted a Plan of Action for Commodities which, among other things, would formulate and pursue horizontal and vertical diversification programmes more vigorously with a view to widening Africa's economic base and creating the inter-sectoral linkages needed for sustained growth. However, the virtual stagnation of Africa's trade and the loss of world market shares have pointed to the need for African countries to regain their market shares in the production and exports of the traditional commodities, even as they pursue such a diversification policy.

The prices of commodities of interest to Africa show diverse trends and prospects. Prices of food were up by 8.1 per cent in 1995 over their 1994 levels, increasing the import bills of African food importers, and endangering food security in a number of countries. This trend may continue in the coming years as the Uruguay Round agreement on agriculture is implemented. On the whole, it would seem that the recent high prices of primary commodities are in general being reversed because they had encouraged an expansion of productive capacity, which was previously discouraged by low and declining world prices.

Total net resource flows to developing countries increased by over US$ 21 billion in 1994, an increase of 13 per cent in nominal terms over the 1993 figure, or 8 per cent on the basis of 1993 prices and exchange rates. The major beneficiaries of these additional resource flows have been the Latin American and Asian countries, as well as the transitional economies of Eastern Europe.

Africa's share of total world private resource flows was only 3 per cent in 1994, but by mid-1995, it had increased to 9 per cent; thanks to higher inflows to a limited number of African countries that managed to attract resources from the international private capital markets in 1995. The positive trend is likely to continue if only the political and macro-economic environment becomes more stable, and the economic and social infrastructure are rehabilitated. Greater success with regional and subregional integration, and internationalization of Africa's domestic capital markets would also contribute greatly to expanding the inflow of capital. Given the dire need for development finance, particularly the non-debt creating type, efforts must be made in the years ahead to increase the number of countries with the potential to attract foreign private capital. Such efforts will be greatly assisted by the opening up of the transport, telecommunications, energy, mining and financial services sectors in Africa to foreign participation.

The liberalization of capital flows has created a globalized financial market and radically changed the environment in which economic policy is conducted world-wide. In 1995, both interest rates and exchange rates fluctuated significantly in response to speculation and market volatility, and sometimes in ways that least reflect changes in real economic conditions. Exchange rates have also been marked by large fluctuations.

Africa's external debt continues to pose a major development constraint. Outstanding external debt would reach the level of US$322.4 billion in 1995. Debt and debt service ratios in most sub-Saharan African countries have reached an alarming level. The ratio of debt to exports of goods and services has not declined noticeably from the high level of 365 per cent reached in 1994, while the debt service ratio has oscillated around 20 per cent. In an environment of depressed commodity prices, slow trade growth and reduced capital flows, the prospects are that debt-servicing would continue to be a protracted problem in most African countries. Until a durable solution to the problem is secured within a framework of growth-oriented strategies, Africa's debt overhang would persist at unmanageable levels to the detriment of development and economic stability in the region. This will be even more likely because the Africa region has not benefitted much from the new surge of private capital flows to developing countries that has become a major source of development finance, while ODA to the continent declined in real terms by as much as 9 per cent in 1995 alone.

The strategies that have been put in place since the beginning of the 1980s to alleviate the debt burden of the developing countries have had little impact on the enormous difficulties of heavily-indebted African countries. Although the Naples Terms were a turning point in debt relief strategies, they are not realistic for Africa. Even with full implementation of existing debt-alleviation strategies, only four of the poorest sub-Saharan African countries would have achieved debt reduction levels on a scale sufficient to create favourable investment conditions for economic growth and development. In recognition of the unsustainable situation in countries with heavy debt burden -- most of which happen to be among the poorest countries -- the Fund and the Bank have proposed the launching of a "Multilateral Debt Reduction Facility", which will take the form of an international trust fund, geared to providing additional assistance to the HIPCs on a case-by-case basis. Innovative 93.9and comprehensive as the initiative may be, its financing provisions are not so clear and, at best, looks rather inadequate, while the time-frame for its implementation is unnecessarily long and the eligibility criteria rather stringent.

MEDIUM-TERM OUTLOOK AND THE POLICY CHALLENGES OF ECONOMIC DIVERSIFICATION

Economic prospects for Africa in 1996 and beyond would be determined not only by weather conditions but also by the extent to which African governments persist with domestic policy reforms, sound economic management, maintenance of stable political systems and a positive, people-oriented political climate, coupled with favourable developments in the international economic environment. Current indications are that the capacity of African societies and economies for facing up to the challenges of development and sustained real growth is much stronger than ever. The overall prognosis is for the food and agricultural sector to grow faster in 1996 than in 1995, and for the manufacturing sector, particularly the agro-industrial part of it, to experience a significant positive expansion in capacity utilisation. Total agricultural production is expected to increase by more than 3 per cent in 1996. According to FAO forecasts, total cereals production could reach nearly 108 million metric tonnes in 1996. Despite the expected good harvests, per capita food production index for the region is expected to drop slightly to 93.9 in 1996 from 94.5 in 1995.

The industrial sector is expected to register growth in 1996, provided there is political and macro-economic stability, further diversification of production structures and expansion of markets through regional and subregional cooperation, improvements in critical infrastructural services and the strengthening of competitive capacity to take advantage of liberalized trade. Both the expected good performance in agriculture and the gradual increase in private sector participation in economic activities offer brighter prospects for greater industrial growth in most countries. Given the changes in the operating environment and the substantial reforms that have taken place in the mining sector in many African countries, a considerable boost to foreign investment seems likely in the sector.

Overall GDP growth rate is projected to grow only modestly in 1996 in view of the endemic structural constraints in Africa, and the difficulties of taking advantage of emerging opportunities in the world economy. The vexing issue of debt is expected to continue to pose a major threat to Africa's development in the medium-term, and so also is the problem of commodity prices and uncertainties of external development finance. The problems of external trade, debt and financial resource flows are so closely interwoven that none can be effectively resolved in isolation; and it is by now clear that there can be no substantial progress on one front without corresponding headway on other fronts. In 1996, a lot will depend on the evolution of commodity prices and world demand, on the one hand, and on weather conditions and the resolution of civil conflicts and the problems of refugees and internal displacement on the other, which have had, and continue to have, severe repercussions on the social and economic conditions in some countries of the region.

Despite the recovery in Western Europe, which is Africa's traditional market and major development partner, the outlook regarding demand and prices for some key commodities remains uncertain in 1996, although the probable outturn would depend on the effectiveness of protective measures pursued by producing countries. It seems likely that industrial economies will generally be less buoyant in 1996 than in 1995, and that commodity prices may also be less favourable, with some predicted losses for beverages and minerals. World prices may thus resume the cyclical pattern they have always assumed, as well as suffer from the pressure of a longer-term downward trend in the amount of primary raw materials consumed per unit of output. Most analysts of the commodity markets believe that depressed commodity prices will continue well into the first decade of the next century and that the burden would fall disproportionally on the foreign exchange earnings of the poorest region. It has been estimated that Africa may lose in the process the equivalent of about 3 per cent of GDP per annum.

On the other hand, the global demand for oil is expected to rise to 71.2 million barrels a day in 1996 from 69.6 million barrels a day in 1995, and through OPEC countries are expected to increase their production beyond the 1995 official limit of 24.52 million barrels a day, demand-sourced pressures on prices are expected to intensify. However, current projections suggest that petroleum prices will only be slightly higher than in 1995. The current daily production is likely to increase significantly from 1997 onwards as a result of the expected entry of Iraqi oil into the international market and above quota production by OPEC members. With excess supply in the international market, oil prices are expected to fall, depressing export earnings. The lower prices, in turn, would impact negatively on the oil exporting countries. However, in the short-run, most of the debt-stricken oil importing African countries are expected to benefit from a configuration of lower oil import bills.

The prospects and outlook for concessionary resource flows to developing countries, including Africa, are far from encouraging owing to a combination of factors: budgetary constraints in the industrial countries leading to declining ODA flows, increasing demand for foreign resources by the transitional economies, and increasing concern by donors about the effectiveness of their assistance. New orientations in the partnership between donors and recipient countries are increasingly underlining the catalytic role of aid in the process of building domestic capacities for development in the recipient countries. The decision by OECD donors to level off ODA at US$ 60 billion per year is a strategic pointer to their determination to rationalize aid and adjust its nature and volume to the new context of development assistance.

A closely related problem requiring immediate resolution is the heavy debt burden of the continent. While the Naples' initiatives of December 1994 on external debt are very important steps in the search for durable solutions to the debt crisis of low income countries, the Naples Terms, as offered by the Paris Club contain a number of significant drawbacks, as a result of which only a limited number of African countries have benefited since its launching. In addition to relief from their bilateral debt burden, African countries need additional respite from the growing burden of multilateral debt. Unless debt sustainability is achieved rapidly in many African countries, it will be difficult to sustain the nascent growth and fragile economic recovery now under way, even with the most appropriate domestic policies in place.

African countries will no doubt continue to intensify their programme of economic reforms in 1996 in the direction of growth with stabilization and transformation. And it is to be hoped that reform-induced economic efficiency and improvements in macro-economic policy and in human, institutional and physical infrastructure in 1996 will put the African economy on a more sustainable footing, making it more competitive in the world economy. It is hoped also that the implementation of the new ODA policy framework at the level of Africa's development partners would not ignore the special attention that needs to be devoted to the particular situation of African countries, such as those of sub-Saharan Africa, which are faced with domestic financing capacities that are insufficient to provide the critical capital base for the reform processes they are currently undergoing. Enhancement of external resource flows to Africa remains, therefore, a major development challenge. But in meeting that challenge, the importance and responsibility of recipient countries in the efficient utilization of development financial assistance also has to be underscored.

Based on the above considerations and assumptions, the UNECA secretariat estimates that overall regional GDP in Africa would grow by about 2.9 per cent in 1996. The African LDCs are likely to grow less rapidly than the African average, with a projected growth rate of 1.5 per cent while, in the franc zone, output growth is most unlikely to advance by more than 2 per cent. The feeble growth among the LDCs is partly the result of the raging civil war and disorder in Liberia, the stalemate in Somalia and partly the consequence of slow progress towards rehabilitation, resettlement and reconciliation in Burundi and Rwanda.

While the overall external environment remains daunting, many African governments have inaugurated the process of economic reforms and of rehabilitating and rebuilding their human, physical and institutional infrastructure. They have courageously persisted in the arduous and often politically risky reforms, in order to create an enduring culture of efficiency and dynamism. Although Africa's record in adjusting to the fast changing external environments has been very poor in the past, current perceptions and efforts to attenuate their detrimental impact and take advantage of the unfolding opportunities provide strong grounds for some optimism in the medium-term.

SAVINGS MOBILIZATION: A CRITICAL FACTOR IN SUSTAINED DEVELOPMENT

It is estimated that the attainment of an overall rate of growth of 8 per cent per annum, needed to double Africa's per capita income over the next decade, would require an additional investment of about US$45 billion per annum at 1990 prices, over and above the present level of US$115 billion. This presents a major challenge for Africa, given the fact that the Africa region has not benefitted much in the recent past from the inflow of private capital that has now become a major source of financing for developing countries, and Africa's share of world total private resource flows amounted to a mere 3 per cent in 1994, and only rose to about 9 per cent in 1995. The nascent stock markets in African countries are for the most part too limited in the value of traded shares and unstable in performance to earn the confidence of potential international investors. With poor prospects for increased external resource inflows, the onus for the revitalization of development-oriented investment and the achievement of high rates of growth rests principally on the extent to which African governments could exploit the huge but yet untapped potential of domestic resources for economic diversification. Increased dependence on own resources, through intensive and extensive resource mobilization drives, should become a major component of the continent's development policy and a top priority for the second half of the 1990s. To that end, urgent measures need to be put in place to increase confidence in the financial system and to expand their outreach to the grassroots level; to deepen economic reform policies; and, to establish clear legal and regulatory frameworks together with transparent and non-distortionary tax systems. By encouraging savings through appropriate policies and institutional mechanisms, reducing inefficiency, creating an environment conducive to the retention of savings internally and reversing capital flight, they should be able to provide the necessary resources to finance the additional investment. A concerted drive to mobilize domestic savings should target all the saving units in the society, beginning with the savings of the government and including the business and household sectors.

Only by so doing, and by supplementing the emerging market-oriented, growth-friendly policy direction with efficiency-enhancing and private sector support measures within the framework of a workable strategy for economic transformation, will Africa transcend the poverty trap and radically transform its economy. The key here lies in the revival of horizontal and vertical diversification of the African economies.

Putting in place sound macroeconomic policies is crucial for domestic resource mobilization. The stabilization of prices and exchange rates so as to have a positive real rate of return on domestic assets is a precondition for the mobilization of domestic savings. A sound macro-economic policy is necessary also even if it is not a sufficient condition for successful mobilization of savings. The trend in several countries towards more liberal trade and exchange rate policies, and the abolition of excessive regulatory and control mechanisms have created a more market-friendly environment in which the private sector would play a greater role in the mobilization and utilization of domestic financial resources. These policy directions are expected to increase domestic savings, improve the efficiency of resource use, minimize and reverse capital flight and increase the volume of external resource inflows.

The capacity of a country to mobilize the savings of its population depends on the degree of monetization of the economy, the extent of development of the financial institutions, and the range of financial instruments available. The development of the financial sector is therefore a prerequisite for the mobilization of savings, and the availability of a wide variety of financial instruments offers savers an alternative to holding their portfolio in physical assets. The lower the level of development of the financial sector, the higher would be the proportion of savings held in physical assets and the more difficult and costly would be the effort to mobilize domestic savings.

Since 60-70 per cent of the African population live in the rural areas where commercial banks and other formal financial institutions are not very active, many countries have attempted to reach this segment of society through specially designed banks. These banks (rural banks, post office savings banks, cooperative and community banks, among others) mobilize resources and provide credit to the small borrowers. These types of banks, if successful, are likely to access more easily the financial resources of the rural population, provide needed credit at reasonable interest rates and forge a closer link between the formal and informal financial institutions. Above all the community based banks of whatever genre should contribute to the development of the banking habit of the population and strengthen the resource mobilization drive.

The extent to which financial institutions can contribute to the mobilization of private savings depends on their spread in the economy, among others, through the branch networks of commercial banks. Convenience and proximity of commercial banks to savers and their vigour in stimulating saving can have a positive effect on financial resource mobilization. A measure of the penetration of commercial banks (and other financial institutions) in the society is bank density, measured in terms of the number of branches relative to the population and their geographic spread throughout the country. Based on this measure and particularly their location, the evidence is one of considerable insufficiency. Even in countries such as Kenya and Nigeria where the density is high relative to the other countries in the region, there is a marked bias for the large urban conglomerates, leaving the huge rural population to be served by a variety of informal financial arrangements.

Because of the failure of commercial banks to provide development oriented long-term credit, specialized financial institutions have been organized in many countries. The most prominent of these are the development banks which were created to meet the long-term credit needs of the investing public and are usually specialized sectorally to focus on agriculture, industry, services and construction, among others. On the whole, however, development banks have not been very successful in mobilizing domestic resources, but have usually served as a conduit for onward lending of public funds and externally mobilized financial resources to domestic enterprises. The issue for future policy is how to activate and sustain the capacity of these development finance institutions to contribute significantly to the mobilization of domestic financial resources to finance the investment needs of the private sector.

The role of capital markets, which are still grossly under-developed in Africa, needs to be underlined. Although the development of the emergent capital markets in a few countries such as Ghana, Nigeria, Kenya, Zimbabwe, South Africa and the North African countries, including Morocco, Tunisia and Egypt is encouraging (there are now 13 stock exchanges in Africa), their role in intermediation between savers and investors is still very limited. These and other factors have limited the supply of savings flowing through the stock markets.

The extensive privatization of public enterprises as part of the economic reforms offers governments an opportunity to expand local capital markets. However, many governments are saddled with public enterprises for lack of buyers mainly because they offer whole companies for sale rather than pursue the alternative of selling shares in small lots, which might be attractive to small savers. The disposition of public enterprises through the floating of shares has a number advantages. It fulfils the objective of privatization, spreads the benefits of share ownership among the population, and contributes to the mobilization of domestic savings. Governments could shift their source of funding from the financial institutions and particularly the central bank by reaching out to the private sector through appropriately denominated bonds and treasury bills and other negotiable instruments tradeable in secondary markets.

Many African countries have a long tradition of well articulated informal financial institutions providing essential services to the small saving and producing units whose needs are not catered for by the formal financial institutions. While informal financial institutions are vast in number and variety, the most popular and widespread are those engaged in savings. A significant proportion of private saving is channelled through these well developed informal institutions which serve as valuable complements to the modern financial institutions. The informal financial institutions generally meet the requirements of accessibility and proximity, simplicity of operations, liquidity and security. They also enjoy qualities and characteristics that need to be emulated by the formal financial institutions: their cost of doing business is very small and consequently they are much more efficient; the default rate and non-performing credit are also much lower than in formal banks; and they are not constrained by interest rate regulations, liquidity and reserve requirements, rendering their operations competitive. However, they are small on the average and fragmented, and the resources they mobilize are often insufficient to trigger long-term benefits. Besides organizational and managerial constraints which tends to keep them small and fragmented, the financial resources they mobilize are likely to remain small relative to the potential and may not always be productively utilized.

With excess liquidity in the commercial banks co-existing with unmet demand for credit in the small-scale enterprise sector (both urban and rural areas), the policy challenge calls for developing the informal institutions to better serve society and to bridge the gap between excess liquidity of the formal banks and shortage of credit in the small-scale sector. While the formal financial institutions remain the key to the mobilization of long-term savings, the need to forge a strong linkage between the formal and informal financial institutions becomes important considering the grassroots reach of the latter and their persistence and durability. A successful networking between the formal and informal institutions would help to minimize the fragmentation of the financial market, increase efficiency and maximize benefits all round. The formalization of the informal financial institutions could also be encouraged through technical assistance from the central bank and other financial institutions.

Concomitant with the drive to create a more conducive policy and institutional environment for the mobilization of resources, governments should strive also to increase their own savings by increasing revenue and reducing recurrent expenditures. Any policy to expand revenue in the state budget will inevitably therefore call for upgrading tax administration, expanding the tax base, making taxes more progressive and introducing new taxes. Governments could also introduce taxes targeted at financing specific infrastructural projects, for example, education tax, health tax, and tolls on roads where feasible. State pension schemes into which wage and salary earners may pay a portion of their incomes with matching contributions by employers could be expanded to include the private sector.

There is a growing perception or new orthodoxy which says that governments in Africa and in developing countries in general should be able to save money and reduce subsidies on loss-making public enterprises through privatization. The major challenges for most governments however, as was pointed out in the 1994-1995 Economic and Social Survey, is to avoid "selling the family jewel for a song" or mortgaging a large slice of national assets to foreign interests in the face of paucity of domestic savings and absence of aggressive local entrepreneurship and capital markets. It is these considerations that have led to the understandable reluctance on the part of some African countries to dispose of public enterprises entirely to foreign investors often at give away prices.

In order to make public enterprises serve as the vehicle for mobilizing increased revenue, some African governments have as a first step restructured, reoriented and recapitalized public enterprises to improve their efficiency and strengthen their competitive position. In many countries these reforms have paid off handsomely, since the public enterprises have managed not only to cover their costs but also now contribute to the government treasury. The process of reform should continue to deepen and broaden the efficiency and profitability of these enterprises, and allow a subsequent spin-off of some of them as private sector enterprises.

Efforts to expand revenues should also be accompanied by measures to rationalize government expenditure. During the last few years, expenditures have been rising in many African countries because of: increased outlay for social services; general government administration; defence and security, subsidies to and debt of public enterprises and utilities, debt service payments, etc., without a concomitant rise in revenue. In spite of efforts to limit recurrent expenditures, the fiscal potential for mobilizing developmental resources in African countries has not yet been fully exploited. Therefore, government should design and adopt a programme of austerity with efficient use and strict control of budgetary expenditures to eliminate internal leakages in the form of wasteful expenditures, and shift savings to finance investment. In this connection, African governments need to introduce and further enhance cost effective operations and revise their defense and security-related outlays. Although significant strides have been made by a number of countries, more needs to be done to divert resources from these lines of expenditure to more productive uses.

SOCIAL SECURITY: A CRITICAL ISSUE IN SOCIAL DEVELOPMENT

One of the critical issues of social development and an essential requirement for human welfare and a generally high level of productivity in African countries is social security. Whether provided in formal institutions or through less formal traditional arrangements, social security implies a minimum level of well-being for the individuals in a society, in terms of access to basic subsistence needs, such as food, health, housing, education, employment opportunities and protection from loss of income in old age, sickness or disability.

The greatest challenge to the developing countries in this area of policy is that formal social security systems, as they exist in industrialized countries, offering protection from socio-economic risks through social insurance, social assistance and welfare services, employers' compulsory liability schemes, pension schemes, provident funds and other programmes, including provisions for retirement and old age as well as sickness, accident and unemployment compensation, are quite insignificant and even non-existent in some cases. The concept of social security has thus to be much broader in the developing countries because of widespread deficiencies in basic needs and acute symptoms of poverty among urban and rural communities in both the formal and informal sectors.

Sustained contributions to formal social security systems in Africa are not common, and traditional mechanisms are more the norm. The current reality is that formal social security systems do no more than supplement the traditional and informal sources of social security in continent. In fact, where formal benefits do exist in old age, unemployment, sickness or disability, they are all frequently too low and have to be supplemented by own or extended family resources; and it is in this sense that the values of the African family and community life need to be nurtured, fostered and clearly endorsed as the foundation stone of security and social stability in African societies. The extended family, traditional political institutions and solidarity and community associations -- all have vital roles in providing social security, and access to land which is a key factor in traditional social security. With kinship as the basis of organized solidarity, the African extended family is essentially a unit of production, consumption and social security, and has been the basic unit of subsistence economies in traditional Africa. Recognition of this social reality in Africa is seen in the recommendations included in the African Common Position on Human and Social Development adopted by the African Heads of State and Government at their thirtieth Ordinary Session in Tunis in 1994. Measures recommended for poverty alleviation included "targeting of resources and social services to improve the conditions of the poor, marginalized and more vulnerable sections of the population, including women, children, youth and the disabled"; and, "supporting and encouraging the African extended family system to fulfil its traditional functions of social integration and security".

In further developing their social security systems, African countries must not only learn from the pioneering experience of industrialized societies where supplementary cash benefits and a wide range of social services have been taken for granted, but many of which are now reducing such benefits and taking serious measures to prevent bankruptcy of their State-based funds, in the face of inflation and unsustainable deficits in public spending. They need to also address the challenges posed by the disintegration of traditional social security systems as well the poverty of social services and infrastructure, especially in health and medical care. They will have to integrate social security programmes with all aspects of development planning, including plans for expanding basic social services, in particular food and health security, as well as education and other basic services, particularly at the local level.

In consonance with the Bamako Initiative and Saitama Declaration, ECA member States must intensify efforts to develop strategies for health care financing, community participation and mobilization for health care provision and extensive training for community health workers. Government expenditure in the health sector must be restructured in favour of preventive and community health care, paying particular attention to the rural and urban poor. Some of the areas needing urgent attention are maternal and child health services, especially immunization and family planning programmes, public health education, clean water, the containment of HIV/AIDS, sexually transmitted diseases and tuberculosis, promotion of healthy lifestyles and stable and safe environment. Also, by making the best possible education available to children, parents in traditional societies can still be assured of better security in old age not only in terms of what their children could do to make their old age more contented, but also and particularly in terms of the peace of mind and happiness that they enjoy to see their children holding their own in society and, quite often, doing much better than themselves.

Ultimately, however, the provision of adequate social security in a society is a matter of political consensus, financial affordability and efficient management. The one thing that is certain and must not be ignored in Africa is the current global trend towards the provision of social security in partnership between public and private sectors, with a wide range of social service infrastructure and community programmes aimed at the most needy and vulnerable. The commitment to social security and the urge to mobilize the entrepreneurial qualities of their populations have already propelled several African countries to initiate special programmes for employment promotion and creation on a massive scale as a primary strategy of self-propelled social security, targeted at workers in both formal and informal sectors.

Coordination and harmonization between national social security systems in Africa also holds a bright prospect for the future. Important too are arrangements for transferability of benefits with change of employment location within and between national boundaries, so that labour mobility does not cause disruption of length of service credits, or "double taxation" across borders. The regional harmonization of systems can be pursued within the standards of ILO Convention 102, and others relevant to employment and social security. It is clear that an African Social Security Convention or some similar instrument will be needed to provide a regional framework for guiding further development of social security coverage in the region, and as a foundation for further action on labour benefits within the African Economic Community.

TABLE OF CONTENTS

PART TWO:

PART THREE:

STATISTICAL ANNEXES 171

LIST OF TABLES:

Part One

Part Two

Part Three

LIST OF FIGURES:

Part One

LIST OF BOXES:

Part One

Part Two

Part Three

EXPLANATORY NOTES:

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In the tables throughout the Survey, multiple dots (..) or (...) indicate that data are not separately reported, while a dash (-) indicates that the amount is nil or negligible and a single dot (.) indicates that the item is not applicable.

A hyphen (-) is used between dates, e.g., 1988-1990, to signify the full period involved, and a stroke (/) indicates a crop year, fiscal year or plan year, e.g., 1988/1989.

The term "billion" signifies a thousand million.

References to "tons" indicate metric tons, and to "dollars" ($) indicate United States dollars, unless otherwise specified.

ABBREVATIONS AND ACRONYMS:

The following acronyms of organizations and subsidiary bodies are used in the Survey:

ATPC	*Association of Tin Producer Countries*
CEPGEL	*Economic Community of the Great Lakes Countries*
CFA	*African Financial Community*
CILSS	*Permanent Inter-State Committee on Drought Control in the Sahel*
DIESA	*Department of International Economic and Social Affairs (of the United Nations)*
ECA	*Economic Commission for Africa*
ECCAS	*Economic Community of Central African States*
ECOWAS	*Economic Community of Western African States*
EEC	*European Economic Community*
EC	*European Community*
EU	*European Union*
FAO	*Food and Agriculture Organization of the United Nations*
GATT	*General Agreement on Tariffs and Trade*
IEA	*International Energy Association*
IGADD	*Inter-Governmental Authority on Drought and Development*
ILO	*International Labour Organization*
IMF	*International Monetary Fund*
OECD	*Organization for Economic Co-operation and Development*
OPEC	*Organization of Petroleum Exporying Countries*
PTA	*Preferential Trade Area for Eastern and Southern African States*
SADCC	*South African Development Co-ordination Conference*
UNCTAD	*United Nations Conference on Trade and Development*
UNESCO	*United Nations Educational, Scientific and Cultural Organization*
UNFPA	*United Nations Fund for Population Activities*
UNHCR	*United Nations High Commissioner for Refugees*
UNICEF	*United Nations Children's Fund*
UNIDO	*United Nations Industrial Development Organization*
WTO	*World Trade Organization*

The following abbreviations related to activities of the United Nations System are used in the Survey:

AAF-SAP	*African Alternative Framework to Structural Adjustment Programmes for Socio-Economic Recovery and Transformation*
APPER	*Africa's Priority Programme for Economic Recovery, 1986-1990*
IDDA	*Industrial Development Decade for Africa: I, 1980-1990; II,1990-1999*
PANAFTEL	*Pan-African Telecommunications Network*
UN-PAAERD	*United Nations Programme of Action for African Economic Recovery and Development, 1986-1990*
]UNTACDA	*United Nations Transport and Communications Decade in Africa: I, 1979-1988; II, 1989-1998*

The following economic and technical abbreviations, in addition to the most common abbreviations, symbols and terms, are used in the Survey.

b/d	*Barrel a day*
ACP	*African, the Caribbean and the Pacific*
DPT	*Diphtheria, Pertussis and Tetanus*
GDP	*Gross domestic product*
GFCF	*Gross fixed capital formation*
GNP	*Gross national product*
MVA	*Manufacturing value added*
ODA	*Official development assistance*
ORT	*Oral rehydration therapy*
PIP	*Public investment programming*
SAP	*Structural adjustment programme (of IMF)*
SDR	*Special drawing right (of IMF)*
TDR	*Total dependency ratio*
TLU	*Tropical livestock unit*
TOE	*Tons oil equivalent*
U5MR	*Under-five mortality rate*
VAT	*Value Added Tax*
WAG	*Working age group*

Part One

ECONOMIC AND SOCIAL SITUATION IN AFRICA, 1995-1996

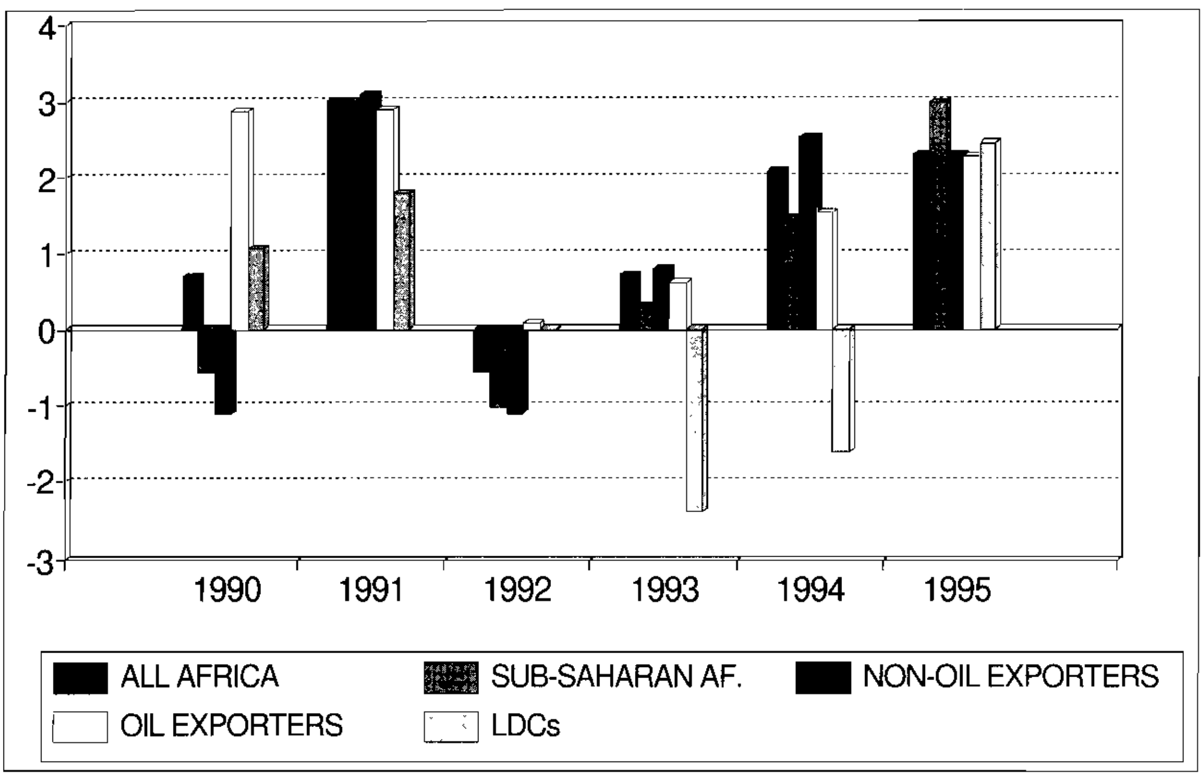
II
THE AFRICAN ECONOMY IN 1995

A Continued Recovery in Regional Output and Performance

1. Economic growth and its sources

The African economy achieved its second highest annual growth rate in 1995 since the beginning of the decade. The gross domestic product (GDP) of the African region grew by 2.3 per cent in 1995, compared to the revised figures of 2.1 per cent for 1994 and 0.7 per cent in 1993. African least developed countries (LDCs) also experienced an improvement in income performance for the first time since 1992. The real GDP growth rate for the 33 African LDCs stood at 2.4 per cent in 1995, against -2.4 and -1.6 per cent in 1993 and 1994, respectively. This is a further positive confirmation of the recovery that has taken place in Africa in recent years. The average growth rate, of course, masks variations in country and subregional performances. Still, several national economies in Africa are now growing faster than their populations, which in itself is a welcome sign that overall growth trends in Africa are beginning to gather momentum towards the recovery evident in the global economy, although there is a significant number of countries at the lower end of the growth spectrum.

Fig 1.1 : Africa's GDP Growth Rates (%), 1990-1995 (at 1990 prices).



But progress was uneven among countries and subregions. Table I.1 provides a frequency distribution of the countries in the African region according to GDP growth rates. Of the 53 countries, 55 per cent or 23 countries posted a rate of growth of less than 3 per cent, while for 36 per cent or 19 countries the rate ranged between 3 and 6 per cent. Eight countries recorded growth rates ranging between 6 and 8 per cent. The eight countries with the most impressive GDP growth rates in 1995 were Burkina Faso (6.0 per cent), Côte d'Ivoire (6.6 per cent), Ghana (6.9 per cent), Kenya (6.1 per cent), Malawi (6.2 per cent), Mali (6.0 per cent), Togo (6.7 per cent) and Tunisia (6.7 per cent). Botswana and Mauritius are the two countries that have consistently over the last four years or so recorded growth rates in excess of 5.0 per cent. Of the 27 countries with GDP growth rates in excess of population growth, five are to be found in the Southern African subregion, 8 in the Eastern African subregion, 12 in Western Africa and 2 in North Africa. In the Central Africa, population exceeded GDP growth in 1995 as in the previous years. In general, the countries of Southern and Eastern Africa, it would seem, have performed better than those in other subregions, the intermittent impact of droughts and pest infestation on the agricultural sector in the two subregions notwithstanding.

Despite the recovery in GDP, there are concerns that the growth rate of goods and services remain well below the rate of population growth, and these have continued to haunt policy makers both within and outside Africa. On a regional basis, per capita income has been declining continuously since 1980s. While some countries have attained and maintained a rate of growth far in excess of their population, many others continue to endure low and even negative growth rates. In tandem with the decline in the share of global GDP, the quantum of Africa's trade has fallen steadily over the years to a little over 2 per cent of total world trade in 1995 from more than 3 per cent in 1990 and 5 per cent in 1980. Apart from deteriorating terms of trade and limited market access, the conjunction of declining ODA with debt overhang had continued to hamper the development of many African countries.

Table I.1
Frequency Distribution of Countries According to Percentage Growth Rate of GDP, 1990-1995

GROWTH RATE	1990	1991	1992	1993	1994	1995 **
NEGATIVE	ALGERIA BENIN CAMEROON CENTRAL AF. REP CHAD COTE D'IVOIRE EQUATORIAL GUINEA ETHIOPIA LIBERIA MAURITANIA RWANDA SAO TOME & P SOUTH AFRICA SUDAN ZAIRE 15 *	ANGOLA CAMEROON COTE D'IVOIRE ETHIOPIA LIBERIA MADAGASCAR MALI RWANDA SAO TOME & P SEYCHELLES SOMALIA SOUTH AFRICA TOGO ZAIRE ZAMBIA 15 *	CAMEROON CENTRAL AF REP COTE D'IVOIRE ETHIOPIA GABON LIBYA MALAWI MOROCCO MOZAMBIQUE NIGER SIERRA LEONE SOMALIA SOUTH AFRICA SWAZILAND TANZANIA TOGO ZAIRE ZAMBIA ZIMBABWE 19 *	ANGOLA CENTRAL AF REP CHAD COMOROS CONGO COTE D'IVOIRE LIBERIA LIBYA MALI MOROCCO NAMIBIA SENEGAL SIERRA LEONE SUDAN TOGO ZAIRE 16 *	ALGERIA CAMEROON CONGO GAMBIA LESOTHO LIBERIA MALAWI RWANDA SEYCHELLES SOMALIA SWAZILAND TANZANIA ZAIRE ZAMBIA 14 *	MOROCCO SUDAN ZAIRE 3 *
0 < 3	BURKINA FASO CAPE VERDE COMOROS CONGO DJIBOUTI GHANA MADAGASCAR MALI MOZAMBIQUE SOMALIA TOGO ZAMBIA ZIMBABWE 13 *	ALGERIA CENTRAL AF REP CONGO DJIBOUTI EGYPT GAMBIA GUINEA KENYA LESOTHO MOZAMBIQUE NIGER SENEGAL SIERRA LEONE 13 *	ALGERIA BENIN CAPE VERDE DJIBOUTI EQ GUINEA EGYPT KENYA LESOTHO LIBERIA MADAGASCAR MAURITANIA NAMIBIA SAO TOME & P. SENEGAL TUNISIA UGANDA 16 *	ALGERIA BOTSWANA CAMEROON CAPE VERDE DJIBOUTI EQ GUINEA ETHIOPIA GABON KENYA MADAGASCAR NIGER NIGERIA RWANDA SAO TOME & P SOMALIA SOUTH AFRICA 16 *	BURUNDI COTE D'IVOIRE DJIBOUTI EGYPT EQ GUINEA GABON LIBYA MALI NIGER NIGERIA SAO TOME & P SENEGAL SIERRA LEONE SOUTH AFRICA SUDAN 15 *	ALGERIA CAMEROON CENTRAL AF REP COMOROS CONGO DJIBOUTI EGYPT EQ. GUINEA GABON GUINEA B LIBERIA LIBYA MOZAMBIQUE NAMIBIA NIGERIA RWANDA SAO TOME & P. SEYCHELLES SIERRA LEONE SOMALIA SOUTH AFRICA ZAMBIA ZIMBABWE 23 *
3 < 6	BOTSWANA BURUNDI EGYPT GABON GUINEA GUINEA BISSAU KENYA MALAWI MOROCCO NAMIBIA NIGER SENEGAL SEYCHELLES SIERRA LEONE TANZANIA UGANDA 16 *	BENIN COMOROS EQ GUINEA GHANA GUINEA BISSAU MAURITANIA MAURITIUS MOROCCO NAMIBIA NIGERIA SWAZILAND TANZANIA UGANDA ZIMBABWE 14 *	ANGOLA BOTSWANA BURKINA FASO CHAD COMOROS CONGO GHANA GUINEA GUINEA BISSAU MAURITIUS NIGERIA RWANDA SEYCHELLES SUDAN 14 *	BENIN BURKINA FASO BURUNDI EGYPT GHANA GUINEA BISSAU MAURITIUS MOZAMBIQUE SEYCHELLES TANZANIA TUNISIA UGANDA ZAMBIA ZIMBABWE 14 *	BENIN BOTSWANA BURKINA FASO CAPE VERDE CENTRAL AF. REP CHAD COMOROS ERITREA ETHIOPIA GUINEA GUINEA B. KENYA MADAGASCAR MAURITANIA MAURITIUS NAMIBIA ZIMBABWE 17 *	ANGOLA BENIN BOTSWANA BURUNDI CAPE VERDE CHAD ERITREA ETHIOPIA GAMBIA GUINEA LESOTHO MADAGASCAR MAURITANIA MAURITIUS NIGER SENEGAL SWAZILAND TANZANIA UGANDA 19 *
6 < 8	ANGOLA LIBYA MAURITIUS NIGERIA SWAZILAND TUNISIA 6 *	BURKINA FASO CAPE VERDE GABON LIBYA MALAWI 5 *	BURUNDI GAMBIA 2 *	GAMBIA GUINEA MAURITANIA 3 *	ANGOLA TUNISIA 2 *	BURKINA FASO COTE D'IVOIRE GHANA KENYA MALAWI MALI TOGO TUNISIA 8 *
> 8	GAMBIA LESOTHO 2 *	BOTSWANA BURUNDI CHAD SUDAN TUNISIA 5 *	MALI 1 *	LESOTHO MALAWI SWAZILAND 3 *	GHANA MOROCCO MOZAMBIUQE TOGO UGANDA 5 *	
TOTAL	52 *	52 *	52 *	52 *	53 *	53 *

Source : ECA secretariat. * No. of Countries Within the Growth Rate Brackets. ** Estimate

N.B. NO SEPARATE FIGURES OF GDP FOR ERITREA ARE AVAILABLE FOR 1994 AND 1995. HENCE GDP GROWTH RATES FOR ETHIOPIA AND ERITREA ARE ASSUMED TO BE THE SAME.

Poor growth performance and the ensuing erosion in the welfare and standard of living of the people has been most evident in the economies of the least developed of the African LDCs. While the positive growth rate posted in Africa during the current decade is salutary, it is nevertheless insufficient to compensate for the continued loss in welfare or foster and sustain economic and social development. In 1980 Africa had 10 per cent of the world's population and produced 2.8 per cent of the global GDP. By 1990 its share of the world's population had increased to 11 per cent while the share of its GDP declined to 1.7 per cent. By 1993 Africa's population share had risen to 12 per cent while its GDP share further declined to 1.5 per cent. The decline in Africa's share of GDP relative to the developing countries is even more dramatic. In 1980, Africa's share of developing countries GDP was 20 per cent. By 1990 this figure has declined to 10 per cent, sliding further to 8 per cent in 1993. The disparity between population and GDP growth at the subregional level in Africa and the risks of marginalization of the entire continent at the global level have had a decisive impact on the welfare of the people in general as well, as on social tranquility and the political stability of the nation states in Africa.

Underlying the economic performance in Africa in 1995 is a combination of internal and external factors. The growth in GDP was related mostly to the good performance of the manufacturing sector and a modest rebound in the mining sector. Growth of output in agriculture -- the mainstay of the economy -- was lacklustre. On the other hand, Africa's external trade benefitted from fortuitous increases in prices of major primary commodities. Still, many of the factors responsible for the weak economic performance in Africa over the years are at work, and so are the development problems and challenges facing the continent. But the prospects of the continent emerging from them are now better than ever. Africa is no longer an undifferentiated mass of poorly performing economies. Differences among individual African countries and groups of countries with the potential for rapid growth and socio-economic transformation have persisted, but current indications are that the capacity of African societies and economies for real and sustained growth are being increasingly realized.

Table I.2
African Economic Indicators, 1990-1995

	1990	1991	1992	1993	1994	1995
GDP GROWTH - AFRICA	0.7	3.0	-0.5	0.7	2.1	2.3
AGRICULTURE PRODUCTION	127.9	135.9	134.0	139.9	143.1	143.0
(FAO INDEX 1979-1981 = 100)						
OIL PRODUCTION (MILLION TONS)	321.4	336.4	345.4	340.1	335.1	343.2
MINING PRODUCTION INDEX (1990=100)	1.0	-4.0	-7.6	-6.7	-1.2	0.1
CONSUMER PRICE INDEX (1990=100)	16.6	31.5	44.9	37.2	60.6	43.4
OIL PRICES, BRENT CRUDE ($ PER BARREL)	24.0	20.0	19.3	17.0	15.8	17.1
EXPORT PRICES INDEX (1990=100)	12.4	-9.4	-0.2	-5.2	5.3	6.8
IMPORT PRICES INDEX (1990=100)	4.5	-0.1	3.4	-0.8	4.1	5.2
TERMS OF TRADE INDEX (1990=100)	7.5	-9.3	-3.4	-4.5	1.2	1.5
EXPORTS ($ BILLION)	99.2	95.0	92.9	87.3	87.9	97.9
IMPORTS ($ BILLION)	91.6	90.1	93.6	92.7	94.6	108.9
CURRENT ACCOUNT ($ BILLION)	-0.1	-1.7	-5.4	-8.5	-0.5	-2.1

Source : ECA secretariat.

2. Poor agricultural performance

The growth rate of value added in agriculture decelerated from 4.2 per cent in 1994 to 1.5 per cent in 1995. The down turn was much more pronounced in North, Eastern and Southern Africa, with agricultural growth estimated at -0.7 per cent in 1995 compared to the 6.1 per cent in 1994 in North Africa and 1.1 and 3.0 per cent in Eastern and Southern Africa, respectively. West Africa performed much better with value added in agriculture increasing by 4.2 per cent in 1995, although this represented a decline from the level of 5.8 per cent achieved in 1994. In the Central African subregion there was a marked rebound in agricultural output from -1.9 per cent in 1994 to 0.9 per cent in 1995.

These trends in value added evidence to a stagnation in overall agricultural output in the region with a drastic deterioration in per capita agricultural output in some subregions. According to the Food and Agriculture Organization of the United Nations (FAO), the incidence of drought in the third quarter of 1994 and the first quarter of 1995 precipitated famine conditions, affecting some 10 countries in the North, Eastern and Southern African subregions. In North Africa, the per capita agricultural output index for 1995 (base year 1990) dropped by 0.9 per cent in Algeria, 7.8 per cent in Morocco and 23.2 per cent in the Sudan. The situation in Southern Africa was particularly serious, with the per capita agricultural production index (base year 1990) declining by 11.4 per cent in Lesotho, 5.6 per cent in South Africa and 6.1 per cent in Zimbabwe. In Zambia, there was a slight increase of 1 per cent in 1995, compared to a drop of 11.9 per cent in 1994. For a number of other countries, notably Angola, Burundi, Liberia, Rwanda, Sierra Leone and Somalia, the decline in food production was one consequence of civil strife, population displacements and insecurity of life that had consigned the whole economy to subsistence.

The food situation in some parts of Africa remained a serious source of concern and anxiety in 1995, despite good harvests in others. For the entire region, food production grew at an average rate of 2.5 per cent over the period 1990-1995, less than population growth. According to FAO, Africa currently accounts for 44 of the 88 countries classified as low-income food-deficit countries while food production in sub-Saharan Africa as a whole fell by 1.4 per cent. The most severe reductions in food production took place in Lesotho, with a drop of 14.6 per cent; Morocco, with a decline of 8.8 per cent; and the Sudan with a decline of 5.6 per cent.

Aggregate cereals production is estimated to have fallen by 13.4 million metric tonnes or 11.9 per cent in 1995, from 112.4 million metric tonnes in 1994 to 99.0 million metric tonnes in 1995. The decline was particularly marked in coarse grains which fell from 82.7 million metric tonnes in 1994 to 70.5 million metric tonnes in 1995. Africa's wheat production was 13.6 million metric tonnes in 1995, against 15.5 million metric tonnes in 1994. A fall in output was noticeable in Morocco and, to some extent, in Libyan Arab Jamahiriya, the Sudan and Tunisia. However, the food output index rose by 5.3 per cent in Algeria and by 1.4 per cent in Egypt. Rice production in Africa increased from 14.2 million metric tonnes in 1994 to 14.9 million metric tonnes in 1995. Also, the production of roots and tubers, which constitute 20 per cent of the total food supply in the region, increased by 2.6 million tonnes or 1.7 per cent in 1995, from 154.7 million tonnes in 1994 to 157.3 million tonnes in 1995. Production of pulses, a key part of the diet in many areas of the region, has not shown any significant rise since 1990, remaining roughly between 6.5 and 7.0 million tonnes, while fruit and vegetable production has increased by less than 2 per cent annually. Livestock production was however on the decline in 43 African countries due to the policy of rebuilding cattle herds in many drought-affected countries since 1992-1993.

Food assistance is still urgently needed to avert crises in several countries of West and Eastern Africa, such as Burundi, Eritrea, Ethiopia, Liberia, Rwanda, Sierra Leone and the Sudan. The African region as a whole experienced a food deficit of 19.6 million metric tonnes in cereals in 1995, for which commercial food imports and food aid were needed but not readily available on account of inefficient marketing and distribution systems at the domestic level, and owing to a limited capacity to pay for imports due to escalating world cereal prices and foreign exchange scarcity. FAO estimated the total global availability of cereals food aid in 1994/1995 at 8.7 million tonnes, the lowest level since 1974, and its early forecasts suggest that food aid availability for 1995/1996 would fall even further from the level of the previous year. Total food aid deliveries to the region fell in 1994-1995 for the second successive year and to the lowest level since 1989-1990. In 1995 alone, the cereals import needs of the countries of the Eastern African subregion were about 2.6 million metric tonnes, 65 per cent of which was anticipated to come from food aid. The comparable figures were 2.3 million metric tonnes for Southern Africa, where it was possible to alleviate the food situation in South Africa and Zimbabwe largely from stocks accumulated from previous good harvests, and close to 3.2 million metric tonnes for West Africa, out of which about 80 per cent was to be met from food aid. Almost all the cereals import needs of the countries of the Central African subregion were to be satisfied through food aid. Only in North Africa were cereal import requirements, estimated at 10.9 million tonnes, met almost entirely from commercial imports of food. On the whole, the shortfall in food aid shipments to the region was estimated at 29 per cent of its total requirements for food aid.

As for cash crops, the increase of about 12 per cent in world prices for tropical beverages had a favourable effect on coffee production at 1.1 million metric tonnes in 1995, as against 1.0 million metric tons in 1994, a 10 per cent increase. Cocoa production increased by 3.7 per cent from 1.3 millions metric tonnes in 1994 to 1.4 million metric tonnes in 1995, and tea output by 8.4 per cent to 363,020 metric tonnes. Production of such industrial crops as tobacco, cotton and sugar also increased.

The implications of poor agricultural performance for African countries however go beyond weaknesses in food self-sufficiency, which is of critical importance in its own right. With the majority of people in the region deriving daily sustainance from agriculture, neither the modulation of absolute poverty nor attempts at its eradication to bring about substantial improvements in welfare can realistically be contemplated without the modernization of this all important sector.

Table I.3
Agricultural Production in Africa

	1991	1992	1993	1994	1995
CEREALS	107.9	90.5	100.2	112.4	99.0
WHEAT	17.7	13.3	13.0	15.5	13.6
COARSE GR. (1)	76.6	63.7	73.5	82.7	70.5
RICE	13.6	13.5	13.7	14.2	14.9
TUBERS (2)	141.2	147.6	156.0	154.7	157.3
CASSAVA	77.5	81.0	83.3	82.2	83.0
PULSES	6.9	6.4	6.8	6.7	6.8
FRUITS & VEG.	62.6	63.5	64.3	65.1	65.9
AGRICULTURE 3/	135.9	134.0	139.9	143.1	143.0
FOOD 3/	137.7	136.6	142.5	146.5	146.0

SOURCE : FAO, FOOD OUTLOOK, MARCH 1996.

1/ INCLUDING SWEET CORN

2/ INCLUDING PLANTAINS

3/ INDEX (1979-81 =100)

The need to increase agricultural production and productivity stems from the fact that diversification of the economy, growth and development of the non-agricultural sector, improvement in the external balance as well as in the capacity to service external debt are all grounded in the performance of this sector. African governments must therefore come to recognize and accept that without agricultural development there would be neither self-sufficiency in food nor the required resources for diversification into non-agricultural activities and the emergence of a strong service sector. Recovery and sustained growth of agriculture is a pre-condition for economic revival and social transformation.

3. Modest rebound in mining and manufacturing

The manufacturing industry recorded a positive growth rate of 4.2 per cent in value added in 1995 (see table I.4), mainly as a result of better input supplies and improvements in the importation of raw materials for agro-allied industries made possible by the favourable performance of the external account. The latter, together with a number of remedial public policy measures, including the rationalization of industries under structural adjustment programmes (SAPs), led to improvements in the level of capacity utilization. However, even in 1995, the industrial sector remained prone to a number of inherent structural weaknesses, in addition to the perennial shortages and high cost of foreign exchange for the importation of crucial inputs, spare parts and equipment.

The major constraints impeding the full utilization of existing capacity and indeed the rapid industrialization of the region are too well-known, and relate to excessive dependence on external sources of technology, capital and know-how. The conspicuous lack of a capital goods industry has rendered all industrial investment hostage to the availability of foreign exchange.

The tragedy of Africa's past industrialization drive transcended its pillage of agriculture and the rural economy. It deepened the balance of payment crisis, since the utilization of installed capacity depended on imported raw materials and spare parts. Even manufacturing industries, such as textiles and food processing, where the backward linkage with the domestic economy is very well-advanced, have remained dependent on critical and vital imports to complete their production processes. The irony here is that was what was initially advocated as the solution to the foreign exchange problem and the balance of payments constraint has turned into a major vanguard of crisis both at home and on the external front. The challenge to the African policy makers lies in reducing the structural dependence of African economies on external resources as the engine of development. And this they can do through intensive mobilization of domestic resources, diversification of economic base and enhancement of foreign exchange earning capacity.

In the mining sector, there was an increase of 2.7 per cent in value added in 1995, as against -3.7 per cent in 1994 and -0.7 per cent in 1993. As a result of the extensive reforms in the mining sector in recent years, exploration and mining investment have increased in several countries, particularly in precious metals and minerals, including gold, diamond and other gem stones. But the improved performance in production volumes in 1995 was attributable mostly to oil production, as output figures for major non-fuel minerals during the first three-quarters of the year suggest that their total annual production may have increased only modestly, if at all. Output of crude oil increased by 2.4 per cent in 1995 in comparison with a decline of 1.5 per cent in 1994, largely because of higher production figures in such non-OPEC member countries as Angola and Egypt, where output increased by 14 per cent and 3 per cent respectively (Table I.5). With OPEC production quotas remaining unchanged during 1995, there was a virtual stagnation in the level of oil production in African OPEC countries. The overall changes in output values in the mining

Table I.4
Indicators of Manufacturing Sector Performance by Subregion and Economic Groupings, 1992-1995

SUBREGIONS AND ECONOMIC GROUPINGS	SHARE OF MVA IN REGIONAL MVA (%)				SHARE OF MVA IN GDP (%)				MVA GROWTH RATES (% AT 1990 PRICES)			
	1992	1993	1994	1995 1/	1992	1993	1994	1995 1/	1992	1993	1994	1995 1/
TOTAL AFRICA	100.0	100.0	100.0	100.0	15.2	15.1	15.4	15.7	-1.0	-0.1	4.1	4.2
NORTH AFRICA	39.1	40.1	40.9	41.8	15.0	15.2	15.7	15.7	1.5	1.9	6.6	0.9
CENTRAL AFRICA	6.4	5.8	5.2	4.9	9.0	8.7	8.8	8.6	-10.0	-9.8	-1.4	-0.4
EAST AFRICA	4.0	4.2	4.4	4.5	10.9	11.1	11.4	11.5	2.8	4.7	6.1	3.9
SOUTHERN AFRICA	41.3	40.5	40.4	39.8	23.6	23.1	23.2	24.1	-2.8	-0.5	2.6	6.9
WEST AFRICA	9.2	9.4	9.2	9.0	8.1	7.8	7.7	8.2	1.5	-2.4	1.9	9.8
SUB-SAHARAN AFRICA	61.7	60.9	60.2	59.2	15.0	14.8	14.9	15.4	-2.3	-1.1	2.4	6.4
LDCs	10.4	10.5	10.1	9.9	9.4	9.3	9.6	9.7	0.1	-4.3	2.1	3.4

Source : ECA secretariat.
1/ Preliminary Estimate.

sector in 1995 were due to the almost 20 per cent increase in prices of minerals and metal ores and 7.9 per cent in oil prices in 1995. Copper prices were 27.3 per cent higher in 1995 than in 1994, while prices of nickel, copper, aluminum, cobalt, lead and iron ore rose by 30, 27.3, 22.3, 19.9, 14.6 and 6 per cent respectively.

4. The promise and perils of external trade

There were improvements in Africa's trade performance in 1995. Provisional estimates by ECA show that export earnings increased by 11.1 per cent, compared to 4.9 per cent in 1994. The value of imports rose on the other hand by 12.8 per cent, compared to 7.3 per cent in 1994. Export prices rose by 6.9 per cent, compared with 5.2 per cent in 1994, while import prices increased by 5.2 per cent in 1995, compared with 4.1 per cent in 1994. As a result, the terms of trade improved by 1.5 per cent in 1995, in comparison to an increase of 1.2 per cent in 1994, both of which are below the 1990 base year level.

The increase in export earnings is attributable to an oil price rise of about 8 per cent in 1995, and the sustained recovery in mineral and metal prices. Oil exports from Africa grew in value by 11.9 per cent in 1995, and now account for nearly 60 per cent of the total foreign exchange earnings of African countries. The rise in export prices for the two most important beverages -- cocoa and coffee -- moderated exceedingly in 1995 compared with 1994, while tea prices slumped even further during the year. Cocoa prices rose by 2.6 per cent in 1995, compared to 25.7 per cent in 1994 while coffee prices rose by 5.8 per cent, in comparison to the 123.9 per cent increase in 1994. Tea prices fell by 10.4 per cent in 1995, compared to the marginal decline of 1.3 per cent in the previous year. Overall, the aggregate price index for agricultural commodities increased by 4.5 per cent over its 1994 level.

Many African producers, it would seem, were unable to take full advantage of the rising export prices for oil, metals and minerals in 1995 due to supply difficulties and structural constraints, political instability and lack of adequate investment in the sector. It has certainly not been easy for some countries - Angola, Burundi, Liberia, Rwanda, Sierra Leone, Somalia - to conduct normal export trade in conditions of deteriorating physical and social infrastructure, and a volatile security situation. On the contrary, the environment of trade liberalization and currency depreciation in many countries has attracted an upsurge in imports of cheap manufactures and second-hand goods from the Far Eastern Asian countries, as a result of weak

Table I.5
Crude Oil Production in Africa, 1991-1995

COUNTRY / GROUP	1991	1992	1993	1994	1995 E
ALGERIA 1/	62	691.5	59.77	59.16	60.52
GABON	14.71	14.78	14.77	16.28	16.97
LIBYA	74.34	74.35	68.45	68.81	69.39
NIGERIA	93.06	97.65	102.1	94.62	96.11
SUB-TOTAL OPEC	224.09	248.28	245.09	238.87	242.99
ANGOLA	24.9	26.94	25.5	27.69	31.62
CAMEROON	7.17	6.77	5.48	5.36	4.7
CONGO	7.96	8.23	8.66	9.36	8.81
COTE D'IVOIRE	0.66	0.44	0.51	0.55	0.55
EGYPT	43.93	46.1	46.3	46.5	47.8
GHANA	0.75	0.85	0.85	0.9	0.9
TUNISIA	5.26	5.38	4.64	4.38	4.3
ZAIRE	1.37	1.3	1.14	1.45	1.5
SUB-TOTAL NON-OPEC	92.4	97.08	94.98	96.19	100.18
TOTAL AFRICA	336.44	345.36	340.07	335.06	343.17

SOURCE : UN, MONTHLY BULLETIN OF STATISTICS, VARIOUS ISSUES; OPEC ANNUAL REPORT, VARIOUS ISSUES
EIU COUNTRY REPORTS, AND COUNTRY SOURCES
E = ECA ESTIMATES
1/ INCLUDING CONDENSATES.

competitive strength of domestic goods and prohibitive local production costs.

Most African countries have continued to rely on a few primary commodities for much of their export earnings, exporting around 58 per cent of their products to the European Union (EU) market, with the EU providing 47.3 per cent of their imports. Indeed, for some countries - the Central African Republic, Comoros, Equatorial Guinea, the Niger, Sao Tome and Principe and Uganda - the dependence on the EU has been as high as 86 per cent. Following the negotiations that ended in June 1995 for the Lome IV Convention, there was enhanced accessibility to the EU market for products of the 47 African members of the African Caribbean and Pacific (ACP) group, but it was a far cry from the complete freedom of access demanded by the group. Some concessions were given on products currently subject to quotas and reference qualities, while some quota levels were raised and import duties reduced within existing quotas.

The structure and source of imports continue to be dominated by manufactured goods from Europe. While 70 per cent of Africa's import bill derives from the import of manufactures, of which 50 per cent are of European origin, an import item with respectable growth track record and one that reflects negatively on the performance of African economies is food, whose share of the import bill increased from less than 10 per cent in 1980 to 20 per cent in 1995. Africa could have spared itself commercial purchase of much of its staple food, including cereals, through home production.

Intra-African trade remained disappointingly low in 1995 as it has always been, as many of the constraints and trade-related bottlenecks (non-tariff barriers, stringent rules of origin) and structural hindrances (poor physical infrastructure, undiversified production structures, lack of trade financing, poor trade information mechanisms, etc.) remained unaddressed.

5. Unpromising trends in foreign investments and aid

The World Bank estimates foreign direct investment (FDI) flows to developing countries at \$90.3 billion in 1995, an increase of 12.7 per cent over the 1994 volume. These flows were directed mostly to two regions: Asia and Eastern Europe. The largest flow was directed to Asia, whose share grew by 36 per cent and accounted for 61 per cent of the total flows to developing countries in 1995, compared to their average share of 45 per cent during the period 1990-1992. In Africa in general, and in the sub-Saharan countries in particular, the trend of FDI is very unstable, although a few middle-income countries recorded encouraging volumes of inflows over the last two years. After a slight increase in 1994, FDI flows to sub-Saharan African countries declined by almost 27 per cent in 1995, from \$2.9 billion in 1994 to \$2.2 billion. Resource flows on account of acquisitions by international firms were mostly motivated by promising investment prospects in countries producing petroleum and minerals such as Angola, Gabon and Ghana, where the privatization process has opened up increasing opportunities for investments in the two sectors.

African countries have not benefitted fully from the surge in world investment flows despite extensive liberalizations, privatization drives and generous incentive packages. The numerous constraints on foreign investment and the high cost of doing business in Africa, particularly the inadequate infrastructure, lack of skilled manpower and poor services, have led prospective investors to be pessimistic about the continent. However, as the growing number of countries pursuing reform programmes show signs of sound recovery and profitability and as economic liberalization improves prospects for private investment, there is increasing expectation that foreign investors would be attracted to Africa in larger numbers. Studies on FDI in Africa conducted by the United Nations Conference on Trade and Development (UNCTAD) in 1995 show that the rate of return on overseas direct investment is higher in Africa than in any other region in the world, and that the continent's investment potential remains largely untapped. Indeed, the impressive track record of return on FDI in Africa belies the "miserable" image or pessimistic view that the average foreign investor generally has of Africa.

Net flows of official development assistance (ODA) to Africa declined from \$25 billion in 1992 to \$21.5 billion in 1993, slightly increasing to \$23.5 billion in 1994. Although ODA represents the most important source of foreign resource inflows for the African low-income countries, prospects for future increases are slim. The average ratio of net ODA to donors' gross members national product (GNP) has declined steadily because of the budgetary constraints in many of the most important members of the development assistance countries (DAC). But other factors, like the growing demand for aid from countries in transition, reorientation of donor countries' aid policy and the quest for aid effectiveness, are likely to harden eligibility criteria and reduce the volume of available official flows in the near future.

While private capital flows have expanded rapidly to become a major source of financing for developing countries, African countries have not, however, been able to draw heavily on this source of finance, owing to limited physical and human infrastructure, rather rudimentary national measures and poor conditions for fostering investment, and a low credit rating. An increasing number of African countries have embarked on the development of capital markets in order to encourage local and foreign private investment in securities. But only a few African capital markets with a potential for high rates of return have as yet attracted international investors, most of whom remain cautious. In Ghana, for instance, the Ashanti Goldfield Company Limited raised about US$60 million from 3 million new ordinary shares in 1995, while Namibia's stock exchange has been buoyed by the listing of Cooperative Grocery Wholesale Buying Group Sentra of Namibia, offering 2 million shares worth US$2.53 million. South Africa's Johannesburg Stock Exchange (JSE) was set for the biggest shake-up in its 108-year history, following the deregulation plan decided upon by Parliament in November 1995. The plan overhauls the JSE on similar lines to the London Stock Exchange's big bang of 1986, allowing foreigners and non-brokers to own up to 100 per cent of stockbrokerage firms. However, for the stock exchanges in Africa to become more competitive, there must be deregulation and a repeal of current regulations that place ceilings on foreign investment in local companies, removal of exchange controls that hinder free transfers of money, and reduction in dealing costs.

6. Persistence of debt problems

The external debt and debt-servicing obligations of Africa continue to impose a major constraint and threat to an orderly economic recovery and sustainable development. At US$322 billion or 16 per cent of all the developing country debt in 1995, and with an average growth rate of 1.5 per cent per annum during the first half of the decade, the debt burden is light and the rate of increase low by any global standard. What has made this burden unbearable to many African countries is the limited capacity to service the debt as well as the decreasing volume of new lines of credit on account of poor credit ratings and servicing difficulties.

The current debt stock represents 70 per cent of GDP and 250 per cent of exports of the region. The annual debt service requirement has grown from US$ 23 billion in 1994 (23 per cent of exports of goods and services) to US$ 33 billion or 30 per cent of the annual export earnings in 1995. This heavy outlay has imposed significant and at times an impossible burden on many of the African countries mainly because the annual debt is increasing at a rate faster than real GDP and export earnings have failed to keep pace with the growth in debt service requirements. Of the 51 African countries (excluding Eriteria and the Saharawi Arab Republic) 33 are categorized as severely indebted, 10 as moderately indebted and only 8 as lightly indebted. Of the 33 highly indebted countries, 31 are low- income and 2 middle-income; which of course accentuates the debt servicing difficulties.

Disaggregating the regional debt burden between the North and Sub-Saharan African countries underscores the unsustainablity. The North African countries share of the total regional debt stock is 43 per cent. Only two countries (Algeria and Sudan) are included among the severely-indebted. Of the 45 SSA countries with 58 per cent of the regional debt, 31 are categorized as severely-indebted, of which 23 are in the low-income category. Although the burden of servicing the debt has reached an unsustainable level for all, the distress is much more pronounced in the case of the poorest of the poor.

Efforts to alleviate the debt burden, particularly of the severely indebted, continued to be actively pursued. Ten countries arrived at restructuring agreements with official creditors under the Naples Terms while for eight others their debts were rescheduled through the Paris Club. Much as relief through more favourable repayment arrangements and cancellations is welcome, African governments must themselves recognize and appreciate that this does not come without a cost in the form of reduced future inflows. Debt distress has already cast a shadow of uncertainty and reduced the credit-worthiness of African countries so much so that, for many and particularly those in the SSA, the only source of external finance are the official creditors. ODA is on a declining rend and may eventually be crowded out by the global capital market. Beginning in the 1980s, the average ratio of net

ODA to donors GNP has declined steadily because of budgetary constraints in many of the most prominent members of the DAC. The declining supply is further accentuated and stretched by growing demand both from the traditional recipients and from new comers such as the transition economies.

African countries need per force to tap into the growing global capital market. As a major pre-condition to qualify for and access this market, African countries will have to upgrade their credit worthiness and build up the general trust and goodwill of the market participants. An essential first step in this regard is for African countries to step up their drive to earn more foreign exchange by diversifying their production mix and exports, honouring as much as possible their international obligations and shifting the burden of financing investment from external dependence through intensified domestic mobilization and efficient utilization of resources. Above all, Africa must reposition itself to meet the challenges of global competition in the capital market.

7. Still not enough domestic savings and investment

The achievement of rapid growth requires a high rate of investment in economic and social infra-structure as well as in human capital, backed up by high rates of domestic savings in both the public and private sectors. With the fall in the inflow of external resources in real terms and with little prospects for any major improvement in access to external savings, African countries need to maximize the availability of domestic savings and to invest them productively.

In 1995, gross fixed investment for the region increased by 5.6 per cent, down by almost 1 per cent from the 6.5 per cent growth achieved in 1994. The overall investment ratio in the region rose to 21.3 per cent of GDP in 1995 but in 25 sub-Saharan African countries it was actually less than 16 per cent. Even with a considerable increase in the efficiency of resource allocation and resource use, the attainment of an aggregate GDP growth rate of 8 per cent per annum in Africa and the doubling of per capita income over the next 15 years will require an investment rate that would be almost double the current rate. Since most of the additional funding must be mobilized from domestic financial resources, the gross domestic savings rate of 19.6 per cent in 1995 must be viewed as rather inadequate.

Africa's savings trends reveal a rather disturbing picture for the first half of this decade, with gross domestic savings declining from a high of 22.5 per cent of GDP in 1990 to a low of 18.9 per cent in 1993, with a slight recovery to 19.6 per cent in 1995. While the decline in the savings ratio is a regional phenomenon, it has been most pronounced for the sub-Saharan African countries, where the savings to GDP ratio fell from 19.6 per cent in 1990 to 16.3 per cent in 1995.

The magnitude of the shortfall in private savings relative to other developing countries is indicative of the challenges and potentials facing African Governments. For example, private savings in East Asian countries averaged 28 per cent of GDP during the 1986-1993 period. In contrast, private sector savings in sub-Saharan Africa averaged 15 per cent of GDP between 1986 and 1992 and was in surplus relative to the low volume of private investment. But government saving was negative for four of the seven years covered by the period 1986-1993 while public investment was on the decline, from a high of 7.2 per cent of GDP in 1986 to 5.9 per cent in 1992. Private saving in Africa has been historically low, not for lack of investible resources per se, but more so because of inadequacy in its mobilization and use for productive and growth-inducing investment. With greater efforts on the part of governments in the mobilization and proper management of public revenue and appropriate policies, institutional arrangements and incentive structures put in place, increased resources can be generated for higher levels of investment.

B Divergent Growth in Output among Subregions

1. Overview of subregional growth

For a continent as large and diverse as Africa, average continental trends naturally mask wide differences in performance among groups of countries (Table I.6). In 1995, the West, Eastern and Southern African subregions registered growth rates in excess of the regional average, owing to the improved performance in their agricultural and mining sectors. GDP in West Africa grew by 4.1 per cent in 1995, compared to an increase of only 1.0 per cent in 1994; while in Eastern and Southern Africa it grew by 4.8 and 2.9 per cent as against 4.2 and 2.6 per cent respectively, in 1994. GDP growth has been limited to a mere 1.1 per cent in Central Africa on account of continuing poor economic performance in Burundi, Cameroon, the Congo, Rwanda and Zaire.

2. North Africa: Growth deceleration

In North Africa, which accounts for over half of overall African regional output, there was a deceleration in GDP growth rate from 2.9 per cent in 1994 to 1 per cent in 1995, due mainly to falls of 5 per cent in real output in Morocco and 6 per cent in the Sudan. According to FAO, aggregate cereals production fell in the subregion to 22 million tons, which was about 4.7 million metric tonnes or 18 per cent below the previous years above-average harvest. Output of wheat fell by 22 per cent to 8.9 million tons while the coarse grains crop dropped by 2.5 million tons to 8.3 million tons. These declines were due principally to drastic reductions in wheat and barley harvests in Morocco as a result of severe drought, the resulting shortfalls in supply being met through increased importation. In Tunisia, both wheat and barley crops remained markedly below average for the second year, while pollution and over-fishing reduced fish catches. Above-normal wheat harvests were recorded for Algeria where production almost doubled and output of barley almost tripled, and in Egypt which experienced an increase in the area under cultivation and a 4 per cent increase in paddy-rice production. The increasing success with food surpluses in Egypt is associated to a large extent with sustained government policies on infrastructural development, including land reclamation, provision of assistance for the improvement of agronomic research and practices and the raising of producer prices to remunerative levels.

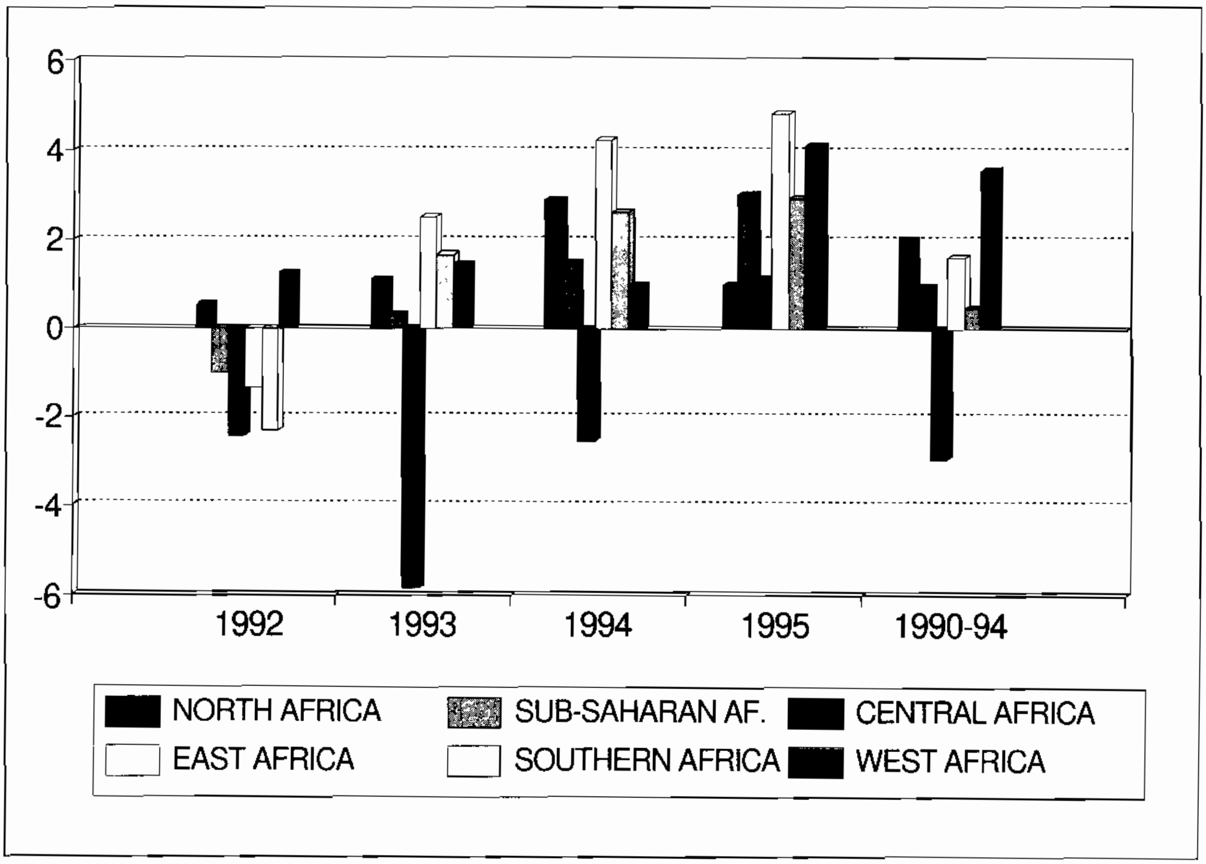
Manufacturing industry also performed poorly in the subregion in 1995, especially in Algeria and the Sudan, where negative growth rates prevailed in manufacturing valued added (MVA) due in part to shortages of foreign exchange for the importation of basic industrial inputs. However, crude oil production seemed to have been immune to the mounting political uncertainties and security situation in Algeria in 1995. Total production rose by an estimated 2.3 per cent to reach 60.52 million tons although several foreign companies had pulled back from new commitments and concessions, with the exception of a number of oil field development projects and Sonatrach's construction and expansion of gas pipelines to Europe which proceeded on schedule. Oil production was also on the increase in the Libyan Arab Jamahiriya, despite United Nations sanctions, and in Egypt as well. Only in Tunisia did oil output decline, from 4.51 million tons in 1994 to 4.48 million tons in 1995. The economy of the Libyan Arab Jamahiriya is estimated to have grown by 1.5 per cent in 1995, following years of output declines and economic difficulties, especially export and import disruptions, brought on by sanctions. Phosphate rock production increased in Egypt, Morocco and Tunisia during 1995, making Tunisia the world's fifth largest exporter.

3. West Africa: Strong rebound in growth

In the West African subregion, growth was buoyant in 1995, with real GDP increasing by 4 per cent, in comparison with the 1.0 per cent growth rate achieved in 1994. There was only a small recovery in GDP growth in Nigeria in 1995, but Côte d'Ivoire, the largest CFA economy in the subregion, is reported to have achieved a growth rate of 6.5 per cent in 1995, as against 1.7 per cent in 1994. Due to relatively regular and abundant rains and a low incidence of pest infestation, production of cereals, roots and tubers is estimated to have increased markedly in 1995 in the Sahelian countries of the subregion, except Chad, Mali and the Niger. In the coastal countries, except Liberia and Sierra Leone where population displacements and insecurity severely disrupted agricultural production and the food supply situation, cereal production ranged from normal to above-normal, estimated at 21 million tons. Total cereal production for the subregion is estimated at 28.0 million tons for 1995, compared to 28.9 million tons for 1994 and 29.5 million tons for 1993.

Paddy-rice output rose by 0.4 million tons to 6.0 million tons. Côte d'Ivoire and Ghana had larger crop harvests in 1995, even though severe flooding and ethnic conflicts in the northern provinces at the beginning of the year disrupted millet, sorghum and rice production in some areas. Nigeria's paddy-rice production increased by 21 per cent from 2.4 million tons to 2.9 million tons. In contrast, Sierra Leone's paddy-rice harvest was 284,000 million tons, 30 per cent less than that of the previous year as civil war severely disrupted production. Liberia's 1995 paddy-rice output was 60,000 tons, about a quarter of the pre-crisis level; production in 1995 dropped by some 77 per cent for rice and 50 per cent for cassava compared to the pre-civil war levels. Population displacements left large tracts of agricultural land deserted and uncultivated in these two countries; with the civil war taking a heavy toll on rubber, timber logs and iron ore production in Liberia and diamond mining in

Fig. I.2 African Subregions



Sierra Leone. Cocoa production increased significantly in Côte d'Ivoire and Ghana in 1995 due to good weather and increases in producer prices to remunerative levels.

The growth performance of manufacturing industry in the subregion was adversely affected by the unsettled situation in Nigeria where problems of a battered infrastructure, collapsing consumer demand, inflation and internal political difficulties arising from a stalled transition programme have forced manufacturers to cut output and jobs sharply. Crude oil production experienced disruptions and operational difficulties during 1995, jeopardizing progress on strategic joint projects, while capacity utilization of 27 per cent achieved in the manufacturing sector in 1995 was the lowest in 12 years. In contrast, the performance of the industrial sector in Ghana in 1995 was more than double the dismal level recorded in 1994, driven for the most part by increases in gold output. In Guinea, high production costs have continued to dampen aluminum output, while iron ore production in Liberia has been adversely affected by civil war.

4. Central Africa: Weakness persists

The economy of the Central African subregion showed a modest upturn in 1995, compared to the negative trends in GDP growth since 1990. Subregional GDP grew by 1.1 per cent compared to the declines of 2.5 per cent in 1994 and 3.0 per cent on average for the period 1990-1994. The free fall of the economy of Zaire -- the largest in the subregion -- continued in 1995, albeit with some significant modulation. There was indeed a small recovery of 0.6 per cent in GDP growth rate, compared to the decline of 7.2 per cent in 1994. But inflationary pressures remained strong, while the scarcity of foreign exchange deepened. Agriculture was perhaps the saving grace, with buoyant harvests of coarse grains in 1995, following favourable growing conditions, although lack of transport and poor marketing infrastructure are still major constraints in Zaire. Copper production stabilized at the 1994 level of 30,000 tons which was 35 per cent lower than the 46,000 tons in 1993.

Economic performance of the three oil exporters in the subregion -- Cameroon, the Congo and Gabon -- remained poor in 1995. Economic activities were hampered in the Congo by continuing budgetary and debt-servicing problems, an over-sized civil service and a private sector that is yet to be fully empowered. Aggregate cereals production was above average in almost all countries of the subregion, but in Rwanda and Burundi, insecurity in certain parts and the slow repatriation of refugees from the United Republic of Tanzania and Zaire is disrupting food production, while the repercussions of political and ethnic turmoil on the economies of the subregion remain strong. Due to the favourable weather conditions and improved input supply, food production increased by about 17 per cent in Burundi in 1995, but still the country needed some 104,000 tons of cereals and vegetables to make up for its food deficit. Land under cultivation in Rwanda had shrunk by almost 34 per cent and the fragility of the food supply situation was most evident in the decline of more than 40 per cent in cereals production in 1995, a reminder that complete rehabilitation of the agricultural sector will take several years to accomplish.

5. Eastern Africa: Agriculture drives modest rebound

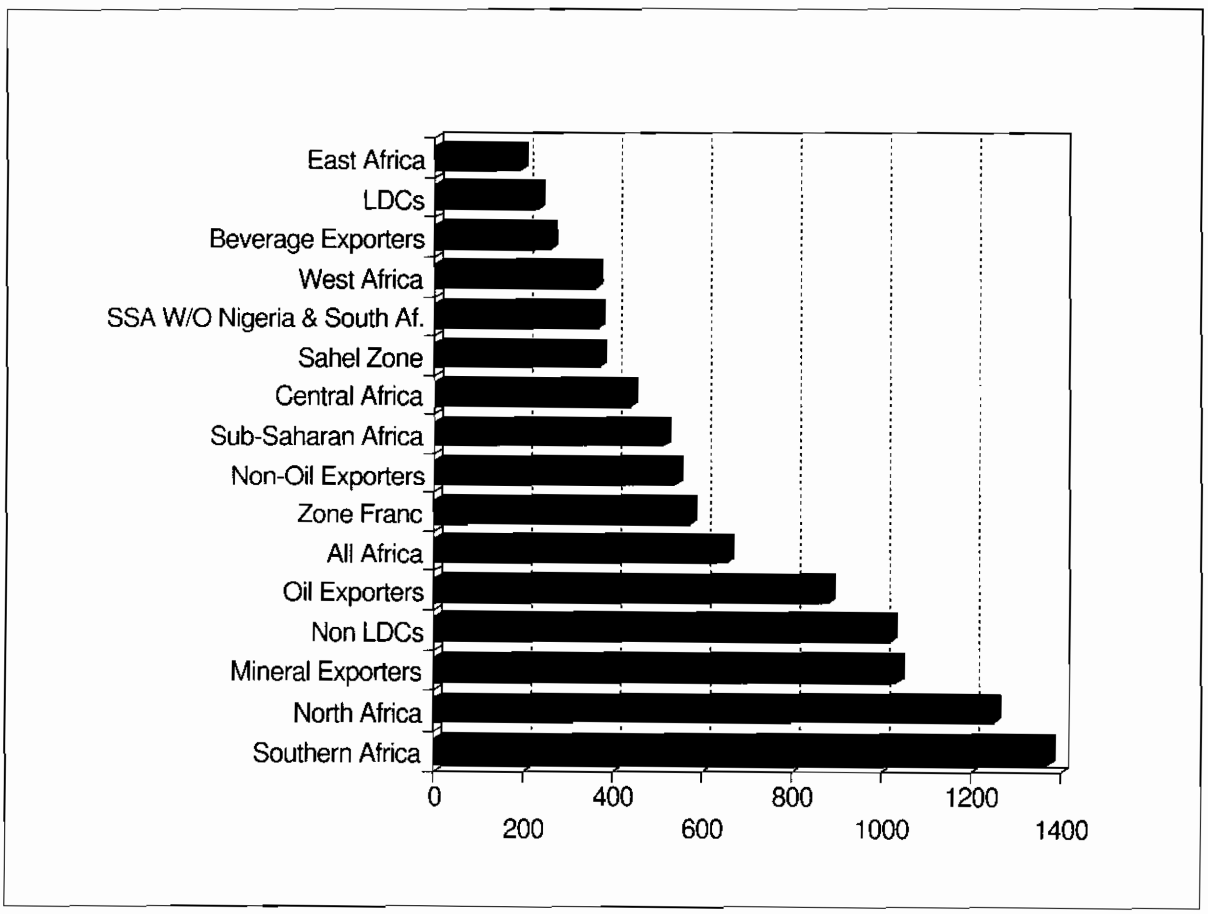
Overall GDP growth rate in Eastern Africa was 4.8 per cent in 1995, compared to 4.2 per cent in 1994, attributable mainly to improvements in agricultural production. Cereal production increased in this subregion from 22.6 million metric tonnes in 1994 to 23.1 million metric tonnes in 1995, a rise of about 2.2 per cent. In 1994, cereal output increased from 19.1 million metric tonnes to 22.6 million metric tonnes, which was equivalent to an increase of 18 per cent. The subregion's output of wheat was 2.5 million tons, 15 per cent higher than that of 1994. Wheat production in Ethiopia and Kenya increased by

1.6 and 0.3 million tons respectively in 1995 as a result of expanded plantings and good yields. The subregion's coarse grain production in 1995 was 19.8 million tons, slightly higher than that of 1994. Due to favourable weather conditions, improved distribution of fertilizers and absence of migratory pests, the main season's coarse grain crop in 1995 was substantial in Ethiopia, and coffee production and exports also increased due to the combination of deregulation and crack-down on smuggling through Djibouti and the Sudan. Uganda's main coarse grains harvest of 2 million tons was the highest for the decade. In contrast, production decreased by 11 per cent in Kenya in comparison to the 1994 harvest, but was still above average. The production of tea in the country rose by almost 20 per cent. Eritrea's production was 43 per cent less than that of 1994 as a result of erratic rains and localized pest damage. Somalia's main season's coarse grains production was reduced by one third because of severe pest infestation and erratic rains.

6. Southern Africa: Drought dampens growth

In the Southern African subregion, GDP growth rate improved only marginally in 1995, increasing to 2.9 per cent from 2.6 per cent in 1994. The modest rise in growth was due in part to political stability in the subregion, notably in Angola, Mozambique and South Africa. But output was however severely reduced in agriculture by drought. Aggregate cereals production in 1995 was 15.6 million metric tonnes, 37 per cent lower than in 1994. While wheat production showed a 0.9 million tons or 10 per cent increase, coarse grain production fell markedly in 1995, due to the devastating impact

Fig. I.3 GDP Per capita by Subregion For 1995 (In 1990 US Dollars)



of drought in some countries. South Africa's wheat harvest of 2.3 million metric tonnes in 1995 was expected to be 28 per cent higher than that of 1994, but Zimbabwe's wheat crop was one-third of the previous year's production. The subregion's 1995 aggregate coarse grains output was extremely low, estimated at 10.5 million tons, 47 per cent lower than in 1994. Coarse grains harvest was particularly poor in South Africa and Zimbabwe, the leading producers in the subregion.

On average, the manufacturing sector in the Southern African subregion continued to perform better than those of other subregions, recording MVA growth rates of 6.9 per cent in 1995 compared with 2.6 per cent in 1994. In South Africa, the largest economy of the subregion, manufacturing industry grew faster in 1995 than at any other time, with the motor industry, which includes the manufacture of parts and accessories, being among the fastest growing industries. During the first half of 1995, the manufacturing production index rose by a seasonally-adjusted and annualized 12.8 per cent, in comparison with the preceding six months. Capacity utilization in manufacturing also increased steadily in the country, from a low of around 77 per cent in 1992 to a high of approximately 83 per cent in the first quarter of 1995. Another country in the subregion, Namibia, performed relatively better in 1995 than in 1994, with a MVA growth rate of 13.5 per cent, as against 4.1 per cent in 1994. But manufacturing production declined in Zimbabwe due to high input costs, weak domestic demand, loss of competitiveness in textile export markets and cash-flow problems of manufacturing firms.

Gold mining output was on the increase in Namibia and, to a smaller extent, in Zimbabwe in 1995, but these increases were largely offset by reductions in output in South Africa, the largest gold producer on the continent. Several gold mines in South Africa have been suffering from lower ore grades and disruptions in production arising from labour unrest. In Zambia, production at Zambia Consolidated Copper Mine (ZCCM) had fallen to 384,400 tons in 1994 from 432,000 tons in 1993. Mine operations are affected by lack of capital investment, ore depletion, low recoveries at the Nchanga concentrator and operational problems at the Nkana smelter. Since March 1995, however, production had peaked, and preliminary indications are that it remained high for the rest of the year bringing total output to 390,000 tons, an increase of 2 per cent over the preceding year. In Botswana, the recovery in the domestic economy remained weak in 1995 due mainly to the poor performance of the mining sector.

C Policy Developments in 1995

1. Market-friendly macroeconomic policy stance and reforms

African countries continued to undertake major domestic reform measures in 1995, aimed at achieving greater coherence and prudence in fiscal, monetary and trade policy. Demand management, in the form of budgetary reforms and restrictions on credit and monetary expansion, constituted one of the widely used policy instruments. Containment of public expenditure growth and the application of austerity measures and civil service reforms aimed at the rationalization of the structure of the public sector were pursued with vigour in many countries of the region, with the brunt of adjustment continuing to fall on necessary investment in vital services and infrastructure and on budgetary subsidies. Privatization and commercialization of poorly-run public enterprises were contemplated also in some countries, although concrete achievements and outcomes fell far short of plans in many cases.

The principal concern of fiscal policy in the majority of African countries centred on the persistent problem of huge budget deficits, the financing of which contributed to inflation and inflationary expectations in the economy. There is an increasing realization in African countries that greater fiscal discipline is essential in controlling inflation which, in the past, was a major factor in the stagnation of many African economies and falling standards of living. The curtailment of public expenditure has never been easy however, given the various political and social pressures on governments to guarantee some minimum levels of social welfare to the population and to maintain military spending in an increasingly turbulent and insecure socio-political environment. Some governments introduced measures designed to improve the productivity of public expenditure and investment through prioritization, streamlining and rationalization of the government budget. In a few countries, the underspending in both recurrent and development budgets, brought about by continued constraints in implementation capacity, has accounted for a seemingly better-than-anticipated overall budget out-turn.

Virtually all countries in the region experienced positive rates of growth in government revenue in 1995, but the performance generally fell short of budgetary estimates and targets, owing to the continued poor growth in many economies and the erosion of the taxable base for excise duties, indirect taxes and direct income taxes. Tax reform was a key component of the economic stabilization and revenue generation programmes of many governments, involving rationalization of tariff structure, including a lowering of import duties and excise taxes with a view to discouraging evasion and limiting disincentive effects; fiscal decentralization policies, including the devolution of tax collection to lower levels of government; and introduction of value added tax (VAT) and presumptive taxation in order to broaden the tax base, e.g., in Nigeria, Zambia and Ghana. The withdrawal of the VAT in Ghana in June 1995, almost within three months of its introduction, is particularly significant in underscoring some of the difficulties in its implementation and the need for careful preparation and close consultation with tax payers for its introduction. In the particular case of Ghana, the misapplication of the VAT by distributors and traders was so widespread and in some cases, even arbitrary that the tax had to be withdrawn in order to contain the adverse effects on consumer prices. Some of the other revenue policy measures undertaken in African countries in 1995 included the introduction of government debt instruments, i.e., bonds, treasury bills, for sale to the public.

There was a lull in monetary expansion in most African countries in 1995 due in part to reduced recourse to credit expansion to finance deficits and the rise in interest rates, but the excessive liquidity associated with high levels of monetary expansion in previous years was strong enough in some cases to fuel inflation even in 1995. In Zaire, where deficit financing through monetary creation was the main determinant of hyper-inflation in recent years, money supply contracted greatly in 1995 and, together with rationalization of public finances, succeeded in bringing down the rate of inflation from 9,797 per cent in 1994 to 370.3 per cent in 1995. In Ghana, on the other hand, there was a budget surplus of ¢52.6 billion or 1.1 per cent of GDP in 1995 and further modulations in money supply, but average inflation more than doubled, from 24.2 per cent in 1994 to 56.5 per cent due to inadequate levels of food supply, especially during the first quarter of the year, and adverse price effects resulting from the attendant confusion in the introduction of the VAT in March 1995.

As can be seen from Table I.6, Nigeria apparently succeeded in 1995 in eliminating budget deficits that had almost become a fiscal nightmare in the last few years, although that achievement has not guaranteed price stability even in the face of exchange rate stability. This is because, in addition to spirited attempts at greater fiscal control, the country had reneged on payments of domestic debt obligations and neglected development spending and maintenance of vital services and infrastructure in order to achieve the goal of budgetary balance.

Given the inadequate supply and high cost of foreign exchange and the stabilization of the naira exchange rate at relatively high levels, high nominal interest rates and import duties, the imposition of VAT on virtually all products and the seasonal shortage of food staples, inflation soared in Nigeria in 1995.

The emphasis in several of the reform programmes in Africa hinges on incentives for savings and measures to stimulate investment and the empowerment of the private sector. Indeed, financial sector reforms in countries such as Kenya, Nigeria, Uganda and Zambia included the strengthening of the regulatory framework and prudential guidelines for banking and non-banking financial institutions calculated to safeguard public confidence and streamline operational viability and effectiveness of the financial sector. In Cameroon, a new rural financial institution, the "Crédit rural décentralisé" was established in July 1995 to provide credit to and mobilize savings from the rural sector.

Privatization of inefficient public enterprises continued apace in 1995 as a result of which the share of private sector enterprises in the development process has assumed an increasing proportion in several countries. In Egypt, for example, deregulation of trade and businesses has been among the most preferred policy packages for boosting investment under the government privatization programme which began in 1991. A number of institutional reforms were instituted to improve management standards and to raise the level of productivity, particularly in agriculture and manufacturing. In its public sector reform and restructuring programme, the Government decided to scale down the number of inefficient public enterprises from 109 in 1991 to 99 by June 1995 and to only 12 by 1997. Two national companies were privatized in Senegal in 1995. Under the privatization law adopted in Algeria in 1995, some 1,260 public enterprises are to be sold off. Uganda embarked on price decontrol and liberalization.

Mechanisms to ease the bureaucratic procedures in granting licenses and permits for the establishment of business enterprises were put in place in many countries in 1995, including the simplification of investment approval processes through "one-stop" investment centres, establishment of investment promotion institutions and increased use of representative offices abroad to publicize local investment opportunities. For example, in an attempt to create a more conducive

Table I.6
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						
	1994	1994	1990	1991	1992	1993	1994	1995	1990-94
CENTRAL AFRICA	438	8.7	0.1	-1.0	-2.4	-5.9	-2.5	1.1	-3.0
EAST AFRICA	190	6.4	2.8	1.1	-1.3	2.5	4.2	4.8	1.6
NORTH AFRICA	1249	40.8	2.6	3.5	0.5	1.1	2.9	1.0	2.0
SOUTHERN AFRICA	1371	27.4	0.2	-0.1	-2.3	1.7	2.6	2.9	0.4
WEST AFRICA	362	16.8	-3.4	10.8	1.2	1.4	1.0	4.1	3.5
SUB-SAHARAN AFRICA	513	61.4	-0.6	3.0	-1.0	0.3	1.5	3.0	0.9
SSA W/O NIGERIA &SOUTH AF.	363	30.8	-2.8	6.2	-1.4	-0.2	-0.3	3.0	1.0
SAHEL ZONE	368	5.9	0.7	6.7	3.2	-1.3	1.9	1.9	2.6
OIL EXPOTERS	882	46.4	2.9	2.9	0.1	0.6	1.6	2.3	1.3
NON-OIL EXPORTERS	538	53.6	-1.1	3.1	-1.1	0.8	2.5	2.3	1.3
LDCs	229	16.0	1.1	1.8	-0.0	-2.4	-1.6	2.4	-0.6
NON LDCs	1020	84.0	0.6	3.3	-0.7	1.3	2.8	2.3	1.7
ZONE FRANC	574	10.7	-0.7	0.6	-1.9	-0.3	1.5	3.6	-0.0
MINERAL EXPORTERS	1034	30.4	0.4	-0.9	-1.7	-1.0	1.5	2.8	-0.5
BEVERAGE EXPORTERS	260	10.0	-9.4	13.2	-0.5	1.4	1.8	5.5	3.9
ALL AFRICA	657	100.0	0.7	3.0	-0.5	0.7	2.1	2.3	1.3

Source : ECA secretariat.

environment for investments by small- and medium-scale enterprises, the Government of Malawi established export processing zones (EPZs) in 1995, offering a special package of incentives, including reductions in corporate tax to 15 per cent, special tax exemptions and incentives, reduction in import duties and utility tariffs and a five-year tax holiday. A new and more liberal mining code, to replace the one promulgated in 1964, was introduced in Côte d'Ivoire in 1995 with much simplified procedures, while a new investment centre for the promotion of investment was established.

Price support policies were discontinued in a few African countries in 1995 in favour of price and exchange rate liberalization aimed at ensuring remunerative producer prices and productivity incentives. In Morocco, for example, in 1995, the economic and financial policy was based on further liberalization of prices and removal of remaining restrictions on imports. More retail prices were freed from control, leaving only 15 per cent of items of domestic consumption under control. A further 8 per cent of imports became exempt from restrictions, bringing the total to 91.5 per cent. Egypt undertook liberalization of interest rates, phasing out subsidies and removing price controls and constraints on imports. In Ethiopia, important policy initiatives continued to be implemented to emancipate the economy from the shackles of the previous era of central planning, including reductions in budgetary support for public enterprises. Several other measures put in place by some of the countries in the region for the development of the industrial sector included the promotion of export-oriented and import-substituting industries and the provision of economic and financial incentives to attract foreign capital. In particular, national regulatory frameworks conducive to FDI have been evolved in many countries, permitting easier repatriation of profit and providing tax concession and other incentives to attract such investments. Nigeria, for example, in an effort to improve the investment climate and encourage the flow of investments into the country, did away with certain restrictive laws especially those relating to the repatriation of profits and ownership structure. It repealed the Exchange Control Act of 1962 with the aim of enhancing increased flows of investment and investible funds, and abrogated the Nigeria Enterprises Promotion Decree of 1989 which hitherto had restricted foreign participation in certain sectors of the economy. Introduction of exchange control liberalization in Botswana since January 1995 have made it possible for business concerns to produce imported inputs more easily and quickly, thereby lowering the cost of doing business. In addition, there were wage restraints, restructuring of parastatals and reductions in corporate tax rates in the country, aimed at resuscitating the economy and at encouraging economic diversification.

With regard to the mining sector, the deregulation and liberalization that began in African countries in the late 1980s continued in 1995, with some governments introducing new land and mineral legislation as well as fiscal reforms aimed at enhancing the role of the private sector. Particular attention was given to such issues as the degree of public sector participation in the development of mineral resources; the proper balance between national and foreign private sectors including the role of small- and medium-sized enterprises; and the appropriate regulatory framework for the encouragement of foreign investment. Emphasis is increasingly placed on the integration of the mineral sector with other production sectors and the service subsector at national, subregional and regional levels and on avoiding damage to the environment. In Nigeria, for example, more allowances were granted to the mining sector through the increase of initial allowances from 20 to 30 per cent. Côte d'Ivoire introduced a new mining code while the Central African Republic, in addition to re-using the legal framework for the mining sector and providing incentives in terms of reduced taxation, also introduced a new diamond stock market. However, despite the reforms in the mining sector in many African countries and the spurt in exploration and mining investment, particularly in the precious metals and minerals sector, including gold, diamonds and other gemstones, production has remained export-oriented, with little or no forward linkages.

2. Trade and exchange rate policies

As far as the external sector is concerned, the policies of export promotion and import curtailment are yet to bear fruit in many African countries. Africa's exports have not increased significantly in the short run owing to their inelastic structures and the increased competition on the world market. Import curtailment has, on the other hand, been hamstrung by the high elasticity of imports relative to domestic economic output. Only 15 African countries managed to maintain or increase the ratio of exports to GDP during 1995 whereas the majority of the countries experienced expanded import bills relative to GDP.

Perhaps the most important demand management instrument that has been widely used in the external sector of virtually all African adjusting countries including, for the first time in 1994 the CFA zone countries, is the foreign exchange rate. The magnitude of devaluation of African currencies has been quite large, reaching more than 50 per cent against the United States dollar in many cases, with some countries devaluing their currencies several times over within a short space of time and in large doses. Two currency devaluations took place in 1995: one in Rwanda in March by 37.7 per cent and the other in the Libyan Arab Jamahiriya in November by 15.5 per cent. African countries have moved progressively towards market-determined exchange rates and interest rates. The liberalization of foreign exchange rates has resulted in significant creeping depreciation of currencies and the narrowing of the differential between "official exchange rates" and "parallel rates". As of mid-1995, 17 African countries had adopted an "independently floating" exchange rate regime, seven were on a "managed float" system, five on a "composite currency basket" system and 29 countries were still on a "single currency reserve system", with the largest of these in the CFA franc zone. A number of African countries, including Kenya, the United Republic of Tanzania, Uganda and Zimbabwe, acceded to article VII of the IMF Articles of Agreement, thereby committing themselves to the non-reimposition of restrictions on transactions on the current and, possibly, capital accounts.

3. New inputs for regional integration and development

In 1995, African Governments, acting through the Organization of African Unity (OAU), reiterated their commitment to relaunch and strengthen their development efforts in the Cairo Agenda for Action (1995) for relaunching Africa's economic and social development. They expressed in particular the need to enhance their cooperation in the implementation of the Abuja Treaty, following its entry into force in May 1994, and to firm up the modalities for operationalizing the Treaty through the strengthening of the regional economic communities that are the pillars of the African common market. In that regard, the draft protocol on the relationship between the African Economic Community and the regional economic communities was examined and revised during the year at a meeting between the Joint OAU/ECA/ADB Secretariat and representatives of the subregional economic communities.

Within the institutional framework provided by the African Economic Community, the subregional groupings are required to harmonize and coordinate their activities and policies at the regional level if the implementation of trade liberalization and cooperation programmes and projects is to be more effective within the region. Some of the concrete steps that were taken in 1995 to enhance the role of the subregional economic communities in the implementation of the Abuja Treaty included the conduct of a comprehensive feasibility study on financial sustainability and self-financing mechanisms on the part of the regional economic communities and the rationalization of the activities of those communities and their possible harmonization with those of the African Economic Community.

In Central Africa, the Economic and Customs Union of the Economic Community of Central African States (ECCAS) has adopted a tax and customs reform resulting in a single and simplified common external tariff, a generalized preferential tariff of 20 per cent for intra-Community trade and a turnover tax which is to pave the way for the introduction of VAT. The tax systems of the various countries are to be harmonized. In North Africa, Algeria, Egypt, Morocco and Tunisia signed a trade pact and a new cooperation agreement with their European trading partners, replacing the one of 1976,to upgrade and further consolidate economic, scientific, social and cultural exchanges and with a view to facilitating the gradual establishment of a free trade zone for industrial products and services and the free flow of finance. In Southern Africa, further progress was made in 1995 in community building with the signing of two instruments at the SADC Summit: (i) the Shared Watercourse Systems Protocol, designed to facilitate optimal usage and conservation of shared watercourse systems in the subregion; and, (ii) the Southern African Power Pool Agreement aimed at the creation of a common pool for electricity, with a view to minimizing costs and maintaining reliability and self-sufficiency of supply in the subregion.

One of the major means of facilitating the integration process is the development of transport and communications. The tenth Conference of African Ministers of Transport and Communications, held in Addis Ababa in March 1995, reaffirmed the continued relevance and critical importance of the second United Nations Transport and Communications Decade in Africa (UNTACDA II), urging member States to make every effort to support the national coordination committees and to facilitate, encourage and strengthen the activities of the national initiatives in fund-raising and implementation, taking into account the environmental impact of transport and communications projects. The meeting decided to reactivate the Trans-African Highways Bureau and to implement the Yamoussoukro Declaration on a new African air transport policy, urging United Nations institutions as well as African financial institutions to lend their support to the achievement of the goals of UNTACDA II.

In addition to commitments to the reactivation of cooperation in the fields of traditional means of communication, African countries have started to realize the importance of electronic communication facilitated by the growing influence of the information technology revolution. But movement towards full connectivity remains a big challenge since it requires purposive political action for the reshaping of the existing telecommunications regulatory frame and adequate financial resources for updating communication infra-structure. Twelve pioneer countries in Africa which are now fully linked to Internet have been experiencing reforms of their communication systems as they transferred some of their prerogatives to the private sector.

D Macroeconomic Prospects for 1996

1. Modest grounds for optimism

The prospects for Africa's economic performance in 1996 will be strongly influenced by the out-turn in a number of domestic and external factors, such as the weather, progress in implementing effective policy reforms in the domestic economy and developments in the international economic environment. As in previous years, the vicissitudes of the weather and insect infestation always cast a cloud of uncertainty over future prospects in Africa, in view of the importance of the contribution of agriculture to Africa's aggregate output, export revenues and employment. But, overall, there are modest grounds for optimism regarding the African regional economy in 1996.

On the domestic front, total agricultural production is expected to increase by more than 3 per cent in 1996. According to FAO forecasts, total cereals production could reach nearly 108 million metric tonnes in 1996. This encouraging prospect is based on the good distribution of precipitation observed on the continent as a whole, in particular, since the beginning of 1996, the easing of drought conditions in North Africa, drought-prone Southern Africa and the countries in the Horn of Africa. Despite the expected good harvests, the per capita food production index for the region is expected to drop slightly from 94.5 in 1995 to 93.9 in 1996.

The industrial sector and, more so, the manufacturing and mining subsectors, are expected to register growth in 1996, provided there is political and macroeconomic stability, further diversification of production structures and expansion of markets through regional and subregional cooperation, improvements in critical infrastructural services and the strengthening of competitive capacity to take advantage of liberalized trade. Both the expected good performance in agriculture and the gradual increase in private sector participation in economic activities offer brighter prospects for greater industrial growth in most countries. Given the changes in the operating environment and the substantial reforms that have taken place in the mining sector in many African countries, a considerable boost to foreign investment seems likely in the sector. In particular, the strengthening of subregional and regional co-operation in mining should result in new investments in exploration, the transformation of ores as well as in downstream activities, if co-operative efforts, such as the entry of South African mining companies (i.e., Anglo-American Corporation, Randgold, Anglovaal and Gencor) and Ashanti Goldfields Company of Ghana in mineral development projects in other African countries are anything to go by.

The problems of external trade, debt and financial resource flows are so closely interwoven that none can be effectively resolved in isolation; and it is by now clear that there can be no substantial progress on one front without a corresponding headway on other fronts. In 1996, a lot will depend, on the one hand, on the evolution of commodity prices and world demand and, on the other, on weather conditions and the resolution of civil conflicts and the problems of refugees and internal displacement which have had, and continue to have, severe repercussions on the social and economic conditions in some countries of the region. Progress towards the restoration of peace and economic rehabilitation in 1996 should launch countries previously embroiled in conflict towards recovery and sustainable development.

Despite the recovery in Western Europe, which is Africa's traditional market and major development partner, the outlook regarding demand and prices for some key commodities remains uncertain in 1996, although the probable out-turn would depend on the effectiveness of protective measures pursued by producing countries. The increase in the prices of primary commodities in 1995 emanated mainly from lower stocks, a condition which has now been reversed and is expected to have a negative impact on prices in 1996. Thus, metal prices fell by 6.1 per cent in the first quarter of 1996 led by a 12.3 per cent decline in copper and a 11.4 per cent decline in aluminum prices. With cotton prices falling by 13.3 per cent in the first quarter of 1996, prices of agricultural raw materials edged slightly lower -- by 0.6 per cent -- during the same period. According to the International Cocoa Organization (ICCO), the prospects for cocoa prices are likely to be brighter in 1995-1996 compared to 1994, although in real terms they will still be below the average for the last three years. Coffee prices are expected to fall by over 20 per cent in 1996, on account of declining consumption and the ineffectiveness of the retention programme of the Association of Coffee Producing Countries (ACPC). As a result, the ECA commodity export price index (excluding fuels) shows a 8.9 per cent fall in commodity prices in the first quarter of 1996, while the terms of trade based on unit values showed a decline of 2 per cent over the same period in 1995. Clearly, if the trends in the first quarter were to continue, it will not augur well for Africa's commodity exports in 1996.

On the other hand, the global demand for oil is expected to rise from 69.6 milliom barrels a day in 1995 to 71.2 million in 1996, and OPEC countries are expected to increase their production beyond the 1995 official limit of 24.52 million barrels a day, augmenting demand sourced pressure on prices. While Brent crude oil traded at $US16.99/barrel during the last quarter of 1995, it rose to $US21.78/barrel since the beginning of 1996. However, current projections suggest that it is unlikely that prices will remain at this level in 1996, even if they are higher than in 1995.

The prospects and outlook for resource flows to developing countries, including Africa, are discouraging owing to a combination of factors. First, budgetary constraints and the demands for greater cost-effectiveness continue to dominate aid policies of industrial countries. Secondly, the demand for foreign aid resources by the countries of Eastern Europe and the former Soviet Union are likely to "crowd-out" African countries from acquiring anything more than their historical share. These sets of conditions make it more difficult if not impossible for African countries to mobilize more external financing in 1996 than in 1995, especially ODA. In addition to the declining ODA flows, the distribution and quality of aid are also causes for growing concern. The distribution of ODA is markedly inequitable and unbalanced, as was fully indicated in the 1994 UNDP Report on Human Development. Ten nations in which 66 per cent of the world's poorest people live receive only 32 per cent of total bilateral aid. Furthermore, only 7 per cent of bilateral aid (representing 70 per cent of total ODA) is earmarked for "human priorities". These and other shortcomings in external aid including questions about the effectiveness of technical assistance programmes, the use of aid as an export promotion instrument, the lack of adequate supervision and verification procedures, etc., have been acknowledged by the Organization for Economic Cooperation and Development (OECD) Committee for Development Assistance and underlined at the World Summit for Social Development. It is hoped that the donor community would re-evaluate and take appropriate measures to make their assistance more equitable and robustly effective in favour of Africa.

A closely related problem requiring immediate resolution is the heavy debt burden of the continent. While the December 1994 Naples' initiatives on external debt are very important steps in the search for durable solutions to the debt crisis of low-income countries (see box 1.2), the Naples Terms that were offered by the Paris Club contain a number of significant drawbacks, judging by the limited number of African countries that have benefitted since its launching. Only 11 debt reschedulings were carried out under the Naples Terms during the first seven months of 1995, as a result of which seven African countries - Chad, Guinea, Guinea-Bissau, Mauritania, Senegal, Togo and Uganda -- were able to cancel debts in the order of $US1 billion. In addition to the bilateral debt burden, African countries need respite from multilateral debt which has become massive but up to now has not attracted sufficient attention.

African countries will no doubt continue to intensify their programme of economic reforms in 1996 in the direction of growth with stabilization and transformation. A good sign of that is the growing convergence evident in most national budgets and fiscal estimates for 1995-1996 towards reduced deficits. It is to be hoped that reform-induced economic efficiency and improvements in macroeconomic policy and in human, institutional and physical infrastructure in 1996 will put the African economy on a more sustainable footing, making it more competitive in the world economy.

In this respect, it is to be further hoped that the United Nations System-Wide Special Initiative on Africa, formally launched in March 1996, will assist in arresting the continued deterioration of social and economic conditions. Under this Initiative, which is the result of consensus between Africa and its development partners on the necessary course of action to meet the major challenges on the domestic scene, including those connected with transformations in the global economy, the major agencies, organizations and entities of the United Nations system, including the World Bank, have come together to fashion and commit themselves to the mobilization of resources for and the implementation of a number of theme-oriented priorities in Africa. These are: peace building, conflict resolution and national reconciliation; basic education for all; health sector reforms; enhancing food security with special emphasis on women; harnessing information technology for development; capacity building for governance; strengthening civil society for development; assuring sustainable debt relief; poverty reduction through the promotion of the informal sector; sustainable livelihoods in environmentally marginal areas; trade access and opportunities; partnership with Africa through South-South cooperation; land degradation and desertification control; and soil quality improvement.

The implementation of the Initiative requires a financial commitment amounting to $US25 billion, spread over a ten-year period. These funds are expected to come from national budgets of African countries as well as funds provided by multilateral and bilateral donors. In addition to the substantive aspects, the United Nations system will lead in a number of fundamental reforms to improve the efficiency and impact of international development cooperation and ensure, through the Special Initiative, that the previous initiatives on Africa - United Nations New Agenda for the Development of Africa in the 1990s (UN-NADAF) and the United Nations Programme of Action for African Economic Recovery and Development (UN-PAAERD) - are reinforced and given added practical expression. The totality of the reforms would focus on regional fora to create frameworks for cooperation; national sectoral programmes to base assistance in key sectors and key inter-sectoral goals requiring an integrated approach to agreed national plans of actions under government leadership; and broadening participation in consultative groups and/or round-table meetings to include private for-profit and non-profit leaders to enhance the quality and support of these exercises.

In the final analysis, the out-turn for 1996 and beyond would largely depend on the nature, relevance and intensity of implementation of economic policies, along with the build-up of supportive infrastructure. The most important initiatives would have to be based on the diversification of the economy, the processing of primary commodities and the revival of agriculture through irrigation schemes to dampen the impact of drought and enhance overall modernization. Given the dearth of external resources, African countries would have to assume increased responsibility for development financing through intensive mobilization of domestic resources.

2. Better GDP growth rate expected in 1996

Based on the above considerations and assumptions concerning favourable weather and growth in agriculture, manufacturing and mining as well as expected performance in the external sector, the ECA secretariat estimates that overall regional GDP in Africa would grow by about 2.9 per cent in 1996.

The GDP of oil-exporting African countries is expected to increase by 2.4 per cent in 1996, mainly because of a likely rebound in oil production and prices stabilizing at the 1995 level, following the net contraction in 1994 and a slight increase in value-added terms in 1995. The situation in Central Africa will remain difficult if economic contraction in Zaire continues and poor growth obtains in the other countries of the subregion. In contrast, there is likely to be a strong recovery in Southern Africa, an area affected by severe drought in 1992/1993 and 1995. A 3.7 per cent rate of GDP growth is estimated for this subregion in 1996.

The African LDCs are likely to grow less rapidly than the African average, with a projected growth rate of 1.5 per cent, while in the franc zone, output is unlikely to grow by more than 2 per cent. The effect of the 1994 devaluation is likely to be dissipated and limited exclusively to the financial sector rather than to output, except in a few countries, such as Cote d'Ivoire, where adjustment in the real sectors is progressing, and tremendous scope exists for production flexibility and positive supply response.

The projected slow-down in the African LDCs in 1996 is mainly on account of the further deterioration expected in their economies. In the Sudan, which accounts for 12 to 13 per cent of the total GDP of the group, GDP decline is likely to intensify, falling from a -2.8 per cent in 1995 to -5.8 per cent in 1996, due to the persistence of drought and civil conflict coupled with severe infrastructural problems. For Zaire, a country that accounts for more than 8 per cent of the total GDP of African LDCs, 1996 promises to be another year of recession, in view of the difficulties that have continued to face the Government for the past six years in restoring the productive capacity of the economy. A decline of 2.2 per cent in GDP growth is projected for the country. The anticipated deterioration of the overall economy of the African LDCs in 1996 can be attributed to the raging civil war and disorder in Liberia, the stalemate in Somalia and the slow progress towards rehabilitation, resettlement and reconciliation in Burundi and Rwanda.

II
AFRICA IN THE WORLD ECONOMY

A Introduction

This section looks at recent developments in the world economy. It reviews the new trends in global trade and development finance, and examines their implications for Africa's external economic relations. It focuses in particular on those issues which both influence and reflect how Africa is responding to the challenges of the new world environment -- commodity prices, market shares, external debt and resource flows, and bilateral and multilateral cooperation. Despite the intense efforts to implement fundamental domestic reforms, the medium-term prospects for the Africa region continue to be threatened by the profound changes in the world economy. The weak global competitiveness of African economies, and the continuing rigidity of domestic economic structures, have left the region with hardly any leverage on world commodity prices. and the volume of resource flows and with little voice in the proposed solutions to their endemic problems of external indebtedness.

The dramatic growth of world trade in the past few decades has largely by-passed the Africa region. Between 1960 and 1990, world exports increased at an annual average rate of 12 per cent while Africa's trade increased by a mere 3 per cent. And although world trade is expected to increase by US$ 210 billion annually in the post-Uruguay trading environment, of which 30 per cent will be shared among developing countries, Africa stands to benefit least, and may indeed lose up to US$ 30 billion annually, especially in the medium-term, owing to its weak supply capacity and low responsiveness to export opportunities in the new international trading environment, and the persistence of production structures that do not readily adapt to global competitiveness.

Africa has also been largely by-passed by the remarkable transformation in the structure of world trade as a result of its continued concentration on low-value-added primary products that have relatively stagnant demand, and uncertain long-term prospects. In 1993, African countries earned approximately 80 per cent of their foreign exchange from primary commodities compared with 93 per cent in 1980, while domestic consumption of manufactured goods remained heavily dependent on imports, absorbing 74 per cent of import expenditure in 1993 compared with 72 per cent in 1980. Most African countries have continued to rely on the same traditional narrow range of primary commodity exports, much as they did in the 1960s, 1970s and 1980s. African countries that were heavily dependent on the export of coffee and cocoa three decades ago still obtain the bulk of their foreign exchange earnings from these same commodities in the 1990s, just as African exporters of petroleum and mineral products are still heavily dependent on those commodities. While the volume of primary commodities in world trade declined from 36 per cent in 1970 to 19 per cent in 1994, the structure of Africa's exports has remained more or less the same, with primary commodities as the major source of foreign exchange earnings.

Inevitably, the relatively static structure of Africa's exports has reduced Africa's share in world exports from 10 per cent in 1950 to 2.2 per cent in the 1990s. Africa's primary commodity producers have also been "crowded-out" by new producers in other regions of the world. Countries of Asia and Latin America have now become major competitors in products such as coffee, tea, cocoa, timber and minerals. Three decades ago, these countries were either importers or insignificant in the world export market for some of those products but have since achieved tremendous success in production and exports, while at the same time expanding their exports of manufactures and intermediate products and services through dynamic programmes of diversification.

In order to secure the maximum benefits from the post-Uruguay Round trading environment, Africa must step up its reform programmes, modernize its production structures, and improve the productivity and competitiveness of its exports. This will enable it to respond positively to the fast changing patterns of world demand and be less susceptible to new protectionist pressures that are becoming evident, with world trade drifting towards bilateralism and regionalism; the Uruagay Round of Agreements notwithstanding.

The prolonged debt crisis continues to pose a major challenge to Africa's recovery. Debt reduction and rescheduling initiatives, including the Toronto Terms, Enhanced Toronto Terms, and, more recently, the Naples Terms, have all fallen short of the anticipated requirements for the alleviation of the debt burden of the heavily-indebted African countries, particularly in the light of falling export earnings and declining commodity prices. In an environment of depressed commodity prices, slow trade growth and reduced capital flows, the prospects are that debt-servicing would continue to be a protracted problem in most African countries. Until a durable solution to the problem is found within a framework of integrated and growth-oriented strategies, the debt overhang would persist at unmanageable levels to the detriment of development and economic stability in the Africa region. The intractable debt situation has become critical because the Africa region has not benefitted much from the new surge of private capital flows to developing countries that has become a major source of development finance, while ODA to the region has declined in real terms by as much as 9 per cent in 1995 alone.

B The International Economy

1. Overview for 1995

The world economy grew at a rate of 2.75 per cent in 1995 according to (UN-DESIPA), an indication of the continued recovery from the low 0.3 per cent recorded in 1991. World trade grew by 8 per cent in 1995, pitching slightly below the 1994 figure of 9 per cent and almost double the 3.9 per cent estimated for 1993. Developing countries contributed the main impetus to world trade buoyed by strong recovery in the world economy. Inflation has generally been brought down to under an annual average rate of 2.5 per cent in the major industrialized countries.

Notwithstanding this overall positive situation, trends were quite different from region to region and from one country to the other in the industrialized economies. Economic growth was significantly slower in 1995 than in 1994, and most of the major industrialized countries experienced only slight increase in growth. In the USA, France, Canada and Germany, where growth trends were quite high in 1994, there was a marked deceleration in 1995 with output growth estimated at between 0.9 and 2.5 per cent. These trends have been attributed to the interplay of fiscal and financial factors. Where policy makers have been targeting the European monetary Union (EMU) convergence criteria, tight fiscal policies have not allowed for a strong growth rebound.

In Japan, there was only a slight increase in growth in 1995 partly because of the strong appreciation in the value of the yen while weak demand and deflation also adversely affected the economy. In the U.S, consumer demand was weaker than expected, while the fiscal deficit contributed to the fall in the real exchange value of the dollar, in addition to the after-effects of the financial crisis in Mexico. Steps taken to control inflation through the manipulation of interest rates have also contributed to reduced growth. Still, the economy of the U.S.A showed more strength than those of its partners, many of whom ran large fiscal deficits along with high levels of unemployment attributable in part to generous social welfare policies that have kept public expenditures at high levels and raised labour costs. As the population of most industrial countries is rapidly aging, such policies have been proving difficult to sustain.

In contrast to the situation in industrial countries, economic growth has remained high in developing countries, estimated at over 5.9 per cent in 1995 by DESIPA, a marginal change from the 5.0 per cent and 5.6 per cent attained respectively in 1993 and 1994. As in the two previous years, the best results have been registered in South and East Asia, with output growing at 7.1 per cent in 1995, compared with 6.7 per cent in 1994 and 5.5 per cent in 1993. In China, output has continued to expand at a rate of more than 10 per cent, with similar outcomes in South Korea, Thailand, Malaysia and Singapore. In India, output grew by 6.2 per cent. This impressive progress is the result of decades of investment in physical infrastructure and human resource development, as well as the liberalization of the economies. In China the reform of agriculture at the beginning of the 1980's laid the ground for subsequent progress in industry and other areas. The legacy of the pre-1980 years in terms of education, health, the development of infrastructure and the creation of basic industries has also been crucial. The economic development of Asia during the past decade has been so significant that it now constitutes a major change in the world economy, with profound effects on the balance of economic power between that region and the rest of the world.

Asia aside, economic growth has been modest in other developing countries. In Latin America, output grew by less than 1 per cent in 1995, in sharp decline from the 4.6 per cent attained in 1994. In Mexico, an acute financial crisis due to the accumulation of large current account deficits made necessary an adjustment package which has now restored confidence in Mexico's solvency but at the cost of sharply reduced growth. The Mexican crisis had some adverse effects on other Latin American economies, because of the resulting uncertainty among foreign investors; but this situation was short-lived, and some countries, such as Chile, were not affected. In the Middle East, lower oil prices and fiscal imbalances limited growth in otherwise prosperous economies, while the non-oil producing countries of the area continued to record positive results.

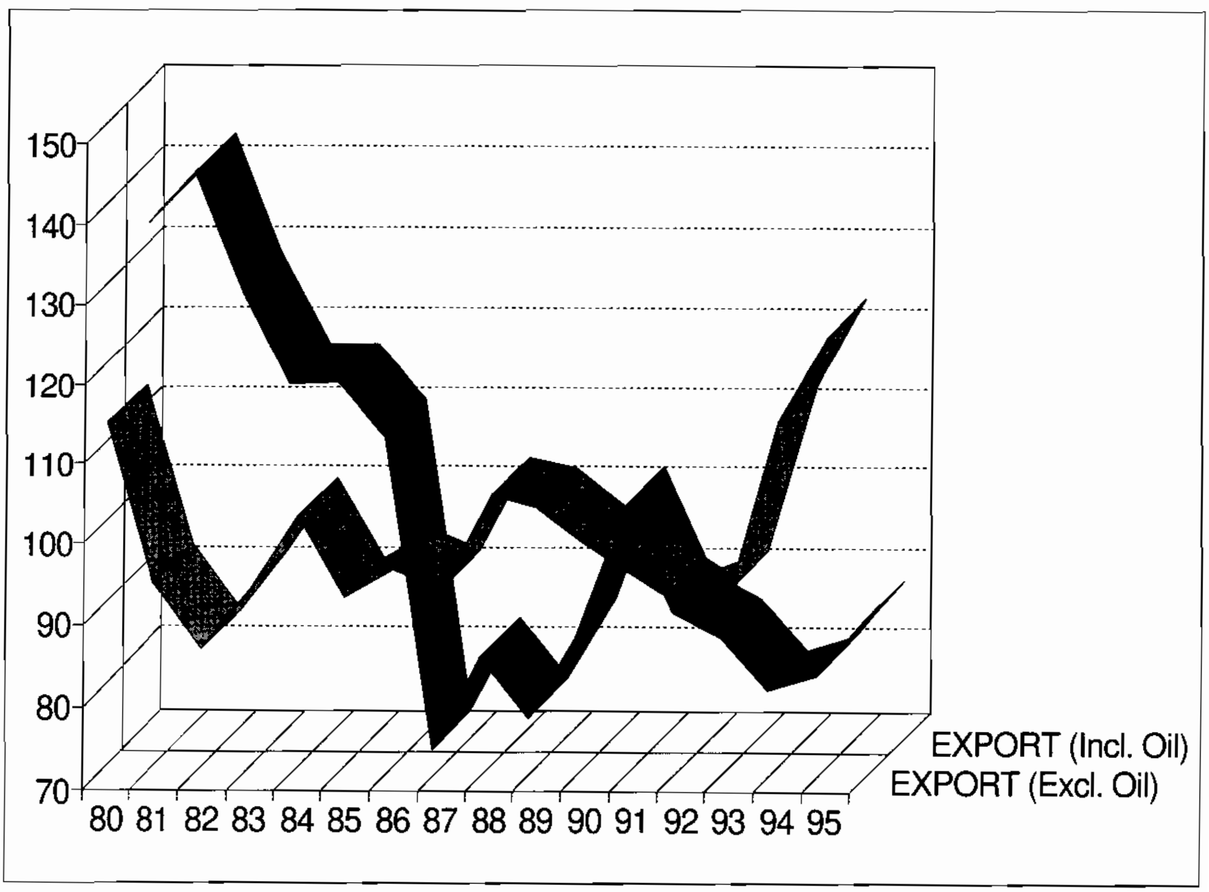
Africa has in general lagged behind other developing countries, despite the improved performance that is presumed to have taken place in African adjusting countries. Most of the growth constraints, such as the inadequacy and poor state of the infrastructure critical for development, and the inadequate efforts to expand and strengthen them, still need to be addressed. Following the devaluation of the CFA franc in 1994, Côte d'Ivoire achieved a strong revival of exports and investment in 1995, but a good number of CFA countries are in an impasse, with large fiscal deficits, heavy debt burden, and stagnant exports. A significant number of African countries remain mired in civil war and political instability, with little room for serious economic reforms and policy initiatives. In Zaire, output has fallen back to its mid-1970s level while in Liberia, Sierra-Leone, Somalia, Burundi and Rwanda, the breakdown of political institutions and civil order has impoverished millions of people, not to speak of the lingering ravages of a post civil-war economy as in Mozambique.

2. Trade flows

As in recent years, the growth of international trade has been more vigorous than the growth of output. In 1994, the strong recovery in the world economy made for a sharp rebound in international trade flows and world export and import volumes. Demand was less buoyant in the industrial economies in 1995, but with developing countries continuing to grow rapidly, international trade is estimated to have expanded by nearly 8 per cent, developing countries trade alone growing by more than 11 per cent. Other notable developments are the increasing share of developing countries, particularly Asian ones, in international trade; the continuing deregulation of international transactions; increased pressures for further trade liberalization, including the liberalization of trade in services, under the impetus of the Uruguay Round agreement; and, the growing influence of regional trade blocs. All this is happening in the framework of a practically unified world financial market, and the continuing 'globalization' of the world economy.

According to the IMF (World Economic Outlook, October 1995), while the share of major OECD economies in world exports has remained stable over the last 20 years at around 61 per cent, the share of 7 Asian countries (China, Hong-Kong, Korea, Malaysia, Singapore, Taiwan and Thailand) which stood at only 4.7 per cent in 1970-79 had risen about three-fold, to 14 per cent in 1994. At the same time, developing countries trade has become more diversified both in terms of commodity structure and in respect of countries of origin and destination. Data for 1979-1993 from the French *Centre d'études prospectives et d'économie internationale* (CEPII) show that the share of developing countries in total world manufacturing exports, which was 10.4 per cent in 1979, rose to 19.4 per cent in 1993. Among Asian countries, the share of manufactures in total exports has risen from 41.8 per cent in 1970 to 73.8 per cent in 1990, while trade among the

Fig. II.1 Commodity Exports Prices, 1980-95



developing countries of the region has risen significantly to represent over 40 per cent of trade among developing countries. In contrast, Africa's minuscule share in world trade has been more than halved.

3. Commodity prices

Commodity prices continued to increase in 1995 though at a slower rate than in 1994. (Figure II.1) According to the IMF's index, prices (excluding petroleum) were 8.4 per cent higher in 1995 than in 1994, while the World Bank indicated a figure of 9.4 per cent.

The prices of commodities of interest to Africa show diverse trends and prospects (Table II. 1). Prices of food were up by 8.1 per cent in 1995 over their 1994 levels, pushing up the import bills of African food importers, and endangering food security in a number of countries. This trend may continue in the coming years as the Uruguay Round agreement on agriculture is implemented.

The prices of beverages are not expected to maintain the high levels of recent years. The 1994 boom was not sustained, and on average beverage prices increased by a mere 2 per cent in 1995, compared with the spectacular 74.9 per cent rise observed in 1994, which came after a decade long decline.

The weakness of beverage prices (Figure II.2) has been led by coffee, whose prices have been affected by declining consumption in some major markets and the ineffectiveness of the export retention programme of the coffee producers. Coffee prices increased by only 5.8 per cent in 1995 compared with a phenomenal 123.9 per cent rise in 1994. They have since fallen further sharply, despite declining stocks in consuming countries, and the smaller than usual crops in Brazil following two frosts and a drought. This weakness is attributable partly to higher production in some countries like Colombia where production exceeded anticipations. More importantly, the retention programme of the Association of Coffee Producing Countries (ACPC), which is not comprehensive in its membership, seems to have lost the confidence of the coffee market. ACPC has no system for monitoring exports, or for penalizing countries that exceed their quotas under the retention programme. Africa has a quota, but there is no arrangement for allocating it among individual countries. Kenya and Tanzania are believed to have no intention of implementing the retention programme, arguing that they can restrict their exports by exerting some control over the quantities passing through the auctions. Furthermore, market liberalization in many coffee producing areas is contributing to an expansion of production. In Côte d'Ivoire, there is no enforceable fixed producer price, and export rights are allocated through electronic auctions. In Uganda, there is the warehouse receipt system. In Kenya, some 80 per cent of coffee producers have opted out of the pool system and are taking their chances on the open market. As a result of these developments, price prospects for coffee are fraught with uncertainty.

The price of cocoa rose by 2.6 per cent in 1995, compared to a 25.7 per cent increase in 1994. World cocoa grindings have shown only a moderate increase, while good crop prospects in producing countries, with favourable weather and better price incentives for farmers in some countries, have caused prices to decline. While the 1995-96 cocoa production is expected to be short, the anticipated shortfall would be just about covered by the liquidations from the international cocoa organization's buffer stock. Tea prices have continued to decline, the 1995 prices being 10.4 per cent lower than their 1994 average level, when prices declined by 1.3 per cent. Average tea prices on the London auction have recorded a historical low in real terms, because of record crops in some producing countries and the generally low demand in several consuming countries.

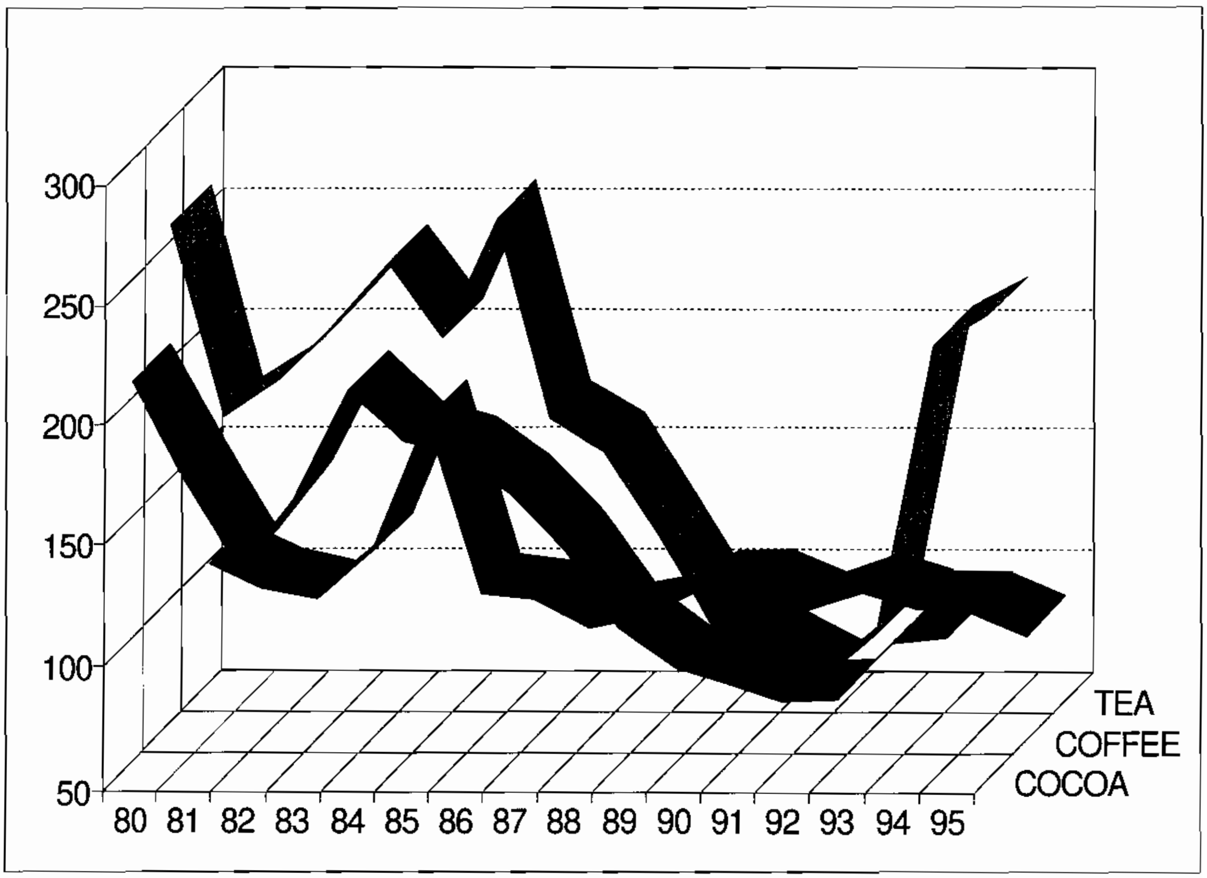
Fat and oil prices in the aggregate increased slightly in 1995, although price declines are likely in most vegetable oils in the short to medium term. Groundnut prices fell by 8.8 per cent, but palm oil prices increased by 18.8 per cent. While palm oil production is expected to grow in response to recent high prices, these high prices are likely to dampen demand and encourage the displacement of palm oil imports by other vegetable oils substitutes, such as cottonseed oil in Pakistan, and rapeseed oil in China.

The IMF aggregate price index for agricultural raw materials increased by 4.5 per cent over its 1994 level. While some prices showed an upturn, prices of several commodities making up the composite index were in a downswing. The price of cotton rose by 23.3 per cent in 1995 relative to its 1994 level, due to uncertainties on the supply side, partly as a result of wastage inflicted by insects and poor weather conditions in some producing areas. The supply of extra-fine cotton is expected to be particularly tight in 1995-96 and prices have already risen significantly. Although world cotton consumption seems to have stabilized since the 1980s, a modest rise in demand in Eastern Europe appears poised to lift the market.

Log prices fell by 18.5 per cent in 1995, primarily because of the decline in Malaysian log prices in Japan, as recessionary economic climate led to sluggishness in the country's construction industry. The low level of construction activity has also constrained any recovery in log and sawnwood prices in Europe, despite some demand increases from the timber and furniture industries in Germany. Substitution of other building materials for tropical woods has also had some effect on demand.

For metals, however, as world demand was sustained by rapid growth in Asia, prices increased by 19.4 percent in 1995, following an increase of 16.6 percent in 1994, reflecting a net increase over a spectrum of mining products. For some key minerals such as copper and cobalt,

Fig. II.2 Indices of Beverage Prices, 1980-95



the near collapse of production in Zaire, where copper production has now fallen to one tenth of potential, has been a factor in the price rises. Copper prices were 27.3 per cent higher in 1995 than their 1994 level. This trend may not be sustained in the future. A number of modern large-scale copper mines are soon likely to become operational, as the industry expands its capacity to accommodate expected demand growth for the rest of the decade. The price of aluminum rose by 22.3 per cent in 1995 as a result of the economic recovery in the industrial world. However, lagging construction and automobile production are likely to hold down any significant increase in the demand for this product. Iron ore prices grew by 6 per cent in 1995, but future outlook is uncertain in the face of weak steel markets. While demand for pellets and lump has been high, sluggish demand, oversupply and high inventories have put a downward pressure on most international steel prices. However, it is hoped that, with the decline in interest rates, home sales will improve, and demand for steel will increase with new housing starts and increased appliance sales. Among other minerals and metals, prices of nickel grew by 30 per cent, cobalt by 19.9 per cent, lead by 14.6 per cent and tin by 13.5 per cent. The price of manganese fell by 5 per cent.

The price of petroleum has generally been on the decline since 1980, reaching US$15.89 per barrel in 1994, although it has not suffered the steep fall experienced by other primary commodities like coffee. Oil prices increased at

Table II.1
Wholesale Price Indices for Selected Commodities, 1990-1995

PRICE BASIS		1990	1991	1992	1993	1994	1995
SUGAR	EC IMPORT PRICE	100	105.0	107.6	106.2	106.6	117.9
BOVINE MEAT	ALL ORIGINS (US PORTS)	100	103.9	95.8	102.1	91.0	74.4
BANANAS	LATIN AMERICA (US PORTS)	100	103.5	88.2	81.7	81.0	81.4
PALM OIL	MALAYSIA (EUROPE)	100	117.0	135.8	130.3	182.6	216.9
GROUNDNUT	ALL ORIGINS (EUROPE)	100	93.4	60.3	82.4	72.0	65.7
COFFEE	UGANDA (NEW YORK)	100	90.6	79.3	97.3	217.9	230.6
COCOA	NEW YORK & LONDON	100	94.1	86.7	87.6	110.0	113.0
TEA	AVERAGE AUCTION (LONDON)	100	90.7	98.3	91.4	90.2	80.8
TOBACCO	USA (ALL MARKETS)	100	103.2	101.4	79.5	87.7	77.5
COTTON	LIVERPOOL INDEX	100	93.2	70.2	70.3	96.6	119.1
LOGS	MALAYSIA (TOKYO)	100	112.1	122.7	242.7	197.4	160.8
HIDES	USA (CHICAGO)	100	86.1	82.3	86.8	94.1	95.6
RUBBER	MALAYSIA (SINGAPORE)	100	95.5	99.6	96.1	130.2	182.8
PHOSPHATE	MOROCCO (CASABLANCA)	100	104.9	103.1	81.5	81.5	86.4
IRON ORE	BRAZIL (NORTH SEA PORTS)	100	108.0	102.6	91.3	82.7	87.7
COBALT		100	131.0	297.7	148.9	288.3	345.7
COPPER	UK (LONDON)	100	87.9	85.9	72.0	86.6	110.2
LEAD	UK (LONDON)	100	68.9	67.1	50.3	67.8	77.7
MANGANESE	UK	100	114.3	109.4	87.2	62.3	59.2
NICKEL	UK (N. EUROPEAN PORTS)	100	92.1	79.1	59.9	71.4	92.8
TIN	ALL ORIGINS (LONDON)	100	92.0	100.3	84.9	89.7	101.8
ALUMINIUM	CANADA (UK)	100	79.5	76.6	69.5	90.0	110.1
PETROLEUM	UK BRENT (RENT PORTS)	100	83.3	80.6	71.0	65.9	71.3
ECA COMMODITIES EXPORT PRICE INDEX INCLUDING FUELS		100	86.8	83.7	77.3	79.1	85.8
ECA COMMODITIES EXPORT PRICE INDEX INCLUDING FUELS		100	96.3	92.4	94.6	115.5	126.1

Source: IMF, International Financial Statistics, UNCTAD, Monthly Commodity price Bulletin, ECA Secretariat

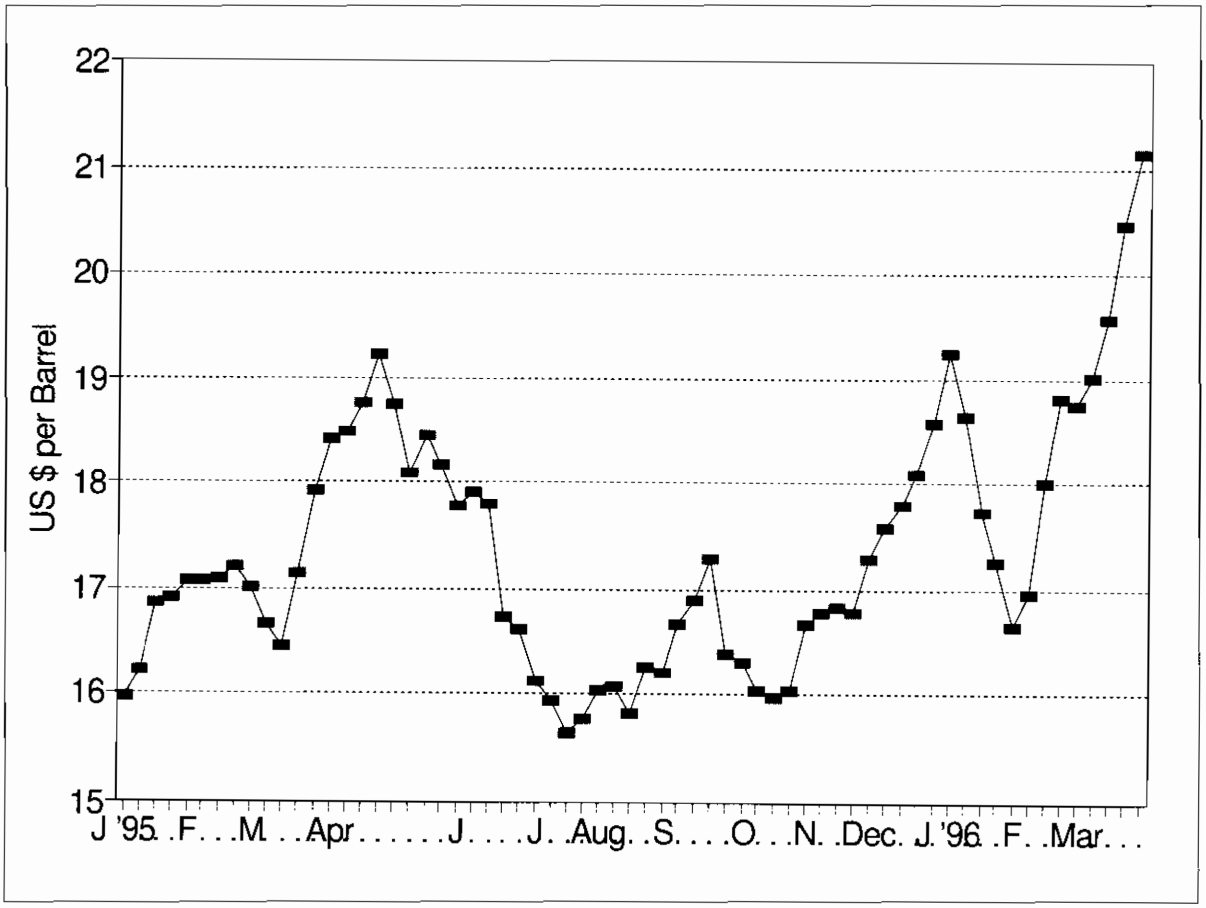
the beginning of 1995, rising to the vicinity of US$19 a barrel for Brent crude but fell back afterwards. At the end of 1995, Brent crude prices rose again to reach some US$18.5 a barrel in mid-January 1996, but fell back to US$16.5 a barrel by the end of February. Prices averaged US$16.7 a barrel for the year 1995, 7 per cent over the preceding year's figure (Figure II.3).

On the whole, it would seem that the recent high prices of primary commodities are in general being reversed because they had encouraged an expansion of productive capacity, which was previously discouraged by low and declining world prices. Furthermore, it seems likely that industrial economies will be less buoyant in 1996 than in 1995, and that commodity prices may also be less favourable, with some predicted losses for beverages and minerals. The combination of increased world supply of primary commodities from existing capacity and new investment, coupled with weak demand in developed countries, is likely to depress prices further in 1996. For these reasons, the increase in the prices of primary commodities in 1994 and 1995 would appear to be more of a temporary phenomenon than a decisive reversal of the long-term declining trend. Indeed, according to the IBRD,[1] the boom in commodity prices appears to be now over for most primary commodities.

4. Debt and finance

The liberalization of financial flows has created a single world financial market where the volume of transactions has greatly exceeded the volume of merchandise trade. This situation

Fig. II.3 Brent Weekly Oil Prices



[1] Commodity Markets and the Developing Countries, February 1996, IBRD.

has radically changed the environment in which economic policy is conducted, and governments must perforce take greater account of the reaction of markets to their actions. Interest rates have become a major policy instrument as governments try to avoid inflation and resort less to deficit financing, in order to attract investment. To finance budgets, they have intensified borrowing on financial markets and this, in turn, has increased the dependence of policy on market sentiments.

In 1995, both interest rates and exchange rates fluctuated significantly in response to speculation and market volatility, and sometimes in ways that little reflect changes in real economic conditions. But, with low inflation, a moderate rate of economic growth, and government measures to stimulate investment, long term interest rates have moved downwards. At the end of 1995, they were at around 6 per cent in the U.S.A compared to 7.9 per cent at the beginning of the year. In Germany, where interest rates had gone up because of the huge financial requirements of reunification, they have nonetheless, tended to move downwards. However, short-term fluctuations in interest rates have been quite substantial and, following Mexico's financial crisis, there were fears about the stability of financial markets around the world. A collapse of bond market values was even envisaged at one point, an ever-present risk given the nature of market economies. In addition, the situation of Japanese banks, which are burdened with massive stocks of bad loans, has been a source of concern.

Exchange rates have also been marked by large fluctuations. The Japanese yen appreciated sharply up to the middle of 1995, only to fall back by the end of the year to its pre-1994 levels. The U.S dollar has moved together with the Japanese yen, and, after falling against the yen, recovered to remain more or less stable during the first quarter of 1996. If the U.S.A fiscal deficit is relatively small in relation to GDP, its external current account deficit remains high, and has moved up further in 1994 and 1995.

According to OECD estimates, total net resource flows to developing countries increased by over US$ 21 billion in 1994. This represents an increase of 13 per cent in nominal terms over the 1993 figure, or 8 per cent on the basis of 1993 prices and exchange rates. The renewed momentum in resource flows over the last five years is attributable principally to private investors, whose participation has more than doubled. Official financing has followed an opposite trend, declining by about 3 per cent in real terms (Table II.2). The increase in the flow of private capital is attributable mainly to heightened activity in the private investment market, with investors seizing new business opportunities in the emerging economies, particularly in the form of foreign direct investment, and acquisitions of bonds and equity. With respect to bonds, the period 1993-1994 was particularly active; the share of this category of investments rose from 14 per cent of total private flows in 1992 to about 30 per cent in 1994. The pattern of financial flows and operations during the early part of 1995 suggests the possibility of continued development in that direction despite the turbulence caused by the short-lived Mexican financial crisis. This trend is indicative also of unshaken investor confidence in the scope of ongoing reforms in a number of growth-oriented developing economies and, more particularly, in the sustainability of the favourable signals thus far registered by their markets. Among developing countries, the major beneficiaries of these additional resource flows have been the Latin American countries that have managed to maintain the tempo of reform, and, to a large extent, a number of Asian countries, whose economic performance has been both impressive and consistent, and the transitional economies of Europe.

Net financial flows to developing countries fell substantially after the Mexican financial crisis, due to the large speculative and short-term component of these flows. However, the downturn was short-lived, and recovery came quickly. As already indicated, the bulk of the

Table II.2
Total Net Resource Flows to Developing Countries, 1986 and 1990-1994

	1986	1990	1991	1992	1993	1994 p
I. OFFICIAL DEVELOPMENT FINANCE (ODF)	50.1	69.7	69.6	70.5	69.5	70.2
1. OFFICIAL DEVELOPMENT ASSISTANCE (ODA) OF WHICH :	38.5	52.8	58.5	59.5	56.2	59.7
- BILATERAL DISBURSEMENTS	29.8	39.3	42.3	42.0	39.6	41.3
- MULTILATERAL DISBURSEMENTS	8.7	13.5	16.2	17.5	16.6	18.4
2. OTHER ODF OF WHICH :	11.6	16.9	11.1	11.0	13.3	10.5
- BILATERAL DISBURSEMENTS	3.8	6.7	4.4	7.4	6.4	6.8
- MULTILATERAL DISBURSEMENTS	7.8	10.2	6.7	3.6	6.9	3.7
II. TOTAL EXPORT CREDIT	-0.6	4.7	1.8	1.3	-0.9	3.2
OF WHICH SHORT-TERM	3.0	4.5	-0.8	0.5	-1.5	0.2
III. PRIVATE FLOWS	25.3	51.8	50.8	76.8	94.1	110.4
1. DIRECT INVESTMENT	10.7	26.4	22.6	27.3	38.8	47.0
2. INTERNATIONAL BANK LENDING	7.0	15.0	11.0	31.0	9.0	21.0
3. TOTAL BOND LENDING	1.0	0.9	6.5	11.1	36.6	32.7
4. OTHER PRIVATE LENDING	3.3	4.4	5.3	1.4	4.0	4.0
5. GRANTS BY NON-GOVERNMENTAL ORGANISATIONS	3.3	5.1	5.4	6.0	5.7	5.7
TOTAL NET RESOURCE FLOWS	74.8	126.2	122.2	147.8	162.7	183.8
	At 1993 PRICES AND EXCHANGE RATES					
TOTAL NET RESOURCE FLOWS	**110.5**	**135.3**	**126.7**	**144.4**	**162.7**	**176.4**
Total ODF	74	74.7	72.2	68.8	69.5	67.4
Total ODA RECEIPTS	56.9	56.6	60.7	58.1	56.2	57.3
Total ODA FROM DAC MEMBERS	53.8	58.2	60.1	60.8	56.5	56.7

Source: OECD Development co-operation, 1995 Report
P : Preliminary

resources has gone to Asian countries which, according to IMF, received a total of US$87 billion in net external financing in 1995, compared with US$15.3 billion to Africa, of which probably more than half has gone to South Africa. Sub-Saharan Africa received US$7.4 billion only, an amount not significantly higher than the levels of the late 1980s.

If the external debt of developing countries has continued to grow, rising by 7.6 per cent to a level of US$ 2,067.7 billion in 1995, according to the World Bank, the debt problem has globally lost most of its urgency, with debt service stagnating at a reasonable 16.0 per cent of export of goods and services during the last 2 years. The global situation may seem reassuring, particularly in Asia, but this is not the case for most of the severely indebted low and middle income countries where debt constraints still persist at unmanageable levels. For these countries, debt service now represents an average of 30.0 percent of goods and services exports and total debt is about 323.2 per cent of exports of goods and services. These figures indicate that many countries have few prospects of continuing to service their debts without serious constraints on their development. Sooner or later, creditor countries will have to acknowledge this fact, and consider in earnest practical measures to forgive most of the debt. Already, some countries, particularly those African countries in serious crisis (Zaire, Angola, Somalia, Liberia, Sierra Leone and the Sudan) have stopped honouring their debt obligations and it is difficult to envisage how they can be brought to do so in the near future. This underscores the urgent necessity to re-examine the Naple terms for debt reduction mechanisms in order to bring about a final solution to the peculiar case of financially-distressed low income countries in Africa.

5. Policy issues

Recent trends in commodity prices underline the view that a longer term solution to the problem of unstable and falling commodity prices lies in the successful diversification and transformation of the production structures of African economies. Commodity agreements and producer accords provide only short-term respites, and have obviously not functioned properly. Turning the windfalls from temporary commodity price increases to great advantage through economic diversification is a surer way to avoid falling victim to the Dutch disease by acting as if such temporary price increases would be long-lasting.

For the future, it is feared that with the ineffectiveness of international commodity price arrangements, increased supplies of primary commodities in the face of stagnating world demand may accentuate the speed of price decline. Indeed, according to the IBRD,[2] the boom in commodity prices appears now to be over for most primary commodities.

Structural adjustment, involving a substantial liberalization of the economy, remained at the centre-stage of economic reform policies in the developing economies. Those countries which have gone the farthest on the path of liberalization are deemed to have done much better than others, although reality is not always fully supportive of the benefits of liberalization, particularly of privatization, which is a major component of adjustment programmes. In the countries of the former socialist bloc, the privatization of the economy has been accompanied, as they did in many African countries by drastic reductions in social expenditures and labour retrenchment which have led to the impoverishment of a large segment of the population.

In the area of trade, which has become very sensitive owing to a conjuncture of several developments -- the Uruguay Round agreement, the trend towards regionalism and the globalization of the world economy, the setting up of the World Trade Organization has been a very positive development for free trade. Nonetheless, the policies followed by the U.S.A and major industrial countries of Europe have sometimes taken directions clearly at variance with free market principles. The U.S.A, in particular, has been exerting subtle pressures on some of its trading partners to accept a policy of administered trade in some types of manufactures, while appearing increasingly reluctant to allow competition in manufacturing exports from the developing countries. Such a tendency has been less visible in Europe, but, even here, there has been a growing call to limit access to European markets for some type of manufactures from developing countries. Countries such as Mauritius, which have made major strides in industrialization and exports, have been the target of such policies.

In the case of the African, Caribbean and Pacific (ACP) countries that are signatories to the Lome convention, there is increasing concern about the fate of this arrangement after the expiration of the present Convention in the year 2000. Doubts have also been raised as to whether the various commodity protocols, including the key Sugar Protocol can continue after the year 2000, when the WTO waiver on the Lome Convention expires. These concerns and doubts have been intensified by the Uruguay Round agreement, which tightened the provisions of Article XXIV of the GATT dealing with customs unions and free trade areas. The **Understanding on the Interpretation of Article XXIV of GATT 1994,** included in the Final Act of the Uruguay Round has clarified the criteria and procedures for the assessment of agreements on customs unions and free trade areas notified under article XXIV and reinforced the effectiveness of WTO bodies. More stringent conditions are now to be applied to customs arrangements, such as the Lome Convention, before a waiver can be granted. Even as the WTO settles down to the

[2] Commodity Markets and the Developing Countries, February 1996, IBRD.

implementation of the Uruguay Round agreement, and takes up the new issues being proposed for future negotiation, it would have to address a number of sensitive trade and aid issues of concern to developing countries, including how to react to any proposal to renew the Lome Convention.

Difficulties are expected in achieving the main convergence criteria leading to the launching of the EMU in 1999, as the inner core countries seem to be fewer in number, and Britain which left the European Currency System in 1994, does not seem near to making a come-back. Moreover, many European countries have levels of fiscal deficits higher than the 3 per cent target of the Maastritch Treaty, while the future introduction of a common currency continues to raise doubts and apprehensions because of the implied loss of national sovereignty.

6. Prospects for 1996

World output is expected to grow by 2.5 per cent in 1996; the industrialized countries remaining on their 1995 path with output growing by 2.0 per cent, while developing countries would continue their rapid expansion at 5.5 per cent. It is projected that China and the other industrializing Asian countries would continue to grow at rates nearing 8 per cent, and that there may be a turnaround in the countries of the former socialist bloc, where output growth for the group as a whole could be as high as 3.4 per cent for the first time since 1989-1990. In Russia, where the economy has been in decline since the collapse of the U.S.S.R, a modest but significant upturn is expected for 1996, with output rising by 2 per cent.

For Africa, both UN-DESIPA and the IMF have presented very optimistic figures of output growth in 1996 - 4.25 per cent by UN-DESIPA and 3.2 per cent by the IMF, compared to the UNECA figure of 2.9 per cent. The growth scenarios of the UN-DESIPA and the IMF seem based on assumptions that are most unlikely to be realized, and grounded in an optimism that is in contradiction with the drastic cuts in development assistance by the advanced industrial countries. For example, the new U.S.A budget includes measures which would cut that country's IDA contributions by as much as 40 per cent and thereby hamstrung the World Bank agency that provides 'soft' loans to developing countries. In other industrial countries, aid budgets have either been reduced or kept at existing levels. Some of the arguments developed to justify these policies have centred on the alleged incidence of waste and inefficiency in the use of the resources made available to African countries in the past. However, the trend cannot be dissociated from the new global power structure and its implications for the politics and economics of foreign assistance.

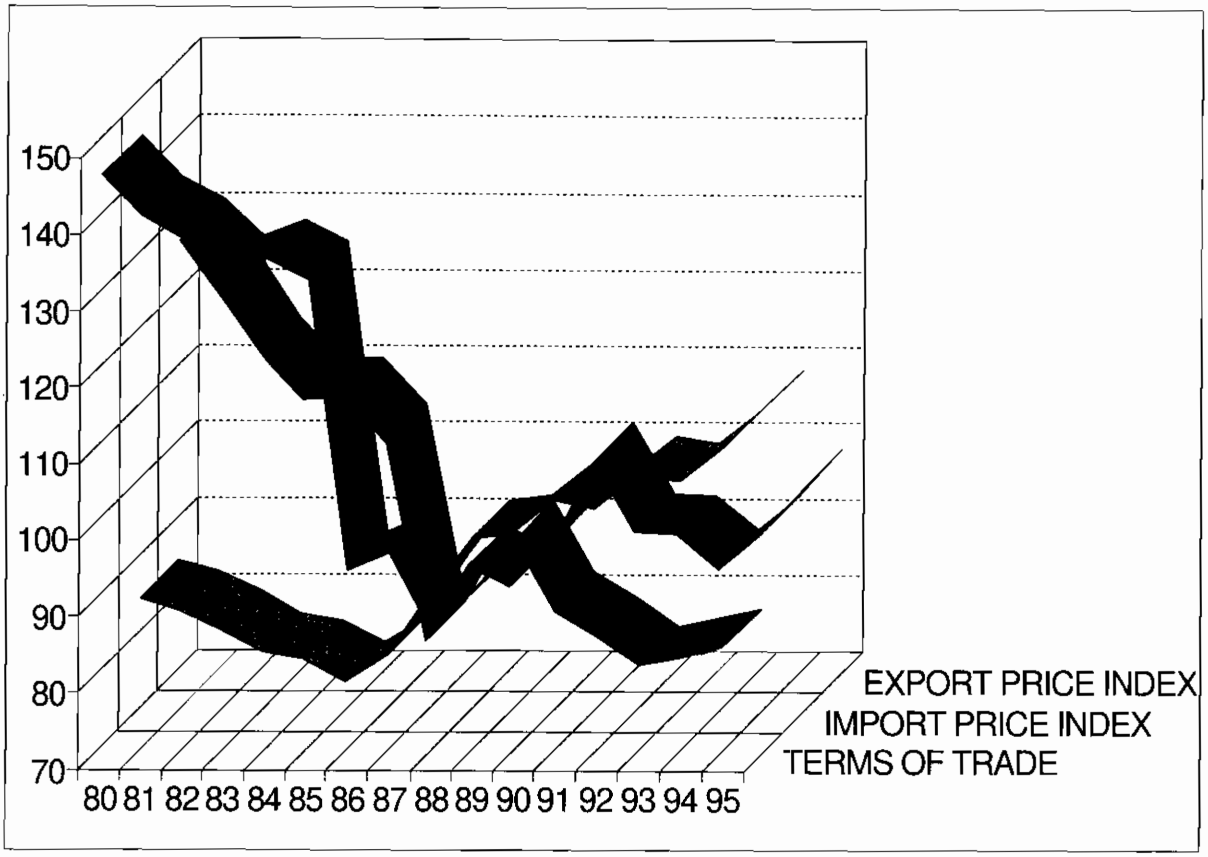
C Africa's External Trade and Balance of Payments

1. Main trends

To a large extent, the relatively impressive increase in the value of Africa's exports in 1995 was due to a very marked rise in the exports of petroleum in the producing countries which increased by 11.9 per cent. There were also sharp increases in the prices of selected commodity exports; notably, products in the minerals and metal group. The increase in export value, excluding those of the export of petroleum producing countries, was about 10.8 per cent.

There was a 4.5 per cent increase in prices of manufactured imports in 1995 (3.6 per cent in 1994), 8.1 per cent increase in food import prices, and a 7.9 per cent increase in petroleum import prices, which, together, were largely responsible for the increase of 5.2 per cent in the unit value of imports in 1995. As petroleum prices increased by 7.9 per cent in 1995, African oil importers found their energy import bill rise above the 1994 level, when prices fell by 5.5 per cent. Although both export and import prices increased in 1995 and 1994, the former increased more than the

Fig. II.4 Export, Import and Terms of Trade, 1980-95



latter, as a result of which the terms of trade improved by 1.5 per cent in 1995 (1.2 per cent in 1994) in contrast to a fall of 4.5 per cent in 1993 (Figure II.3). The purchasing power of exports improved by 5.6 per cent in 1995 (0.7 in 1994), after falling by 10.9 per cent in 1993 (Table II.3).

Africa's share of world trade has continued to decline, from 14.9 per cent in 1980 to 10.9 per cent in 1990 and 6.4 per cent in 1995. Africa is not only failing to partake fully in the growth of world trade, but has steadily been losing ground to new producers in Latin America and Asia, even in its traditional export commodities. Thus, Africa's share of world merchandise trade in 1995, in nominal terms, was 2.2 per cent, while in 1994 it was 2.3 per cent, which is markedly lower than the figure of 3.1 per cent in 1990 and 5 per cent in 1980. If this trend continues, Africa runs the risk of being completely marginalised in global commerce.

2. Commodity structure

Most African countries continue to rely on few primary commodities for the major part of their export earnings. Mineral fuels, which account for 58.5 per cent of the total (Table II.4), now dominate the region's exports (Figure II.5). Another important export group is light manufactures (14.7 per cent), followed by beverages and tobacco (12.7 per cent). While the number of commodities exported by African countries has increased significantly in recent years, reflecting some degree of success in the diversification effort, the weight of the new products (flowers, fruits, etc.) in total exports has remained very small.

According to available statistics, exports of African oil exporting countries increased by 11.9 per cent in 1995 compared to a 1.4 per cent increase in 1994 and a 16.5 per cent decrease in 1993 (Table II.5). The preliminary indications

Table II.3
General Indicators of the Merchandise Trade of African Countries, 1990-1995

	1990	1991	1992	1993	1994	1995
EXPORTS						
VALUE	22.8	-3.9	-1.1	-11.6	4.9	11.1
VOLUME	10.4	5.5	-0.9	-6.4	-0.4	4.3
UNIT VALUE	12.4	-9.4	-0.2	-5.2	5.3	6.8
IMPORTS						
VALUE	12.8	-3.1	4.7	-4.0	7.3	12.8
VOLUME	8.3	-3.0	1.3	-3.2	3.2	7.6
UNIT VALUE	4.5	-0.1	3.4	-0.8	4.1	5.2
TERMS OF TRADE	7.5	-9.3	-3.4	-4.5	1.2	1.5
PURCASING POWER OF EXPORTS	17.5	-3.8	-4.4	-10.9	0.7	5.6
% SHARE OF AFRICA IN WORLD EXPORTS	3.1	2.9	2.7	2.4	2.3	2.2

Source: IMF, World Economic Outlook, International Financial Statistics; ECA Secretariat

Fig. II.5a Developing Africa, Export, 1993

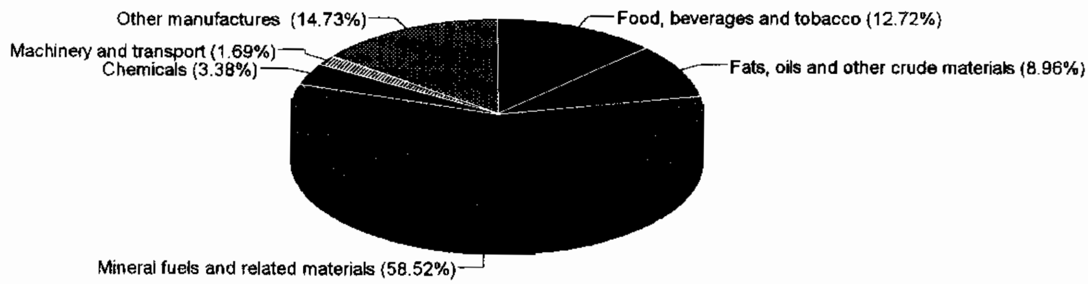


Fig. II.5b Developing Africa, Import, 1993

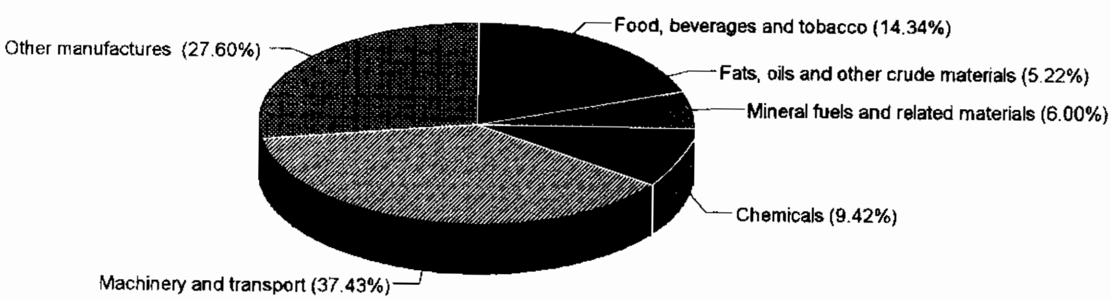


Table II.4
Trade of African Developing Countries by Commodity Class, 1980, 1990-1993

	EXPORTS						IMPORTS					
	1980	1989	1990	1991	1992	1993	1980	1989	1990	1991	1992	1993
FOOD, BEVERAGES AND TOBACCO	9.9	14.5	12.3	12.5	12.7	12.7	14.3	15.0	13.7	13.0	14.1	14.3
FATS, OILS AND OTHER CRUDE MATERIALS	7.3	10.3	8.7	9.0	8.8	9.0	4.3	5.8	5.3	4.9	5.5	5.2
MINERAL FUELS AND RELATED MATERIALS	75.6	54.0	60.2	60.3	59.4	58.5	9.3	7.1	9.5	10.4	5.7	6.0
CHEMICALS	0.8	4.0	3.7	3.7	3.6	3.4	7.9	9.7	8.9	8.6	9.3	9.4
MACHINERY AND TRANSPORT	0.4	1.4	1.6	1.9	1.7	1.7	37.4	0.4	37.7	37.6	38.6	37.4
OTHER MANUFACTURES	5.9	15.8	13.4	12.6	13.9	14.7	26.8	62.0	24.9	25.4	26.8	27.6
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: UN, Monthly Bulletin of Statistics (various issues)

Table II.5
Exports of Oil-exporting Countries: 1990-1995

	US$ Billions						% variations
	1990	1991	1992	1993	1994	1995	1995/94
ALGERIA	13.0	12.3	12.2	10.3	9.7	10.5	8.2
EGYPT	3.5	3.5	3.1	2.2	4.0	3.7	-7.5
LIBYA	11.4	10.2	10.0	7.7	7.3	7.8	6.8
TUNISIA	3.5	3.7	4.0	3.8	4.6	5.3	15.2
NIGERIA	13.6	12.3	11.9	10.9	9.5	11.9	25.3
CAMEROON	2.1	2.0	1.9	1.1	1.5	1.3	-13.3
CONGO	1.4	1.0	1.2	1.1	1.0	1.0	0.0
GABON	2.5	2.2	2.3	2.1	2.1	2.6	23.8
ANGOLA	3.9	3.4	3.8	2.9	3.0	3.7	23.3
TOTAL EXPORTS	54.8	50.8	50.4	42.1	42.7	47.8	11.9

Source: IMF, International Financial Statistics; Economist Intelligence Unit; ECA Secretariat

are that exports increased by 25.3 per cent in Nigeria, 23.8 per cent in Gabon, and 23.3 per cent in Angola with the return of relative peace to that country. However, exports declined in Cameroon by 13.3 per cent, and in Egypt by 7.5 per cent. The exports of the Congo remained unchanged in 1995 as compared to the previous year. Nigeria accounted for 24.9 per cent of Africa's oil exports in 1995, followed by Algeria (22 per cent) and Libyan Arab Jamahiriya (16.3 per cent) (Table II.5).

Machinery and transport equipment continue to account for a high proportion of imports. The high share of capital goods in imports reflects the persistent weakness in the structure of the region's economies, particularly, the failure of domestic industries to achieve the technological transformation necessary to produce more than simple consumer goods, such as textiles and plastic products. Moreover, many African countries, especially the smaller ones, still rely on imports from outside the region for the bulk of their requirements of even such simple consumer goods.

3. Direction of trade

There has also been little change in the general direction of African trade though there have been changes in the market shares of specific regions (Table II.6). Developed countries accounted for 82.9 per cent of Africa's exports in 1980 and 81.9 per cent in 1994. The share of the European Community was 46.2 per cent in 1980 rising to 58.2 per cent in 1994. The share of the United States was 31.3 per cent in 1980 but decreased to 16.9 per cent in 1994. The share of developing countries increased from 13.7 per cent

Table II.6
Direction of Trade of African Developing Countries, 1980 and 1989-1994

	EXPORTS						IMPORTS					
	1980	1990	1991	1992	1993	1994	1980	1990	1991	1992	1993	1994
WORLD	100	100	100	100	100	100	100	100	100	100	100	100
DEVELOPED MARKET ECONOMIES	82.9	82.8	81.4	82.1	82.7	81.9	77.1	72.0	70.2	73.8	73.7	71.5
DEVELOPING ECONOMIES	13.7	13.0	14.5	15.2	15.2	15.9	17.8	23.7	27.7	24.2	23.6	25.6
OPEC	1.1	2.5	2.8	2.7	2.7	2.5	5.0	7.1	8.1	4.1	4.1	4.2
EASTERN EUROPE & FSU	2.6	3.2	3.2	1.3	1.2	1.1	5.2	4.3	2.1	2.0	2.6	2.8
DEVELOPED MARKET ECONOMIES												
EUROPE DEVELOPED	48.7	60.3	59.7	60.4	60.7	60.4	58.8	56.1	53.9	55.3	53.6	50.7
EU	46.2	58.9	57.3	58.2	58.4	58.2	54.2	52.1	49.7	51.4	49.7	47.3
USA	31.3	18.4	18.4	18.2	17.8	16.9	7.5	7.4	8.0	8.8	8.8	8.5
JAPAN	2.1	2.2	2.0	2.3	2.6	2.7	7.1	4.7	4.9	5.6	6.7	7.1
DEVELOPING ECONOMIES												
AFRICA	3.1	5.9	6.9	7.5	8.6	8.6	3.5	4.8	5.9	6.3	6.7	7.9
AMERICA	6.2	1.1	1.5	1.7	1.5	1.5	2.8	24.0	2.0	2.3	2.1	2.3
MIDDLE EAST	1.9	2.6	2.5	2.0	1.8	1.8	4.2	7.0	7.5	3.1	2.8	2.9
ASIA	1.5	2.9	2.9	3.2	3.3	3.3	6.4	8.7	11.6	12.2	11.8	12.4

Source: United Nations, Monthly Bulletin of Statistics (various issues)

to 15.9 per cent over the same period while intra-African trade expanded from 3.1 per cent to 8.6 per cent between 1980 and 1994. Trade with Asia rose from 1.5 per cent to 3.3 per cent, reflecting the growing importance of the Asian NICs in African trade; but trade with Latin America declined from 6.2 per cent to 1.5 per cent of total trade. Trade with OPEC countries rose from 1.1 per cent to 2.5 per cent, while trade with Eastern Europe and the FSU fell from 2.6 per cent to 1.1 per cent of the total over the fourteen year period.

Developed market economies accounted for 77.1 per cent of Africa's imports in 1980 compared with 71.5 per cent in 1994, indicating a small variation in import sourcing. Developed countries, particularly the European Union (EU), continue to dominate both imports and exports. However, new patterns have begun to emerge. First, post-apartheid South Africa is emerging as an important new trading partner within the region and this could possibly provide a stimulus for the development of other intra-regional trade connections as well as intra-regional movement of capital. Second, a shift of trade in favour of the developing countries, particularly to the newly-industrializing developing countries of Asia, is also beginning to emerge. Although these countries have not yet increased their purchases of Africa's exports appreciably, they are beginning to account for an increasing share of Africa's imports.

Principally, historical links with Europe still determine the direction of Africa's external trade, although it is expected that greater success with economic diversification will increase the prospects for a wider geographical pattern of external trade for the region. The share of the E.U. in Africa's imports declined from 54.2 per cent in 1980 to 47.3 per cent in 1994. The share of the USA rose from 7.4 per cent to 8.5 per cent, and that of Japan from 4.7 per cent to 7.1 per cent. The share of developing countries rose from 17.8 per cent in 1980 to 25.6 per cent in 1994, reflecting the increased importance of South-South trade. Africa's imports from Asia, with its NICs, rose from 6.4 per cent to 12.4 per cent over the same period. The share of OPEC countries decreased from 5 per cent to 4.2 per cent, while that of Eastern Europe and the FSU declined to 2.8 per cent from 5.2 per cent.

As mentioned earlier, intra-African trade accounted for 8.6 per cent of total exports in 1993, a significant improvement since 1980, when it accounted for only 3.1 per cent. However, as Table II.8 shows, there has been little change in its composition over the period. The share of food and beverages declined from 24.4 per cent

Fig. II.6a Africa, Direction of Trade, Exports, 1994

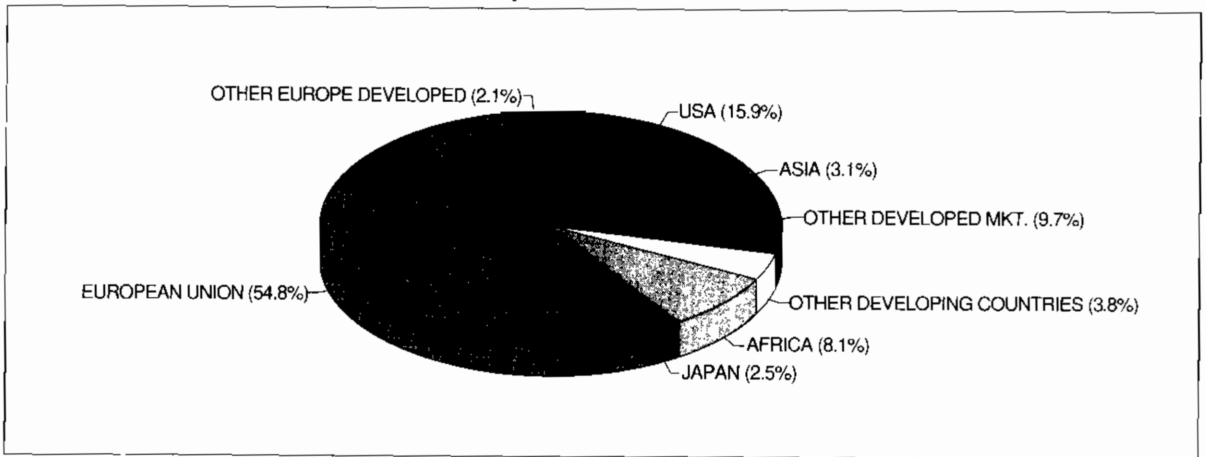
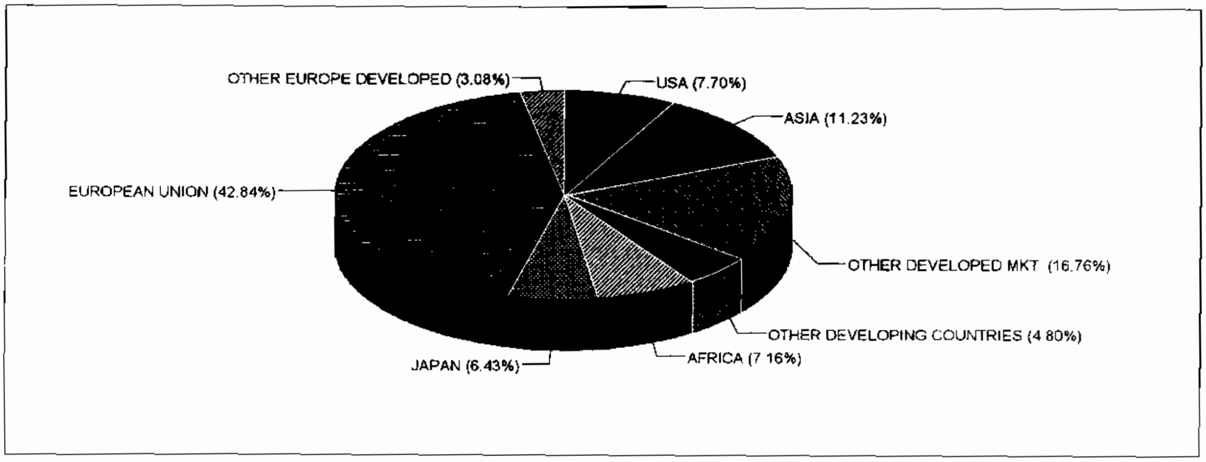


Fig. II.6b Africa, Direction of Trade, Imports, 1994



to 20 per cent; the share of crude materials increased from 9.1 per cent to 11.5 per cent; the share of mineral fuels decreased from 40.9 per cent to 34 per cent; and the share of chemicals rose from 4.4 per cent to 7.7 per cent. Machinery accounted for 2.9 per cent of intra-regional trade in 1980 and 6.3 per cent in 1993. The share of other manufactures, which stood at 18.2 per cent in 1980, increased to 20.5 per cent in 1993. The importance of intra-African trade expansion for Africa's development and integration with the global economy cannot be over stressed. The prospects are bound to improve with the integration of South Africa into the regional economy. With increased opportunities for regional sourcing for a wide variety of industrial materials and intermediate products, there should be better prospects for far-reaching changes in both the magnitude and commodity composition of intra-regional trade in the coming years. Cooperation, coordination and harmonization of macro-economic policies among African countries, and the easing of currency and payments restrictions, which are frequently more of a hindrance to intra-regional trade than tariffs, would greatly facilitate the process of regional economic integration and the expansion of intra-African trade (Table II.7).

4. Balance of payments

As in previous years, Africa had a net deficit on the services account of the balance of payments in 1995, and more substantial deficit on the income account owing to the high level of interest payments and repatriation of returns on foreign investment. Although the value of exports increased by 11.4 per cent in 1995, benefitting from an increase of 6.9 per cent in export prices, the deficit in the balance of trade nevertheless increased to US$10.9 billion, from US$6.7 billion in 1994, because of a 12.8 per cent increase in the value of imports. Receipts of unrequited transfers increased to US$16.3 billion in 1995 from US$15.9 billion in 1994, making a positive contribution to the current account. However, other components of the current account, namely services and factor incomes, contributed negative balances, and the overall current account deficit increased from US$ 0.5 billion in 1994 to US$ 2.1 billion in 1995.

5. Policy issues

In order to address Africa's commodity problems in a comprehensive manner, African Ministers responsible for Trade, Regional Cooperation, Integration and Tourism, meeting in Addis Ababa from 14 to 16 February 1996, adopted a Plan of Action for Commodities (see Box I.1). The aim was to realign the agricultural products subsector to meet local needs and, hence, reduce the import of food products; and to formulate policies for accelerating the horizontal and vertical diversification programmes with a view to widening Africa's economic base and creating the inter-sectoral linkages needed for sustained growth in a globalising world economy. In the Plan of Action, individual African countries were encouraged to adopt export promotion programmes and to provide support for enhancing competitiveness and export diversification. At the regional level, African countries were called upon to intensify cooperation through diversification policies, the integration of production and marketing structures, and the strengthening of African financial institutions like AFREXIMBANK, which specialize in external trade financing operations. At the international level, it was emphasized that African countries needed to continually evaluate the implications of the Final Act of the Uruguay Round of Multilateral Trade Negotiations, including the additional provisions contained in the Marrakesh Agreement, and to strengthen their negotiating positions within multilateral trade cooperation institutions such as the World Trade Organization (WTO) as well as the Group of 77.

The virtual stagnation of Africa's trade and the loss in world market shares have important policy implications also. First, it points to the need for African countries to regain their market shares in the production and exports of the traditional commodities, even as they pursue a diversification policy. Second, it shows that efforts must not be limited to raising production levels, but must also involve aggressive pursuit of the marketing end of the trade in primary commodities. Participation in international trade fairs, and strengthening of commercial and trade

Table II.7
Intra-African Trade by Commodity Class: 1980, 1990-1993

	1980 VALUE	% OF TOTAL	1990 VALUE	% OF TOTAL	1991 VALUE	% OF TOTAL	1992 VALUE	% OF TOTAL	1993 VALUE	% OF TOTAL
BEVERAGES, GOODS AND TOBACCO	727	24.4	926	23.5	984.0	20.2	1097.0	20.6	1057.0	20.0
OILS, FATS AND CRUDE MATERIALS	271	9.1	486	12.4	594.0	12.2	597.0	11.4	608.0	11.5
MINERAL FUELS	1219	40.9	1163	29.6	1622.0	33.3	1793.0	34.3	1798.0	34.0
CHEMICALS	131	4.4	312	7.9	356.0	7.3	408.0	7.8	407.0	7.7
MACHINERY	87	2.9	243	6.2	341.0	7.0	288.0	5.5	335.0	6.3
OTHER MANUFACTURES	543	18.2	803	20.4	970.0	19.9	1064.0	20.3	1081.0	20.5
TOTAL	2978	100.0	3933	100.0	4867.0	100.0	5229.0	100.0	5286.0	100.0

Source: United Nations, Monthly Bulletin of Statistics (various issues)

Box I.1

AFRICAN PLAN OF ACTION FOR COMMODITIES

To address Africa's commodity problem in a comprehensive manner, African Ministers responsible for Trade, Regional Cooperation, Integration and Tourism, meeting in Addis Ababa from 14 to 16 February 1996, adopted the following Plan of Action for Commodities, to be implemented at national, subregional and regional levels:

At the **national level**, African countries were urged to take the following measures with a view to ensuring a wider export base:

(a) realign the agricultural products subsector to meet local needs and reduce the importation of food products;

(b) formulate and pursue horizontal and vertical diversification programmes with a view to widening Africa's economic base and creating the inter-sectoral linkages needed for sustained growth;

(c) adopt adjustment and economic policies capable of revitalizing growth;

(d) adopt incentives for commodity producers by way of improving the access of small producers to the factors of production, lowering production factor costs by granting customs exemption for the import of essential commodities and relaxing fiscal policies so as to reduce excessive dependence on export duties as a source of fiscal revenue;

(e) pursue appropriate reform policies to gradually shift economic activities towards the promotion of more attractive and competitive goods both to the domestic and external markets;

(f) formulate as part of a comprehensive strategy, an export promotion programme providing every measure of support for enhancing competitiveness both at the stage of product processing and export diversification. For this to happen, not only would productivity have to be improved but also the cost of such factor inputs as labour, energy, transport, credit and other costs relating to an unfavourable business environment should be reduced;

(g) shift industrial strategies for import substitution to an endogenous growth model based on the commodities sector;

(h) improve the efficiency of marketing structures by simplifying administrative formalities and eliciting the direct participation of producers in product marketing by encouraging the establishment of producers' associations and cooperatives with a view to ensuring regular and steady supplies.

(i) conduct a critical review of the possibilities for diversifying outlets to other developing regions so as to take advantage of South-South opportunities and to diversify African markets and make them more competitive and profitable;

(j) create the conditions for an improvement of the economic and financial environment both for national as well as foreign direct investment particularly through the institution of such reforms as would contribute to the effective allocation of credit to small farmers and businessmen; and

(e) strengthen African financial institutions which specialize in external trade financing operations. AFREXIMBANK could play a major role here in financing African exports.

At the **international level**, African countries should:

(a) evaluate, with the assistance of ECA secretariat, the implications of the final Act of the Uruguay Round of Multilateral Trade Negotiations including the additional provisions contained in the Marrakesh Agreement so as to see what synergy can be achieved in increasing revenue, employment and expanding trade;

(b) strengthen their negotiating position within such multilateral trade cooperation institutions as the World Trade Organization (WTO), EC-ACP Convention and the Group of 77, so that their interests are taken into account in future negotiations;

(c) make use of international assistance to sustain their economic diversification efforts particularly within the context of the preparation of diversification projects and programmes under the General Assembly resolution 49/142; and

(d) encourage foreign direct investment and technology transfer, so as to develop production capacities and increase export possibilities.

representation in important markets could contribute to the expansion of exports, while product improvements and quality control measures would ensure greater customer loyalty. Efforts to increase market shares outside the region must be complemented with intensive export promotion within the African regional market and the expansion of intra-African trade through the harmonization of macro-economic policies and the strengthening of regional and subregional economic integration.

African countries should use the opportunity of the WTO annual meetings to draw attention to the particular challenges facing the continent as a result of the implementation of the Uruguay Round agreement. Attention should also be drawn to the liberalization that is taking place in Africa, and the limited benefits of freer market access to the region on account of the structural rigidities of their economies and the slow progress of current diversification efforts. Within the framework of the **Declaration on the Contribution of the World Trade Organization to Achieving Greater Coherence in Global Economic Policymaking**, included in the Final Act of the Uruguay Round, they should call for speedier action on Africa's debt problems, addressed at the recent G-7 meetings, in order to ease the financial problems constraining the structural transformation of their economies. Other issues that should be pressed are: technical assistance to African countries, within the framework of the Uruguay Round agreement, particularly assistance to the efforts of African countries to take advantage of new trading opportunities in the world market; measures to cushion the effect of higher food prices on African food importers; and how to reduce the impact of the loss of special preferences under the Lomé Convention on African economies. Finally, as African countries come under increasing pressure to accept lower tariff, bindings, they should explore the possibility of a WTO agreement to extend its waivers to the Lomé Convention and related Protocols, for a definite period beyond the year 2000. This would allow developing Africa more time for adaptation to freer global markets in a trading world that will continue to be dominated by powerful regional blocs.

D External Resource Flows to Africa

1. Private flows limited but growing

A limited number of countries in Africa have attracted resources from the international private capital markets in 1995. Africa's share of total world private resource flows was only 3 per cent in 1994, but by mid-1995, it had increased to 9 per cent. From a region-wide total of US$ 3.8 billion in 1994, private capital inflows to African countries increased to US$ 5.1 billion during the first half of 1995. Such movements of capital are determined largely by market factors and the attractions of a stable political and macro-economic environment which few African countries yet possess.

Tunisia and South Africa appear to have fared better than other African countries in this area because of their high level of credit ratings. They also appear to offer the most attractive environment for foreign private investment. These two countries received the lion's share of resource flows to Africa in 1995. Private-sector resource flows to South Africa stood at US$ 2.2 billion in 1994, and nearly US$ 1 billion during the first half of 1995. Tunisia, which made its initial entry into the world bond markets in 1995, received some US$ 300 million while the Congo raised almost US$500 million. Another significant development in 1995 was that Algeria obtained US$ 3.2 billion from the international banks to refinance part of its debt.

The sectorial distribution of resource flows into developing countries in recent years appears to favour the transport, telecommunications, energy, mining and financial services sectors. In Africa, development of infrastructure is for the most part in dire need of financing. At the same time, the number of African countries with the potential to attract foreign capital is continually increasing, thanks to a renewed momentum in macro-economic reforms and a readaptation of institutional mechanisms to investment-market conditions, both of which create opportunities for foreign private resource inflows. Still, efforts would need to be made to enhance these potentials through promotional mechanisms designed to improve Africa's image in the international financial markets. It is important also for African countries to create, through regional and subregional integration, an enabling environment for investment in the productive sectors of the continental economy. It would also be beneficial for them to expand the scope of their financial cooperation, in particular, by facilitating cross-border investments and, to the extent possible, internationalizing their domestic capital markets. So far, very few African countries undertaking structural adjustment programmes have been able to effectively reform their domestic capital markets. As a result, channeling of domestic and foreign portfolio assets through modern capital market mechanisms, such as mutual funds, stocks and shares, derivative instruments, etc., remains a difficult task.

Table II.8

Private Flows from the International Capital Markets to Africa in 1994 and mid-1995

(MILLION $US)	BONDS		EQUITIES		COMMERCIAL BANK LENDING	
	1994	1995	1994	1995	1994	1995
ALGERIA (1)					-	3200
CONGO	600					
GHANA (2)			398		7	10
LIBERIA					109	5
MALI					-	125
MAURITIUS (3)					108	-
MOROCCO (4)					100	20
SOUTH AFRICA (5)	1838	573	176	125	155	282
TUNISIA (6)	278	425			43	268
ZIMBABWE					1	30
TOTAL	2716	998	574	125	523	3940
TOTAL DEVELOPING COUNTRIES	58388	19684	18136	3334	53095	30935
SHARE OF AFRICAN COUNTRIES	4.7	5.1	3.2	3.7	1.0	12.7

Source: IMF, "Private market financing for developing countries", World Economic and Financial Surveys

Notes :

1. refinancing loan
2. raised by a mining company in 1994
3. aircraft financing loan in 1994
4. aircraft financing loan in 1994
5. * Bonds : 1994 : large issues launched by private borrowers for 1,088 billion $US and first global bond of 750 Million $US launched by the goverment.
   1995 : three issues of which the first Samurai issue of $46 Million $US by the government
   * Equities : 1995 : raised by a commercial bank
   * Commercial bank lending :
   1994 : aircraft financing loan of 155 Million $US
   1995 : bank loan of 600 Million $US of which a seven-year 265 Million $US Million $US loan to finance projects in the mining and natural resource sectors
6. * Bonds : 1995 : the Central Bank of Tunisia palced 2five-year Samurai issues amounting 425 Million $US of which 251 Million $US were the first sovereign issue for the country
   * Commercial bank lending :
   1995 : natural gas and power plant projects financing loan

South Africa, Congo and Tunisia appear for now to be the only countries in Africa whose economic structures, institutional framework, and financial infrastructure currently allow for easy integration of domestic capital markets into the global financial system. The growing level of private capital inflows into these three countries is a signal of strengthening confidence in their economic prospects, and this has substantially improved their credit ratings in foreign markets. Apart from funds raised in the international capital markets with the issuance of public and private bonds, inflows resulting from foreign direct investment are increasing. Their stock markets are also becoming attractive, while the values of shares traded have grown rapidly over the years, with local stockbrokers increasingly entering into partnerships with the international players in this area.

However, such promising cases of financial domestic markets are rare in Africa. In most of the other countries where attempts have been made in that field, the performance has been either unstable or low and fragile due to lack of adequate infrastructure, non-reliable regulatory framework and, to some extent, limited confidence on the part of potential investors in the countries' long-term prospects. Given the dire need for development finance, particularly the non-debt creating types, efforts must be made in the years ahead to increase the number of countries with the potential to attract foreign private capital. Such efforts will be greatly assisted by the opening up of the transport, telecommunications, energy, mining and financial services sectors of Africa to foreign participation.

If the future of the domestic capital markets in Africa is still difficult to predict in the context of the structural reforms underway, there are indications nonetheless of positive developments and encouraging signs on the horizon. Improved macroeconomic performance, more favourable environment for private investment, readaptation and adjustment of the continent's institutional mechanisms and financial structures are some of the requirements that will create and sustain the interests of external investors. Some of the international investors that traditionally play in the market are already looking for ways and means to position themselves in emerging markets that have potentials for high rates of return, and are increasingly seeing sub-Saharan Africa, which in reality has one of the best prospects for profitability and high rates of return on investment in the world, as a good opportunity for portfolio diversification. For example, Baring Asset Management is said to be planning to invest in nine sub-Saharan African countries as well as in Morocco, Egypt and Tunisia, while Mercury Asset Management envisages making small investments in Zimbabwe and Ghana, for a start. Framlington, the UK fund owned by the French banking group, Crédit Commercial de France (CCF), is launching a closed-fund to invest in the CFA zone countries. Other initiatives such as the West Africa Growth Fund are targeting companies scheduled to be privatized in countries like Cameroon, the Congo, Côte d'Ivoire and Senegal.

2. The eclipse of official flows

Since 1990, official flows have been stagnating, or else declining. Total official development finance (ODF) flows have veered around $US 70 billion. In real terms, however, ODF flows have been eroded to about $US 7 billion during the period 1990-1994. This pattern is principally influenced by changes affecting Official Development Assistance (ODA), and to some extent reflects funds constraints and policy reorientation in the donor countries. Indeed, the overall performance of the Development Assistance Committee (DAC) member countries, gauged by the proportion of their GNP that is allocated to development assistance, has diminished from an average of 0.35 per cent of GNP over a 20-year period to 0.30 per cent over the past couple of years.

Disbursements within the framework of bilateral assistance fell slightly, from US$ 12 billion during 1991-1992 to US$ 41 billion in 1994, while concessional funds disbursement by the donors to multilateral financial institutions increased by a modest US$ 1 billion over the same period (see Table II.9). As for the regional distribution of these transfers, the share going to Africa and Asia diminished steadily during the period 1990-1993, affected heavily by Africa's declining proportion in total ODA from the DAC member countries, the multilateral institutions and the Arab countries. Africa's share contracted from 44 per cent of total ODA in 1991 to 42 per cent in 1994.

Availability of resources from the donor countries has been constrained by a range of factors, among which are recession, budgetary constraints and unemployment, opening up the debate on the efficiency with which development assistance are put to use in developing countries. New orientations in the partnership between donors and recipient countries are increasingly underlining the catalytic role of aid in the process of building domestic capacities for development in the recipient countries. This shift of emphasis should in turn influence perceptions and reshape ideas as to the durability of aid, long considered a veritable source of development finance. The decision by OECD donors to level off ODA at US$ 60 billion per year is a strategic pointer to their determination to rationalize aid and adjust its nature and volume to the new context of development assistance. What is important is that the implementation of the new ODA policy framework should not ignore the special attention that needs to be devoted to the particular situation of countries such as those of sub-Saharan Africa. Faced with domestic financing capacities that are insufficient to provide the critical capital base for the reform processes, these countries will continue to require official development assistance for a longer while, and specific financing mechanisms as well as greater complementarity among the three sources of development finance: the multilateral financial institutions, bilateral donors, and private investors.

3. Enhancement of external flows to Africa is a major development challenge

With the on-going SAPs and policy reforms in Africa, rebuilding and upgrading of developmental infrastructure in African countries will necessarily translate into growing financial gaps and greater needs for financial resources. But persistent negative net transfers and accumulation of arrears on existing debt stocks are undermining efforts to build up the internal capacity for capital formation and restore the credit-worthiness of African countries. Moreover, these factors are impacting negatively on foreign direct investment and reducing the chances of attracting other types of private capital flows. They are also retarding the development of the requisite institutional framework and policy regimes that will ensure a greater degree of integration between domestic and global financial markets. This is why broader and more concerted efforts between African countries and their development partners, are most needed and must be fostered to address the structural constraints to development financing.

The responsibility of recipient countries in the efficient utilization of development financial assistance cannot be denied, and more and more conditionalities have been imposed to underscore it. Yet, efforts at the country level are by themselves not sufficient, but need to be complemented with those at the level of external development partners, if the critical mass of resources required for financing growth and recovery is to be generated. Among the main contributions the external development partners could make is the alleviation of the debt burden of the financially-distressed African countries. Creditor countries and multilateral financial institutions need to urgently agree on innovative schemes that will allow a reasonable long-term balance between the level of debt service and repayment capacities of the African heavily-indebted countries.

Africa's External Debt

1. Current trends are unsustainable

Africa's outstanding external debt would reach the level of US$322.4 billion in 1995. The nominal increase, estimated at US$12.7 billion would be less than the additional resource flows of US$20.0 billion recorded in 1994. The additional flows that took place in 1994-95 reflect the combined effects of positive and negative factors. Multilateral as well as bilateral disbursements increased in the same proportion, although at a rate lower than in 1993 and 1994, due to reductions in the volume of concessional resources and difficulties experienced by some countries in meeting the criteria of eligibility for concessional assistance from the multilateral financial institutions. Because of the debt servicing problems of many African countries, private creditors have continued to show only limited interest in the financing needs of the Africa region, limiting their lending to few countries where signs of recovery are becoming more evident and privatization has really progressed.

For many African countries, liquidity and solvency ratios as well as debt servicing performance remain far above the acceptable thresholds and greater than the average for the developing countries. Debt and debt service ratios seem to be set on a declining trend in most developing countries, dropping from 161.6 per cent and 18.3 per cent respectively in 1990 to 150 per cent and 16.3 per cent in 1995. In most sub-Saharan African countries, however, these indicators have particularly reached an alarming level, as can been seen from Table II.10. The ratio of debt to exports of goods and services for sub-Saharan African countries has not declined noticeably from the high level of 365 per cent reached in 1994, while the debt service ratio has oscillated around 20 per cent.

2. Global debt strategy and Africa

a. *Before the Naples Terms*

As discussed in the Survey of Economic and Social Conditions in Africa, 1994-1995, the strategies that have been put in place since the beginning of the 1980s to alleviate the debt burden of the developing countries have, on the whole, had little impact on the enormous difficulties of heavily indebted African countries. The number of African countries on the World Bank's list of severely-indebted developing countries has increased steadily over the past decade or so. This development appears to have resulted from two closely-related factors. First, the overall framework for handling the debt crisis remains

Table II.9
Africa and Other Developing Countries' Debt Stock, 1990-1995

CATEGORY	1990	1991	1992	1993	1994	1995 p
AFRICA	286.8	290.4	286.2	289.5	309.7	322.4
OF WHICH :						
- SUB-SAHARAN AFRICA	174.9	178.9	176.7	181.0	192.9	200.5
- NORTH AFRICA	111.9	111.5	109.5	108.5	116.8	121.9
OTHER DEVELOPING REGIONS a/	1223.2	1303.8	1380.6	1486.1	1611.7	1745.3
EAST ASIA AND THE PACIFIC	271.6	305.2	337.1	369.2	421.3	472.8
EUROPE AND CENTRAL ASIA	262.1	283.3	302.1	335.8	356.1	379.8
LATIN AMERICA AND THE CARRIBEAN	476.7	490.8	505.1	531.4	562.8	607.2
MIDDLE EAST	68.9	74.0	78.2	85.2	90.9	95.1
SOUTH ASIA	128.4	134.6	142.0	147.6	161.1	167.6
ALL DEVELOPING COUNTRIES a/	1510.0	1594.2	1666.8	1775.6	1921.4	2067.7

Sources: World Bank, World Debt Tables 1996, March 1996, and ECA calculations
a/ including unspecified debtors
p/ preliminary estimates

Table II.10
Africa's External Debt Indicators

	1992	1993	1994	1995 *
DEBT STOCK (BILLIONS OF US DOLLARS)				
AFRICA	286.2	289.5	309.7	322.4
- NORTH AFRICA	109.5	108.5	116.8	121.9
- SUB-SAHARAN AFRICA (EXCLUDING SOUTH AFRICA)	160.2	166.2	176.3	182.5
- SOUTH AFRICA	16.5	14.8	16.6	18.0
DEBT SERVICE PAID (BILLIONS OF US DOLLARS)				
AFRICA a/	29.1	27.7	23.0	19.0
- NORTH AFRICA	16.3	16.1	12.8	9.1
- SUB-SAHARAN AFRICA (EXCLUDING SOUTH AFRICA)	9.9	7.0	8.6	9.9
- SOUTH AFRICA	2.9	4.6	1.6	...
DEBT SERVICE DUE (BILLIONS OF US DOLLARS)				
AFRICA	38.9	37.7	38.3	...
- NORTH AFRICA	18.2	17.2	18.1	...
- SUB-SAHARAN AFRICA (EXCLUDING SOUTH AFRICA)	18.5	16.6	19.3	17.7
- SOUTH AFRICA	2.2	3.9	0.9	...
RATIOS (IN PER CENT)				
DEBT TO GDP				
AFRICA	70.3	71.1	73.7	70.9
- NORTH AFRICA	72.8	70.9	73.7	72.0
- SUB-SAHARAN AFRICA (EXCLUDING SOUTH AFRICA)	110.6	117.5	126.2	120.4
- SOUTH AFRICA	14.8	13.1	13.6	13.4
DEBT TO GOODS AND SERVICES EXPORTS				
AFRICA	256.3	249.5	262.8	249.6
- NORTH AFRICA	317.9	264.0	288.3	265.4
- SUB-SAHARAN AFRICA (EXCLUDING SOUTH AFRICA)	310.2	345.4	364.7	358.4
- SOUTH AFRICA	64.5	55.2	57.3	55.9
Debt service to goods and services exports				
AFRICA	26.1	23.9	19.5	...
- NORTH AFRICA	47.3	39.2	31.6	19.8
- SUB-SAHARAN AFRICA (EXCLUDING SOUTH AFRICA)	19.2	14.5	17.8	19.4
- SOUTH AFRICA	11.3	17.2	5.5	...

Sources: World Bank, national sources and various publications.

(*) preliminary estimates

a/ excluding South Africa

hamstrung by the constraints of development financing. Macro-economic performance has, on the whole, been weak or in the decline in the affected countries, and, where growth has taken off, the resurgence has been weak and inadequate to have an enduring effect on external viability. As a result, the process of capital accumulation has weakened steadily on the domestic front, while dependence on external financing has increased and the vicious circle of indebtedness has persisted. Lack of correspondence between a country's debt burden and its repayment capacity is another relevant factor. Export revenues, already inadequate, have not registered the kind of growth that would enable many individual countries to effectively address their worsening debt burden.

Again, since the debt structure varies from one group of countries to another and leads to a variety of payment difficulties, debt relief strategies of a general nature have not been sufficiently flexible to provide a comprehensive solution for individual countries. Consequently, constraints related to certain categories of obligations, such as multilateral and commercial debt of most low-income African countries, have continued to adversely affect the movement towards genuine debt relief and removal of debt overhang often manifested in a speedy accumulation of arrears. In most of the indebted African countries, there is a growing perception that inefficient use of resources is unwittingly encouraged on two scores: one, in so far as the strategies of debt relief in place are oriented almost exclusively towards coverage of "bad loans" while supplementary inflows have almost ceased or at any rate insufficient to cover priority financing needs; and, two, as domestic budgetary allocations are tilted in favour of debt repayments needs to the neglect of individual countries developmental needs.

b. *The Naples Terms: are they realistic for Africa?*

Significant steps have been taken by the Paris Club creditors since December 1994 towards reductions in bilateral debt stock and the debt service payments of the poorest and severely-indebted countries. The turning point in the debt relief strategies came at the summit meeting of the major industrial countries, held in Naples in July 1994, when the G7 recognized the need to put in place more effective debt relief mechanisms for the largest component of external debt, namely, the bilateral debt, and a new arrangement known as the Naples Terms was introduced at the beginning of 1995. The Naples Terms offer new avenues of debt management for countries with per capita GDP of US$500 or less, and ratios of present value of debt to exports of goods and services in excess of 350 per cent.

In general terms, the new arrangement allows for a reduction, on a case-by-case basis, of either 50 per cent or 67 per cent of the amount of the debt service falling due to the official creditors during the consolidation period. Eligible countries may however, where appropriate, opt for various combinations of debt or debt service reductions to the extent of 67 per cent, depending on the structure of the debt and the constraints relating to debt servicing. This formula, known as the "exit option", is open only to countries demonstrating satisfactory record of implementation of structural adjustment programmes[3] and external debt management policies, and effectively precludes them from any further recourse to the Paris Club in case of subsequent difficulties in meeting their commitments. Of the 27 countries slated for inclusion in the new facility,[4] 22 are African countries, but the question remains whether

[3] Owing to the lack of precision implicit in this condition, the media carried reports to the effect that countries effecting structural adjustment efforts in three consecutive schedules concluded with IMF, qualified for concessionary arrangements.

[4] Benin, Bolivia, Burkina Faso, Cameroon, Central African Republic, Chad Cote d'Ivoire, Equatorial Guinea, Ethiopia, Guinea Bissau, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Senegal, Sierra Leone, Tanzania, Togo, Uganda, Vietnam, Zaire, Zambia (extract from an UNCTAD Study of June 1995).

these countries can be effectively assisted under the new formula.

The Paris Club has carried out a total of eleven debt reschedulings under the Naples terms within the first seven months of 1995. Seven African countries -- namely Chad, Guinea, Guinea-Bissau, Mauritania, Senegal, Togo and Uganda -- were among countries that obtained creditors' approval for debt cancellation in the order of US$ 1 billion. Others, such as Benin, Burkina Faso, Ethiopia and Mali (whose arrears of debt to the Paris Club creditors seem to be relatively low and whose reform efforts appear to be producing tangible results) are still under consideration. As for Guinea, Guinea Bissau and Togo, two rather similar options are on offer. The first consists of a combination of cancellation agreements relating to 50 per cent or 67 per cent of the outstanding debt eligible for rescheduling, along with consolidation agreements relating to the balance at concessional or market interest rates over a 23-year period, with a grace period of six years. The second option allows for the consolidation of outstanding debt with concessional interest rates so as to reduce the burden of non-concessional debt service by 50 per cent to 67 per cent over a 33-year period. Uganda has joined the short-list of countries that have benefitted from a reduction of bilateral debt, but, because of the preponderance of multilateral debt (representing 77 per cent of the country's total commitments) the effective scope of the cancellation arrangements on Uganda's outstanding public and publicly-guaranteed debt has been rather limited, estimated at only 4 per cent.[5]

The Paris Club saw the Naples terms as a promising means of overcoming the shortcomings of the Toronto initiative introduced in 1988 and the 1991 improved version, particularly as they related to the solvency and liquidity problems of severely-indebted low-income countries. Within the Naples terms, there have been attempts to offer more effective instruments and arrangements for scaling down liquidity ratios (debt service/exports of goods and services and outstanding debt/exports of goods and services) and solvency ratios (outstanding debt/gross domestic product) to sustainable levels.[6] The fact that not many countries have had recourse to them is however an indication of some of the fundamental problems of implementation, such as the highly restrictive eligibility criteria and the lack of flexibility. The Naples terms apply only to debt contracted before the "cut-off date", thereby penalizing countries that had recourse to the Paris Club prior to 1994 and at a time when their obligations vis-à-vis the creditor countries were at relatively lower levels. Some of these countries had experienced worsening debt-repayment difficulties, despite a series of rescheduling arrangements, and have had to take exceptional policy measures to avoid loss of cash, arrears accumulation and credit-worthiness. The declining debt servicing performance for each of the affected countries over the period 1990-1994 [7] is shown in Table II.11.

3. Bringing an end to Africa's daunting debt overhang: what prospects?

Although conceived with the objective of "finding an exit strategy for eligible poor countries from repeated reschedulings and protracted negotiations",[8] the Naples terms have been unable to fill the gap left by previous debt

5 OECD, "Coopération pour de développment" 1995, p.82.

6 According to the World Bank, a debtor country is considered to be in a sound credit position as long as the first two ratios are within the 25-30 per cent range or 200 - 220 per cent, respectively, and the third does not exceed the 90 - 100 per cent range.

7 The debt servicing performance is established on the basis of the relation between the debt service effectively paid and the debt service due. The ratio is 100 per cent when the debt service due is totally covered.

8 World Bank, World Debt 1996, Washington D.C., World Bank 1996, p.33.

Box I.2

PARIS CLUB NEW NAPLES TERMS FOR LOW-INCOME COUNTRIES

Following the G-7 Summit Meeting in Naples, Paris Club creditors agreed in December 1994 on new terms for the poorest and most indebted countries, the so-called Naples terms. These terms represent an improvement over the earlier Enhanced Toronto Terms in that they include options of debt reduction on a net present value basis by 67 per cent, capitalization of moratorium interest, or the reduction on a case-by-case basis of either 50 or 67 per cent of the amount (or the equivalent present value) of the debt service - interest and principal payments - falling due during the consolidation period. In addition, in exceptional cases,where there is a good track record of reform and sound policies to lead to external viability, "stock treatment" can be applied, whereby the stock of non-concessional debt owed by the debtor would be reduced and the beneficiary would exit from Paris Club rescheduling to attain debt sustainability.

Eligibility criteria

In principle, the countries eligible for Naples Terms are the same as those that have received Toronto and Enhanced Toronto Terms.[9]

To qualify for a 67 per cent reduction, the countries must show either a per capita GDP of less than $US500 or a ratio of present value of debt to exports of over 350 per cent.

Countries receiving stock treatment will most likely be those that have a satisfactory track record with the IMF and the Paris Club, and that are viewed by the creditors as having the capacity to implement the debt agreement and to exit once and for all from the debt-rescheduling process.

Terms:

A. Under the option of 50 per cent reduction of debt service:

Creditor countries can choose among the options already included in the Enhanced Toronto Terms:

- Debt reduction: reduction of 50 per cent of debt-service obligations, with the remaining half to be rescheduled at market interest rates over a period of 23 years, including a grace period of 6 years;

- Debt service reduction: reduction of 50 per cent of the present value of debt-service obligations through rescheduling at reduced concessional rates, over a repayment period of 23 years, with no grace period.

- Commercial option: for budgetary or legal reasons, creditors would choose to simply reschedule debt-service obligations over a period of 25 years, including 14 years of grace, at market rates. This option does not provide any reduction.

B. Under the option of 67 per cent reduction of debt service:

- Commercial option: for budgetary or legal reasons, creditors would choose to reschedule debt-service obligations over a period of 40 years, including 20 years of grace, at market interest rates. This option does not provide any reduction.

[9] These countries are the following : Benin, Bolivia, Burkina Faso, Cameroon, Central African Republic, Chad, Cote d'Ivoire, Equatorial Guinea, Ethiopia, Guinea, Guinea-Bissau, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Senegal, Sierra Leone, Tanzania, Togo, Uganda, Vietnam, Zaire, Zambia.

C. Stock treatment:

If there is sufficient consensus among creditors to reduce the stock of debt, reduction will be achieved through:

- Debt reduction of 50 per cent or 67 per cent, the rest being rescheduled over a period of 23 years, including 6 years of grace, at market interest rates;

- Reduction of the present value of debt by 50 per cent or 67 per cent. Debt will be repaid at reduced concessional interest rates, over 23 years (including 3 years of grace) under the option of 50 per cent reduction, and over 33 years (including 3 years of grace) under the option of 67 per cent reduction.

D. ODA loans:

ODA loans are rescheduled over 40 years (including 16 years of grace) under the 67 per cent reduction option and over 30 years (including 12 years of grace) under the 50 per cent reduction option, at interest rates at least as favourable as original rates.

Scope of debt covered:

The debt to be rescheduled is, as before, the medium- and long-term public and publicly guaranteed debt contracted before the cut-off date.[10]

The scope of debt covered will be determined on a case by case basis, depending, in principle, on the financing gap requirements of debtor countries. Normally non-rescheduled pre-cut-off date debt is considered first, with debt previously rescheduled on non-concessional terms (PRD) included if needed.

If the size of the financing gap so requires, debt previously rescheduled under Toronto Terms and under Enhanced Toronto Terms could also be included. The reduction on these categories of PRD would be increased so as to reach the same level of reduction as under the current rescheduling agreement. For example, under the 67 per cent reduction option of the Naples Terms, PRD under Toronto Terms and under Enhanced Toronto Terms would be further reduced by 50 and 34 per cent respectively.

Moratorium interests could also be included. In the case of stock treatment, the payment of moratorium interest could be capitalized for the first three years.

initiatives. According to a World Bank study, the 36 heavily-indebted developing countries (of which 28 are in sub-Saharan Africa) would need to achieve an export growth rate of 15 per cent, over five consecutive years in order to be able to scale down their liquidity ratios to 200 per cent.[11] This does not take into account the dire situation of countries whose export earnings growth possibilities are limited by structural rigidities that could only be removed through long-term development. Even for economies with promising growth prospects, a systematic allocation of additional or marginal export gains to debt service may constrain development efforts, leading to an endless "spiral of crisis" in which the goal of external viability remains unrealisable and the attraction of foreign private capital, especially of the non-debt creating type, become all the more remote. [12] Even with full implementation of existing debt-alleviation strategies, only four of the poorest sub-Saharan African countries would have achieved debt reduction levels on a scale sufficient to create favourable investment conditions for economic growth and development. In the absence of new and improved mechanisms, as many as 24 African countries would continue to face severe indebtedness well into the 21st century [13].

[10] The cut-off date is the date before which loans must have been contracted in order to be considered by the rescheduling agreement. Usually the cut-off date is determined at the first rescheduling and will remain unchanged in subsequent reschedulings.

[11] World Bank, World Debt Tables, 1994-95, Washington D.C.: World Bank, 1994, p.44.

[12] OECD, "Coopération pour de développment" 1995, p.69.

[13] ACC report, New York, Meeting of 27-29 September 1995.

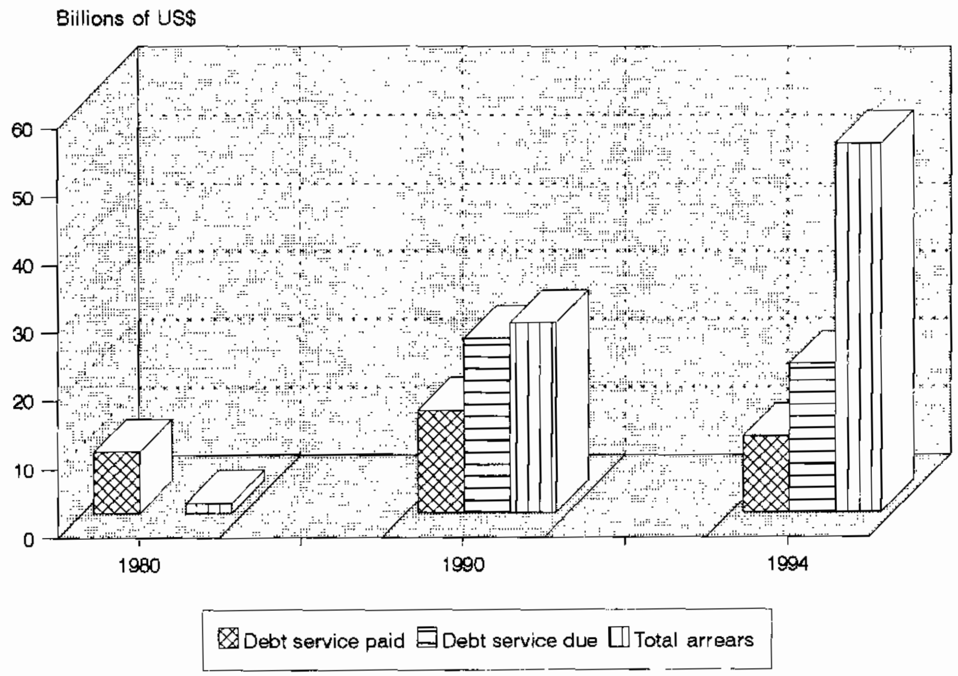
Table II.11
Debt Servicing Performance and Arrears of the African Countries

(IN MILLION $US)	1990	1991	1992	1993	1994	1995
AFRICA (EXCLUDING SOUTH AFRICA)						
DEBT SERVICE DUE	43497	40718	36710	33853	37378	...
DEBT SERVICE PAID	26411	26015	26201	23150	21429	...
DEBT SERVICING PERFORMANCE (%)	60.2	64.9	70.9	77.4	61.9	...
NORTH AFRICA						
DEBT SERVICE DUE	23007	23415	18202	17252	18088	...
DEBT SERVICE PAID	15755	16035	16284	16115	12772	9100
DEBT SERVICING PERFORMANCE (%)	60.5	67.3	88.1	94.4	89.1	...
SUB-SAHARAN AFRICA						
(EXCLUDING SOUTH AFRICA)						
DEBT SERVICE DUE	20490	17303	18508	16601	19290	17700
DEBT SERVICE PAID	10656	9980	9917	7035	8657	9993
DEBT SERVICING PERFORMANCE (%)	62.9	61.6	53.9	59.7	36.5	48.9
ARREARS (in million $US)						
SUB-SAHARAN AFRICA						
ARREARS ON DEBT SERVICE	17884	21648	27354	36122	41579	49226
INTEREST	5693	6684	8683	12116	13860	14931
PRINCIPAL	12191	14964	18671	24006	27719	34295
ARREARS AS % OF DEBT STOCK	11.4	13.4	17.1	21.7	23.6	27.0
NORTH AFRICA						
ARREARS ON DEBT SERVICE	15902	11988	11868	12579	13285	...
INTEREST	5898	5001	5215	5707	6198	...
PRINCIPAL	10004	6987	6653	6872	7087	...
ARREARS AS % OF DEBT STOCK	14.2	10.7	10.8	11.6	11.4	...
AFRICA						
ARREARS ON DEBT SERVICE	33786	33636	39222	48701	54864	...
INTEREST	11591	11685	13898	17823	20058	...
PRINCIPAL	22195	21951	25324	30878	34806	...
ARREARS AS % OF DEBT STOCK	11.8	11.6	13.7	16.8	17.7	...

Source: ECA calculations.

(*) a debt service performance is a ratio which measures the capacity of a country to meet its scheduled debt service.
OECD defines it as the ratio of the actual debt service of the year and the scheduled debt service of the next year.
of the actual debt service of the year and the scheduled debt service of the next year.

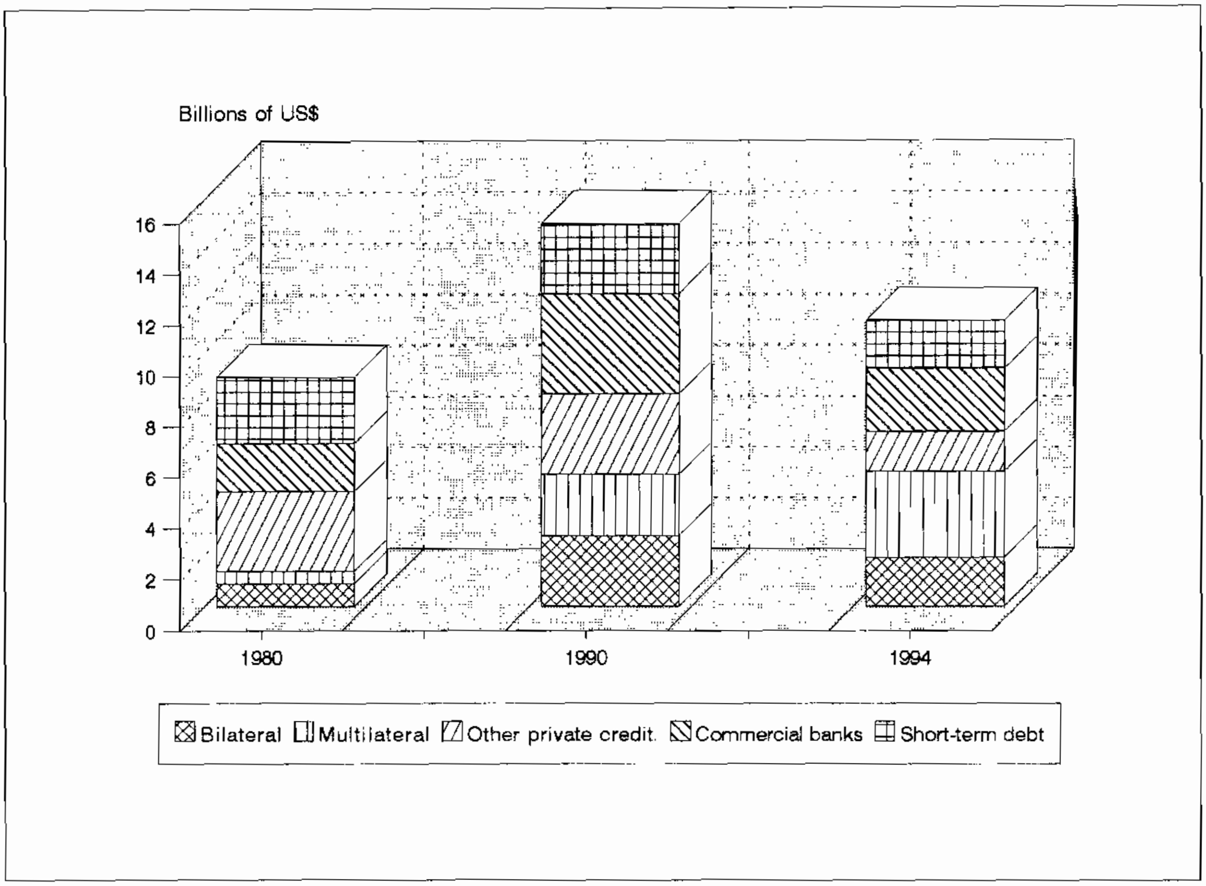
Fig. II.7 Sub-Saharan Africa debt service and Arrears, 1980, 1990, 1994



Recognizing the unsustainable situation of heavily indebted poor countries (HIPCs), the G-7 countries agreed therefore on the need to look for new initiatives and requested the Bretton Woods institutions to develop a comprehensive approach to assist countries with multilateral debt problems. Consequently, the World Bank and the IMF undertook a study entitled "A framework of Action to resolve the debt problems of the heavily indebted poor countries". This was discussed during the meeting of the Development Committee in April 1996 and is expected to lead to the launching of a "Multilateral Debt Reduction Facility". That facility, which will take the form of an international trust fund, will provide additional assistance to the heavily-indebted poor countries with the objective of realizing overall debt sustainability, on a case by case basis.

Within this overall initiative, thresholds for debt sustainability are set at 20-25 per cent for the ratio of debt service to exports and at 200-250 per cent for the ratio of debt to exports. During the first three years, the initiative will at the "decision-point" apply the current procedures of the Paris Club creditors for stock to debt operation. If additional support is necessary beyond current stock - to-debt reductions offered under the Naples terms to achieve a sustainable level of debt, a second three years stage could be introduced, with the Paris Club creditors committing themselves to provide new reschedulings for the duration of this stage, over and above current Naples terms, as well as assistance that would ensure, at the "completion point" of the period, that the debtor country would receive a similar present value reduction in its stock of eligible debt. Multilateral institutions are expected also to provide debt relief on an annual basis through a menu of

Fig. II.8 Sub-Saharan Africa Structure of the Debt Service Paid in 1980, 1990, 1994



options, with a view to enabling the affected countries to reach a sustainable level for their total debt burden at the end of the period.

Innovative and comprehensive as the above initiative might be, its financing provisions are still not clear and at best, inadequate, while the eligibility criteria are rather stringent. While the IMF seems agreeable to an extension of Enhanced Structural Adjustment Facility (ESAF) in favour of the new initiative, it is not yet clear where the additional resources would come from, particularly since there is strong opposition to gold sales. Overall, only 15 African countries are likely to benefit from the initiative. Fourteen of the 33 highly indebted poor African countries would be considered: "sustainable" under the initiative and would thus be eligible only for the Naples terms while an additional three (Liberia, Somalia and the Sudan), though potentially eligible will not in fact benefit from the initiative owing to the prevailing climate of civil strife and social unrest in these countries. It is rather too restrictive to limit the criteria of eligibility to GNP and exports, to the exclusion of fiscal and budgetary criteria. High levels of concessional multilateral debt tend to drastically deflate the ratio of total debt to exports of goods and services. Thus, with continuous growth of multilateral concessional debt in several African countries through time, the debt-export ratio (on present value basis) can be expected to eventually fall below the thresholds set for debt sustainability, thereby leading to fewer and fewer eligible countries.

With respect to debt relief and resource allocation, it is noteworthy that the initiative contains no proposal to write off (or down) multilateral debt; only debt service relief will be provided. For the 15 African countries which may qualify for debt relief action under the initiative, multilateral debt represent on average, 28 per cent of debt (ranging from 13 per cent for Congo to 79 per cent for Rwanda) while the majority of their total debt is on concessional terms, debt service to multilaterals absorbs 43 per cent of total debt service payments; and moratorium on multilateral debt servicing entails heavy penalties and a severe burden than is the case with other types of debt.

The time-frame for implementation is unduly and unnecessarily long, making the entire initiative end-loaded in the sense that, relief will accrue only after the affected debtor countries would have demonstrated a track record of reform and sound policies. It is not certain from this whether or not many African countries that are in dire need of immediate relief will be able to endure another 3 to 6 years of continuous adjustment programmes, without compromising effective implementation of strict economic reforms already in progress or endangering the fragile democracies and political order. The three-year duration for each of the successive stages of the initiative will not only determine the scope of multilateral debt relief to the indebted countries, but will also influence the kind of overall development support and financial assistance to these countries. There also the prohibitive negotiation cost that is likely to be incurred to secure rescheduling of debt payments from the non-Paris Club and commercial creditors. This has significant consequences, as the nascent growth and fragile recovery in many African countries will be difficult to sustain even with the most appropriate domestic policies unless debt sustainability is achieved rapidly.

III
THE SOCIAL SITUATION IN 1995 AND POLICY CHALLENGES

The over-arching objective of this review of the trends in demography, education, health, employment and the refugee situation in Africa is to once again highlight the critical needs for African countries to restructure and reorientate their policies towards enhanced social development in consonance with the goal of poverty reduction. Absolute poverty in sub-Saharan Africa has been on the increase for many years. With estimates indicating that the number of poor people has been increasing by 8 to 9 million annually, almost half the population of sub-Saharan Africa will be living below the poverty line by the year 2000.

A Serious Social Situation

The social sector remained under great pressure in 1995 not only because of rapid population growth relative to economic growth in many African countries, but in part because of the severe cut-backs in expenditure in real terms particularly on education, health and medical care and social welfare. In a few other countries, civil conflicts and political stalemates in governance have continued to disrupt and paralyse production (especially in Burundi, Liberia, Rwanda, Somalia, the Sudan, Zaire and Sierra Leone), with important repercussions on the availability of even the most basic of social services. Endemic instability in countries with huge population movements and displacement has often spilled over into neighbouring countries, disrupting production and economic activities in general and further paralysing already overburdened physical infrastructure, notwithstanding considerable humanitarian efforts at rehabilitation, repatriation and resettlement of refugees.

The situation in the education sector has worsened in many countries in terms of declining primary school enrolment ratios, high and rising attrition and repetition rates at all levels, the flight of qualified teachers, a general deterioration in physical infrastructure, equipment and supplies. The quality of education has consequently suffered a decline. As with education, the crisis in the health sector has become also more intense, with lack of hospital care and access to adequate sanitation and community health services contributing to exposure to numerous preventable diseases, while the scourge of HIV/AIDS rages on.

High unemployment remained a major social problem in 1995. A particularly disturbing feature of the unemployment situation is the growing number of street children (see Box I.3) and young persons (15-24 years) among the unemployed. Women and girls tend to be worse affected among this group. In many African countries, some graduates from tertiary and technical institutions now remain without jobs for three-four years after leaving school. To regenerate their economies and rehabilitate and expand the delivery of essential social services, it is important for African countries to create the conducive working environment and adopt employment policies that would attract back its engineers, doctors, economists and other professionals.

On the other hand, there has been a marked and salutary momentum towards democratic forms of governance and popular

Box I.3

POVERTY AND STREET CHILDREN IN AFRICA

Protection of children is basic to civilization and social justice globally. The issue of child labour is particularly serious, especially as very young, sometimes homeless children are engaged in street work for many hours a day (as part of the urban informal sector) to support themselves and their families. Current data indicates that 22 per cent of children in Africa aged between 10-14 are engaged in child labour. The World Health Organization (WHO) estimates that there are 10 million street children in Africa, at high risk from disease and from recruitment into crime, prostitution and drug abuse. The numbers of children on the street begging, stealing or engaged in petty trade and services or operating individually or as part of a gang, point to the general social negligence and malaise and to socio-economic crises in families and communities. This has serious long-term ramifications for society, not only for humanitarian reasons but also for security considerations. Street children constitute a pool from which hardened, organized adult criminal syndicates can someday emerge to terrorize society, unless early preventative and rehabilitative actions are taken.

In many African cities, it is estimated that 30 per cent of female prostitutes are youngsters, ranging from 9 to 16 years of age, many of whom are street girls coming from urban slums or depressed rural areas where education about sex, pregnancy and AIDS is limited. Although smaller in number than street boys, street girls are more vulnerable to the abuses and dangers of street life. Street educators and welfare workers have found that the best way to identify and reach street children is through rehabilitated former street children who are or were their peers. Special assistance to facilitate family reunion include micro loans, compulsory primary education on a full-day basis, back-to-school programmes for drop-outs, enlarged access to non-formal education and small-scale credit schemes.

Box I.4

MOZAMBIQUE:
LESSON OF A SUCCESSFUL TRANSITION FROM CIVIL WAR TO NATION-BUILDING

The peace accord and the multi-party elections that followed in Mozambique in October 1994 were major landmarks in the country's search for a stable political environment and national reconciliation. An agenda for post-war reconstruction and nation-building in the country was articulated by the democratically elected government. The agenda centered on the three basic elements of (a) **the strengthening of good governance** to ensure the effective functioning of democratic institutions, forging national consensus on the role of the armed forces, strengthening the social fabric of society by reinforcing the rule of law and legal processes, and progressively decentralizing administrative functions and management responsibilities from the central government to local administration; (b) **rehabilitation of social services and creation of productive employment** entailing a significant shift in budgetary resources from defense and security to human resources development and the rehabilitation of rural and urban infrastructure; and (c) **creation of a conducive economic environment** that will encourage foreign and domestic private investment in the development of the country's large and relatively untapped natural resource base. To secure broad-based support and mobilize the people of Mozambique in the pursuit of these goals and objectives, the government embarked on a policy of engaging all segments of the civil society in a continuous and wide-ranging process of active dialogue. The resulting partnership and collaboration of the people and the Government paid off handsomely, turning out to be a key element in the genuine endeavour at nation-building, and the successful transition to durable peace.

participation on the continent. The peace agreement in Angola and the democratic elections in Algeria, Côte d'Ivoire and the United Republic of Tanzania which followed those in the Congo, where the transfer of power to elected governments took place in conditions of relative peace and without bloodshed, are powerful signs of a more peaceful political milieu on the continent. So is the successful transition to national reconciliation and nation-building in Mozambique (Box I.4), which serves as a useful model for other African countries still mired in conflict.

B Unsustainable Population Trends

The population in ECA member States, according to median variant of the United Nations estimates, was about 728 million in mid-1995, expected to reach 832 million by the year 2000 (Table III.1). At the current annual growth rate of 2.9 per cent, the population would double in approximately 24 years. Under the high growth scenario, the population is projected to reach a staggering 1,456 million by the year 2020 on account of high fertility. The policy to mitigate the rate of growth would have to target reductions in fertility, while further upgrading and expanding health services qualitatively and quantitatively.

1. Alarmingly high fertility levels

The issue of high fertility in Africa and its critical relation to maternal and child health, poverty and sustainable development has been seriously addressed in a number of fora. The most recent of these include the third African Population Conference, held in Dakar, Senegal, in December 1992 and the International Conference on Population and Development (ICPD) held in Cairo, Egypt, in September 1994. Following these important milestones, ECA organized in Abidjan, Côte d'Ivoire, an Experts and NGOs Workshop on the implementation of the Dakar/NGOR Declaration and the ICPD Programme of Action in 1995, within the framework of the Joint OAU/ECA/ADB Secretariat and in cooperation with the International Planned Parenthood Federation (IPPF) and the United Nations Population Fund (UNFPA). An important consequence of these conferences is the increasing number of ECA member States (26 in 1995 and possibly 29[14] in 1996) adopting specific population policies, including the reduction of fertility.

However, the total fertility rate for the region, especially in sub-Saharan Africa, is still comparatively high. Except for North Africa, which has a total fertility rate (TFR) of 4.7, total fertility rates in the region range from 6.2 to 6.9. Among other factors, high fertility levels

Table III.1 African Population by Subregion, 1990-2000: Medium Variant

	POPULATION (1000 S)	
SUBREGIONS	1995	2000
EASTERN AFRICA	227107	261292
CENTRAL AFRICA	82326	95577
NORTHERN AFRICA	160582	178443
SOUTHERN AFRICA	47396	53004
WESTERN AFRICA	210663	243280
AFRICA	728074	831596

Source : World Population Prospects, Population Division, Department for Economic and Social Information and Policy Analysis, UN, New York, 1995.

[14] D. Sala-Diakanda paper presented at a Seminar on "Fertility transitions and family planning in Africa", ONSEA ORSTON, Abidjan, 16-19 June 1995.

have a negative impact on maternal mortality and on infant and child mortality and morbidity rates. Recently, contraceptive prevalence rates have increased, leading to slightly declining TFRs. However, contraceptive prevalence rates have remained extremely low in Africa relative to other world regions, due to the lack of commitment and government policy inertia in making modern contraceptive measures available, but have recently increased, leading to slightly declining TFRS. For instance, ECA data indicate that "With regard to current use of any modern contraceptive method, rates are above 30 per cent in eight countries, namely Algeria (43 per cent), Botswana (32 per cent), Egypt (45 per cent), Mauritius (49 per cent), Morocco (36 per cent), South Africa (48 per cent), Tunisia (40 per cent) and Zimbabwe (36 per cent). These are followed by Kenya (27 per cent) and Namibia (26 per cent). In the remaining countries, the rates are between 10 and 13 per cent in two countries, between 5 and 9 per cent in six countries and below 5 per cent in 10 countries.[15]

2. Challenge of high dependency burden

As a result of high population increase, the dependency ratio in Africa is the highest in the world. The population of children aged 0-14 years 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. An inevitable concomitant of a heavily youthful, non-productive population in Africa is the undue pressure exerted on already overstretched social infrastructure and facilities, especially in the health, education and housing sectors.

The rapid increase in population and rural-urban migration also ensures that the demand for urban shelter and services expands more rapidly than their supply, leading to rising prices for urban land and housing and unprecedented squatting. The average density of occupation of dwelling rooms in Africa is estimated at 2.23 persons, with 40 to 85 per cent of the inhabitants living in slums and informal settlements, typified by poor sanitation, inadequate water and poor water quality, and inadequate garbage disposal. Much of the stock of buildings and infrastructure for human settlements in Africa is old and in a state of disrepair and therefore unsuited for current use without rehabilitation or rebuilding.

C Precarious Health Situation

1. Deteriorating institutional and physical infrastructure

The health sector continues to bear a disproportionate burden of the ongoing socio-economic crisis. In many countries, the exodus of doctors, nurses and technicians, compounded by declining or stagnating public expenditure on health, have culminated in a virtual collapse of the health infrastructure. For instance, the average expenditure on the health sector in sub-Saharan Africa rarely exceeds about 5.0 per cent of GDP. Because the health policies of most member States are yet to be grounded in preventive and primary health care, a large proportion of public expenditure on health, sometimes as high as 60 per cent, goes towards curative services in a few teaching hospitals. At the current level of Africa's economic development, focusing on primary health care is the only viable strategy for achieving health for all in the foreseeable future. For over a decade, the WHO Africa Regional Office has been exhorting African countries to rethink their health policies and reverse the concentration of the meagre health services in a few urban areas. The

[15] ECA, "Statistical compendium on contraceptive prevalence and practice in ECA member States", 1995, p.12.

district and community focus in health care provision which underpins the WHO/Africa Regional Office framework for health policy development and for achieving health for all by the year 2000 is yet to receive universal endorsement in Africa.

In many countries, an overwhelming majority of health workers, sometimes as many as 90 per cent of doctors, nurses and other essential health workers, are concentrated in a few urban areas. Rural communities are also disadvantaged vis-à-vis institutional and infrastractural facilities. For example, more than 50 per cent of the African population do not have access to modern health facilities and 30 per cent have no access to safe drinking water and sanitation. In many cases, over 60 per cent of people in the rural areas have no access to these facilities. High levels of maternal, child and infant mortality and low rates of immunization are symptomatic of the gross neglect of Africa's rural communities. As can be seen from Table III.2, the rural sector is seriously disadvantaged in the provision of health and health-related services. There are significant variations also in the provision of these services as between subregions and countries within the same subregion. Studies indicate that the few modern health centres that do exist are too far apart and poorly equipped to justify the enormous costs to patients, both in terms of time and money involved.

2. Slow progress with preventive and community health care

Failure to implement preventive health care (PHC), with its emphasis on community health, has had profound ramifications on Africa's long-term development prospects. For instance, lack of basic sanitation and safe drinking water, which is integral to PHC, is responsible for diarrhoeal diseases which are among the frequent causes of death among children under five years of age. Diarrhoeal diseases can easily be controlled by the provision of safe water and sanitation and through increased availability and use of relatively cheap oral rehydration therapy or salts (ORT/ORS). Recent data indicate ORT use rate in sub-Saharan Africa to be about 57 per cent, compared to the WHO recommended use rate of 80 pr cent by the year 2000. However, with assistance from the United Nations Children's Fund (UNICEF), considerable progress has been made in recent years in African countries in the use of oral rehydration therapy. Sixteen countries in Africa have lifted use rate by 30 percentage points or more over the last decade.[16] Between 1987 and 1993, regional oral rehydration therapy use rate

Table III.2
Some Health Indicators in Selected African Countries

COUNTRY	POPULATION WITH ACCESS TO SAFE WATER 1990-1995		POPULATION WITH ACCESS ADEQUATE SANITATION 1990-1995		POPULATION WITH ACCESS TO HEALTH SERVICES 1985-1995		FULLY IMMUNIZED 1-YEAR-OLD CHILDREN 1990-1994			
	URBAN	RURAL	URBAN	RURAL	URBAN	RURAL	TB*	Dip**	POLIO	MEASLES
ALGERIA	96	60	93	61	100	95	92	72	72	65
EGYPT	97	61	80	26	100	99	95	90	91	90
CAMEROON	57	43	64	36	44	39	46	31	31	31
KENYA	67	49	69	81	-	40	92	84	84	73
NAMIBIA	87	42	77	12	87	47	100	79	79	68
NIGERIA	63	26	40	30	85	62	46	41	35	41
NIGER	46	55	71	4	99	30	32	20	20	19
MOZAMBIQUE	44	17	61	11	100	30	78	55	55	65
UGANDA	47	32	94	52	99	42	100	79	79	77
ZAIRE	37	23	46	11	40	17	43	29	29	33

Source : Extracted from UNICEF, State of the World's Children, 1995 and 1996
* Tuberculosis ** Diptheria

[16] State of the world's Children, UNICEF, 1995.

ranged from 10 per cent in Mali to 90 per cent in Zambia. In addition, public health education in various forms can considerably reduce such major impediments to health as malaria, sexually transmitted diseases (STDs) and severe malnutrition which contributes enormously to acute respiratory infections - the leading cause of death among African children.

3. Inadequate and lagging immunization programmes

In the African region, immunization against major killer diseases is below the target set by WHO for the mid-1990s. This is particularly the case in rural communities and in countries facing serious financial crisis and economic recession, or those mired in internecine wars and civil strife. Immunization in Africa, especially against the major childhood diseases, is significantly below the global average. Large outbreaks of diphtheria and measles continue to afflict children who could otherwise have been protected through early immunization programmes. Immunization ramifies into many aspects of child health. For instance, immunization against measles and pertussis contribute significantly towards the containment of acute respiratory infections, especially pneumonia, which is the single biggest killer of children.

4. Containing the HIV/AIDS pandemic is a priority

Globally, the spread of HIV/AIDS continues to be rapid with an estimated 5,000 individuals being infected daily.[17] Despite weak epidemiological surveillance and serious under-reporting, WHO data indicates that HIV/AIDS is increasing at an alarming rate in Africa. Thus, most of these new infections are occurring in Africa where at least one million persons are being infected annually and the projected numbers for the year 2000 are 20 million.[18] Within sub-Saharan Africa, HIV infection is unevenly distributed across geographic areas, age groups and socio-economic classes. The percentage of the population infected with HIV ranges from less than 1 per cent across most of the continent to more than 25-30 per cent in certain cities in Eastern, Southern and Central Africa. The most seriously affected countries are those roughly clustered around Lake Victoria. They include Burundi, Central African republic, the Congo, Kenya, Malawi, Rwanda, the United Republic of Tanzania, Uganda and Zaire. Table III.3 indicates that by June 1995 there were 270,667 AIDS cases reported to WHO/AFRO by country area offices. Of these cases, Kenya accounted for 20.9 per cent, Cote d'Ivoire 9.3 per cent, Malawi 13.9 per cent, the United Republic of Tanzania 17 per cent, Uganda 17 per cent Zaire 9.7 per cent, Zambia 11 per cent and Zimbabwe 14.2 per cent. Previously, HIV/AIDS had not been a serious problem in the West African subregion, however, Table III.3 indicates that HIV/AIDS is becoming a major health problem in Cote d'Ivoire and Ghana. This clearly indicates the need for vigilance and surveillance in countries that are still relatively free of the pandemic.

The HIV/AIDS scourge is now one of the leading causes of death among adults in a number of African countries. In countries severely affected by the pandemic, studies indicate that up to half of all hospital beds may be occupied by HIV/AIDS patients. Also, the pandemic is significantly associated with the upsurge of tuberculosis. Recent data by WHO indicates that in some communities, the incidence of TB in HIV seropositive patients may be as high as 90 per cent. Tuberculosis is the leading killer among communicable diseases, but, as contended by WHO, the main obstacle to TB control is the lack of political will.

[17] WHO and UNDP, Women and AIDS : Agenda for Action, 1994.

[18] Organization of African Unity : Tunis Declaration on AIDS and the Child in Africa, AHG/DECL.1 (XXX), 1994.

Table III.3
AIDS Cases Reported to WHO by Country/Area Based on Reports Received through 30 June 1995

COUNTRY	1979-1992	1993	1994	1995	TOTAL
BOTSWANA	1078	870	968	194	3110
BURUNDI	6763	117	144	0	7024
CONGO	5267	1206	1300	0	7773
ETHIOPIA	4884	5124	5558	2476	18042
GHANA	10305	2371	2330	0	15006
COTE D'IVOIRE	14655	4012	6566	0	25236
KENYA	37029	11560	7347	637	56573
MALAWI	26955	4916	4732	1070	37673
MOZAMBIQUE	662	164	534	455	1815
RWANDA	9486	1220	0	0	10706
UNITED REPUBLIC OF TANZANIA	42422	3327	219	0	45968
UGANDA	38552	2641	4927	0	46120
ZAIRE	22159	588	3384	0	2613
ZAMBIA	7124	22610	0	0	29734
ZIMBABWE	18731	9174	10647	0	38552

Source : WHO Africa Regional Office, Brazzaville, Congo, 1995.

Relatively inexpensive cure is readily available but not being widely used.[19] Political will is also critically needed to arrest the spread of STDs which are heavily implicated in the spread of HIV. Currently, WHO estimates indicate that there are 65 million cases of STDs in sub-Saharan Africa. The risk of transmission and acquisition of HIV is five-twenty fold in the presence of STDs.[20]

In the absence of a cure, strategies have largely focused on changing human behaviour and attitudes. Emphasis on rural communities and urban households highlights the need for communication and action programmes which attempt to raise the consciousness of women, promote knowledge among youth, especially young girls, who are disproportionably vulnerable, and teach skills required to enforce the knowledge which has been disseminated. In some communities, there is a widespread belief that young girls, particularly those who are still virgins, are better sex partners since they are free of HIV infection. Long-distance truck drivers are known to seek very young girls for sex because of their presumed innocence.

Information campaigns have been successful in a number of countries which have increased the level of awareness regarding transmission routes, the need to alter sexual behaviour and reduce unprotected sexual contact. These include Madagascar, Rwanda and Zimbabwe. In Rwanda, out-of-school youth show evidence of reduction in risk-taking and positive changes in gender relations. In several countries, including Uganda and Zambia, the stigma attached to HIV/AIDS has been substantially reduced.[21] Governments are collaborating with community leaders, musicians, NGOs and international organizations in media campaigns.

[19] WHO, "The work of WHO 1992-1993 Biennial Report of the Director General", p.106.

[20] Dr Workneh Feleke, "The interrelationship between sexually transmitted diseases (STDs) and HIV/AIDS; paper presented at the Senior Policy Seminar on the Social Impact of HIV/AIDS in Households and Families in Africa", ECA, October 1995.

[21] Op. cit.

Thus in Zaire, pre- and post-campaign surveys in 1991 revealed a five-fold increase in condom use.[22] In the numerous mobilization programmes, various communication models have been developed including peer education, outreach communication, community initiative models and school clubs. The peer education approach has been one of the most successful.

D Challenges to African Education

1. Less public spending in the face of more needs

The crisis in African education has intensified. Rapid population growth rates and severe cut-backs in public expenditure often in connection with debt rescheduling and economic restructuring, among other factors, have culminated in a near collapse of the educational infrastructure. Table III.4 shows public expenditure on education in sub-Saharan Africa to be the lowest in the world. The most severe cuts on education have been made in capital and recurrent expenditures for new construction, supplies, furniture, equipment for science laboratories and for repair and maintenance. In the light of the continuing socio-economic crisis, rehabilitation of decaying educational institutions has become daunting for most countries. Moreover, the public expenditure for all levels is disproportionately skewed in favour of higher education but that has not rescued this level of education from decaying infrastructure, low pay and poor working conditions, flight of teachers and industrial disputes that have kept classrooms and laboratories closed for months, if not years. On the other hand, data from many African countries indicate that at the primary level, there is practically no funding from central government except for teachers' salaries and allowances. In addition, the surge in unit costs as a result of devaluation and rising inflation rate has not been accompanied by a marked improvement in the quality of education. Consequently, the contribution which education is expected to make to Africa's recovery and socio-economic development is clearly not yet on the horizon.

2. Declining primary level enrolment

Even though the total enrolment of students at all levels has been on the increase, gross enrolment ratios at the primary level, as indicated in Table III.5, have steadily declined from 76.0 in the mid-1980s to 74.3 per cent in 1992 and is further estimated to decline to 71.3 per cent by the year 2000. Persistent crisis at the first level is exemplified by declining standards culminating in high rates of attrition and repetition of classes, over-crowding, lack of basic teaching materials and low morale

Table III.4
Public Expenditure on Education, 1980-1992

REGIONS	US $ (BILLIONS)				PERCENTAGE OF GNP			
	1980	1985	1990	1992	1980	1985	1990	1992
SUB-SAHARAN AFRICA	15.8	11.3	15.2	16	5.1	4.8	5.3	5.7
ARAB STATES	18	23.6	24.7	26	4.1	5.8	5.2	5.6
LATIN AMERICA/CARRIBBEAN	34.2	28.9	47.1	56.8	3.9	4	4.1	4.4
EASTERN ASIA/ OCEANIA	16	20.1	31.8	41.4	2.8	3.2	3	3.1
SOUTHERN ASIA	12.8	14.7	35.8	60.4	4.1	3.3	3.9	4.4

Source : UNESCO, World Education Report, 1995

[22] Ibid.

Table III.5
Past, Present and Projected Enrolment at the Primary Level

YEAR	GROSS ENROLMENT RATIO			TOTAL NUMBER OF PUPILS (IN MILLIONS)		
	TOTAL	M	F	TOTAL	M	F
1980	79.2	89.3	69	64.1	36.3	27.8
1990	72.9	79.8	65.8	79.5	43.8	35.7
1992	74.3	80.9	67.5	86.1	47.2	38.9
2000	71.7	78.1	65.3	104.5	57.2	47.3

Source : UNESCO, Report on the state of Education in Africa, "Education Strategies for the 1990s Orientations and Achievements", UNESCO, Breda, 1995.

among teachers. The crisis is further exacerbated by parents' lack of confidence in the educational system due to the rising cost of education, which is not accompanied by an increase in formal employment opportunities. Due to a myriad of cultural factors, girls have borne a more disproportionate burden of the ongoing crisis than boys. The continuing educational crisis at the primary level is particularly serious for Africa's long-term socio-economic development, considering that the highest rates of return to education are usually at the primary school level. Studies demonstrate unequivocally the positive relationship between sound primary education and such diverse spheres as human capital development, life expectancy, agricultural productivity, nutrition, fertility levels, income generation and child health. Education of girls at this level is even more important for sustainable development. "Poor primary schools often compromise the foundation for education. Their products are poorly prepared for secondary and tertiary education, and ill-equipped for lifelong learning."[23]

3. Middle and high level education also at crossroads

The problems of middle level education in secondary, grammar, teacher training and vocational and technical education are too vast

Box 1.5

EDUCATING GIRLS IN AFRICA

Thirty-six million girls in sub-Saharan Africa are out of school and those who gain access are poorly served. Even when the same number of girls and boys enrol in first grade, by fourth grade, 50 per cent of the female students would have dropped out. Sixty-four per cent leave school before they have acquired full literacy. By the end of the primary school cycle, the completion rate for girls is only 34 per cent. At secondary and tertiary levels, the discrepancies between boys' and girls' education increase radically. Only 10 per cent of girls as compared to 36 per cent of boys attend secondary school. Four times as many boys as girls continue to tertiary level. Four years of additional schooling for girls can increase agricultural production by 8 to 9 per cent. One year of a additional schooling for girls can reduce infant mortality rates by approximately 6 per 1000.

Source: Girls and African Education, Federation of African Women Educationist (FAWE), Nairobi, Kenya, 1995; **Educating Girls and Women in Africa**, Pan-African Conference on the Education of Girls, Ouagadougou, Burkina Faso, 1993.

[23] UNESCO, Education for All : An Expanded Vision, Round-table Theme 11, World Conference on Education for All, Jomtien, Thailand, p.27.

to be adequately treated here. However, this level which should provide the foundation for the building of the middle classes and a modernizing economy also remains in a state of serious crisis with inadequate places and deteriorating quality.

Higher education in most African countries faces unprecedented crisis and calls for special attention from policy makers. A number of factors seem to have considerably exacerbated the situation. The most salient of these are, inter alia, incessant currency devaluations and high rates of inflation which reduce the already low salaries of teachers to well below subsistence levels; political interference in the operation of universities, including the appointment of principal officers and professors; frequent and prolonged closures of universities;[24] student boycotts of classes or strikes by lecturers and professors; lack of equipment and teaching materials; etc. These factors, compounded by political instability, translate into a continuous exodus of university teachers to foreign countries in search of better remuneration and working conditions, and this in turn leads to a further decline in the quality of higher education in particular, and education in general.

4. Number of adult illiterates on the increase

Non-formal education and literacy programmes have not grown fast enough to compensate for the shortfalls in the formal educational system. Although literacy ratios have risen, as can be seen from Table III.6, the number of absolutely illiterate adults in the region is still increasing rapidly and is projected to reach 146.8 million by the year 2000. Non-enrolment and high attrition rates due to poverty and increasing cost of education at the primary level account largely for the rising illiteracy in the continent. Available information indicates that the percentage of literacy is highest in Eastern and Southern Africa, followed by Central Africa and lowest in West Africa. The ratio is higher for males than for females with West Africa and North Africa exhibiting the lowest percentages.

Employment and Unemployment

1. Inadequate job and work opportunities

The 1995 World Summit for Social Development reiterated the inseparable link between poverty reduction and employment, stating, inter alia, that: "Productive work and employment are central elements of development... Sustained economic growth and sustainable development as well as the expansion of productive employment should go hand in hand. Full and adequately and appropriately remunerated employment is an effective method

Table III.6
Estimated Adult Literacy Rates, 1980-2000

REGIONS	1980			1995			2000		
	MF	M	F	MF	M	F	MF	M	F
SUB-SAHARAN AFRICA	40.2	51.8	29.2	56.8	66.6	47.3	62.0	70.9	53.3
ARAB STATES	40.8	55.0	26.2	56.6	68.4	44.2	61.5	72.2	50.1
LAIN AMERICA/CARRIBBEAN	79.7	82.1	77.5	86.6	87.7	85.5	88.2	89.0	87.4
EASTERN ASIA/OCEANIA	69.3	80.4	58.0	83.6	90.6	76.3	86.8	92.8	80.6
SOUTHERN ASIA	39.1	52.8	24.5	50.2	62.9	36.6	53.7	66.0	40.7

Source : UNESCO, World Education Report, 1995. The population data utilized are those of the United Nations Population Division database (1994 revision)
Notes : M = Male; F = Female
*** Percentage of literate adults in the population aged 15 years and over.**

24 According to UNESCO, since the early 1990s, universities have been closed in Kenya (1993-1994), Nigeria (1992-1993), the Congo (1994-1995) and Zimbabwe (1995), among others. UNESCO, op.cit., 1995.

of combating poverty and promoting social integration".[25] Creating enough jobs and productive employment to break the vicious cycle of poverty remains one of Africa's most daunting development challenges. The region's economies have not achieved enough employment creation or enough labour absorption capacity to keep pace with population growth, urbanization and the rising expectations of their citizens.

The labour force in Africa is growing at about 3 per cent per annum while productive employment lags behind at 2 per cent annually. According to the 1995 African Employment Report,[26] unemployment in the early 1990s was estimated at 20.0 per cent for the urban areas. The number of urban unemployed has been growing at the rate of 10.0 per cent annually and was estimated to have reached a staggering 18.6 million in 1994. To arrest this trend, it is argued that the economies of the region will have to grow at a rate of about 5 to 6 per cent per annum in order to meet the employment needs of fresh entrants into the labour force and to reduce the number of poor people in the region.[27]

The unemployment problem remains critical in Africa. High levels of unemployment, particularly among educated people, including university graduates, is alarmingly high in a number of African countries. The implications of large numbers of unemployed educated youth and university graduates are serious for Africa's social and political stability. Youth unemployment rates are about three to four times higher than for older workers, rising to some 40-50 per cent in some countries. Among women it is two to three times higher than among men, partly through gender biases, but also because about 60 per cent of African women over 15 are illiterate, compared to 40 per cent of men. It should be noted, however, that Africa's unemployment figures do not fully reflect the actual situation. Given the small size of the formal sector, unemployment figures mask many other related situations such as underemployment and under-utilization of skills, the size and capacity of the informal sector as well as the millions of women and girls engaged in hidden, non-accounted productive work in households, family enterprises and in farms.

2. Saturation of the informal sector sponge

The urban informal sector in Africa, despite low wages and low productivity, now accounts for about 60 per cent of urban employment and has to be recognized as the most significant structural change in African economies. The sector's capacity to absorb unemployed labour is demonstrated by the fact that in sub-Saharan Africa, informal sectors created 6 million jobs between 1980 and 1986, compared with 500,000 created in the formal sector over the same period.[28] The general policy towards this sector, therefore, should be to remove administrative, fiscal and other obstacles to its growth and to facilitate its employment creation functions with access to training, credit and advisory services, productive inputs and improved production technology. Financial resources and investment in skills and infrastructure are urgently needed.

The Refugee Problem

Slow progress with repatriation and resettlement

The number of refugees and displaced persons in Africa remains extremely high. About 7 million are directly categorized as refugees in Africa. This does not include many internally

[25] World Summit for Social Development, United Nations, New York, 1995, p.79.

[26] African Employment Report, International Labour Organization, Regional Office for Africa, 1995.

[27] World Bank, Adjustment in Africa : Reforms, Results and the Road Ahead, Oxford University Press, 1994, p. 161 and ILO, Ibid; p.11.

[28] African Employment Report, 1995.

displaced persons forced to flee their homes, but unregistered in camps or with any institutions, and persons who have privately sought asylum in other countries. As can be seen from the Table III.7, twelve countries in Africa are responsible for over 6 million refugees, most of them from Eastern Africa. Office of the United Nations High Commissioner for Refugees (UNHCR)[29] estimates indicate that of the 27,418,000 who come under UNHCR concern, 11,816,000 are in Africa. This is in comparison to 5,018,300 for Asia, 1,876,400 for Europe, 109,000 for Latin America, 681,400 for North America and 51,200 for Oceania.

The primary causes of this phenomenal wave of human displacement are political in nature (ethnic conflicts, civil wars), or associated with drought and famine. The latter is responsible for large-scale displacement of persons now termed environmental refugees.

Rapid and early repatriation and reintegration of refugees to countries of origin is the only sustainable solution to the African refugee problem. Towards this end, there have been a number of positive developments, for example, the recent agreement between Togo and UNHCR for the voluntary repatriation of Togolese citizens and the relative political stability in northern Mali and the Niger which is facilitating the return of Touareg refugees. In addition, in 1995 alone, 48,087 Eritrean refugees were repatriated from the Sudan, 31,617 Ethiopian refugees were repatriated from Djibouti while many others registered for repatriation from Kenya to Ethiopia. The repatriation of 24,535 Mozambican refugees from Zimbabwe completed the repatriation operation of all Mozambican refugees from Zimbabwe. The repatriation of Mozambican refugees from six neighbouring countries has considerably lightened the current refugee burden on these countries and on the donor community. With regard to Rwanda, 39,634 Rwandan refugees were repatriated from Burundi, 13,060 from the United Republic of Tanzania, and 99,753 from Uganda and 85,988 from Zaire, in 1995. Peace in Angola should lead also to the return of more than 300,000 refugees and hundreds of thousands of displaced people, just as the 1995 Abuja peace agreement between the Liberian factions should, if sustained, hasten the process of voluntary repatriation.

Table III.7
Refugee Population by Country/Territory of Asylum and Origin, 1995

COUNTRY OF ORIGIN	MAIN COUNTRIES OF ASYLUM	TOTAL
RWANDA	ZAIRE, TANZANIA, BURUNDI	2157000
LIBERIA	COTE D'IVOIRE, GUINEA	767700
SOMALIA	ETHIOPIA, KENYA	455000
ERITREA	SUDAN	419300
SUDAN	UGANDA, ZAIRE	291900
BURUNDI	TANZANIA. ZAIRE	382800
ANGOLA	ZAIRE, ZAMBIA	264660
SIERRA LEONE	GUINEA. LIBERIA	275100
MOZAMBIQUE	SOUTH AFRICA	90000
CHAD	SUDAN	141400
ETHIOPIA	SUDAN	160600
MALI	MAURITANIA. ALGERIA. BURKINA FASO	159700

Source : United Nations High Commission for Refugees, The State of the world's Refugees, Oxford University Press, New York, 1995, Table 3, pp. 248-249.

[29] UNHCR. United Nations High Commission for Refugees by Numbers, 1995, p.4.

G Policy Framework for Social Development in Africa

1. What to target and how?

The crisis in the social sector remains severe in most ECA member States despite the modest economic recovery that is taking hold on the continent. There is little inter-sectoral coordination and co-operation among the various social sector institutions, and between them and the economic ministries, whether at the formulation or implementation stage. Instead, what obtains for now are inappropriate social development policies oriented towards the urban enclaves and lack of bottom-up approaches with emphasis on decentralization, self-reliance and community/grass-root involvement. A serious and sustained policy commitment to social development and greater coherence in social policy in Africa is urgently needed. It must incorporate adequately the formulation and implementation of social development policies, especially as they pertain to such issues as population, poverty reduction and sustainable human development, basic health, education, the pursuit of productive full employment for all and the integration of women in the development process. Such a holistic orientation and integrated approach to development must ineluctably conceive of social development as an integral and important component of sustainable and long-term socio-economic transformation. Besides, it needs to address the often-neglected issues of excessive rural-urban migration, food insecurity, high levels of unemployment and poverty. The provision of universal and compulsory basic education must be on the top of the social policy agenda, and so must be the provision of basic primary health care. The question of maternal and child health and family planning needs also to be addressed as it ramifies into such other areas as child and maternal health. Sustainable poverty reduction is inseparably linked to the issues of democratization and popular participation, which are today the most pressing issues on the African development agenda.

2. Achieving basic health for all is an imperative

Achieving basic health for all is thus imperative for poverty reduction and sustainable development. Policies are urgently needed to address the major obstacles to the provision of basic health services in Africa, in particular the predilection towards curative health care provision. To do so, integrated and coherent health policies must be grounded in the principles of primary health care and WHO/AFRO's African Health Development Framework which underlines the goals of health for all by the year 2000.

In consonance with the Bamako Initiative and Saitama Declaration, ECA member States must intensify efforts to develop strategies for health care financing community participation and mobilization for health care provision and extensive training for community health workers and the establishment of district health committees. The establishment of critical drug lists and cost- recovery mechanisms are essential components of sustainable preventive and community health care. Government expenditure in the health sector must be restructured in favour of preventive and community health care, paying particular attention to the rural and urban poor. Some of the areas needing urgent attention are maternal and child health services, especially immunization and family planning programmes, public health education, nutrition, sanitation and provision of safe drinking water, the containment of HIV/AIDS, sexually transmitted diseases and tuberculosis, promotion of healthy lifestyles and stable and safe environment. Under the Special Initiative for Africa, significant expansion of Africa's primary health facilities is projected over a 10-year period, under the theme, "New hope for the upcoming generation". With reduced military expenditure by national governments, more funding could be channelled to the sector. Negotiated "debt for health" swaps and debt cancellations can also enable African Governments to carry out extensive health sector reforms for primary health provision.

Declared a global emergency by WHO since 1993, the recrudescence of tuberculosis and its threat to public health in Africa is magnified by the high incidence of HIV/AIDS-related infections. Treatment, which is cheap and effective when available, must be linked to the treatment, containment and prevention of STDs and HIV/AIDS. Public health messages which warn people against casual sex with multiple partners, unprotected by condoms, should also include TB as a disease to guard against. Ministries of health, family planning and reproductive health agencies and centres must, with the assistance of United Nations agencies and NGOs, use the communication media, pharmacies and other health structures to issue information and ensure availability of good quality condoms, as well as the appropriate treatment for HIV/AIDS and AIDS-related tuberculosis.

3. Greater linkages needed between education and the world of work

The World Conference on Education for All argued for the provision of basic education for all by the year 2000, as the world's most important development priority. Provision of basic education is con-strained by a number of obstacles however. For example, while the total cost of achieving universal primary education for all in Africa during the period 1990-2000 is estimated at no less than US$26 billion, Africa's per capita expenditure on education remains at $US28 compared to US$49 in other developing countries. The allocation of resources earmarked for education is usually to the advantage of second level and tertiary education rather than to basic primary education and literacy, a situation which should be rapidly reversed.

The financing of education also needs radical changes in resource allocation to ensure justice and equity between rural and urban areas and between male/female education. In this regard, innovative methods of education cost management are urgently required. Cost recovery and fee-sharing is one strategy used to augment state educational expenditures by transferring part of the education cost to beneficiaries. However, one of the short comings of this strategy is the reduced access to education of low-income populations. To overcome this problem requires, among other things, that partnerships between local communities, students/-parents associations, employers associations, trade unions, development partner organizations, religious bodies and NGOs be strengthened for increased resource mobilization for education in rural areas.

In many African countries, educational and training policies are currently in need of in-depth rethinking and revision, given that in some cases, high school leavers and even university graduates cannot find wage employment, some times for several years. They are increasingly caught in a situation of long-term structural incongruence between human resources development and socio-economic development. Science and mathematics education have received greater emphasis in the curriculum in recent decades, but they are still largely taught theoretically, while instruction in technical subjects and productive technology is seriously deficient. Teacher training colleges need also to be strengthened. Technical training in trades, crafts and engineering fields such as construction and civil engineering and mechanical engineering create self-employment opportunities and raise the level of productivity in the informal and small-scale formal sectors. Agricultural science and practice also need emphasizing, since agriculture is still the largest employer and the basis of rural development and agro-industry.

There is need for monitoring, evaluating and reporting on the implementation of educational policies along the lines of the resolutions of the World Conference on Education

Box I.6

INTEGRATED APPROACH TO SOCIAL DEVELOPMENT: AN EXAMPLE FROM KENYA

In Kenya, the employment promotion and maternal child health/family planning (MCH/FP) for women and youth in the Mathare Valley (Nairobi) is implemented by the National Council of Churches of Kenya (NCCK), a national umbrella organization for Christian churches, promoting social justice and development activities. It was initiated with UNFPA funding in 1988. The project encourages employment through credit, business skills seminars and vocational skills training. It also involves MCH/FP promotion through educational seminars supported by information, education and communication (IEC) materials and service delivery and counselling through a mobile clinic. In addition, the business skills and vocational training programmes integrate population and family planning education into their curricula. By the end of 1992, more than 2,000 individuals had received business training, 169 women had received credit, 60 youth had received vocational training, and more than 15,000 individuals had received MCH/FP services through the project.

Source: UNO, The Work of the United Nations System in Poverty Alleviation, United Nations Office at Geneva, Palais des Nations, 1995.

for All (WCEFA) at the national and regional levels. At the national level, a government focal point is required to monitor, evaluate and report on progress in the education sector. Grass-roots organizations will also have to be involved in the monitoring process. At the regional level, UNESCO, ECA, OAU and ADB should be responsible for reporting to the Conference of African Ministers of Education both on progress made and on setbacks to the implementation of basic education for all. Special attention must be paid to the quality of education so as to develop the appropriate human capacities and skills needed for sustained socio-economic development, including entrepreneurial education at all levels.

Comprehensive educational and manpower planning and policies for socio-economic development must address the very serious problem of brain drain, especially among highly trained professionals in such diverse fields as medicine and medical sciences, engineering and social sciences. These professionals are trained at a tremendous cost to Africa. Among the most salient factors accounting for brain drain are sharply declining wages and incomes, dividing economic opportunities and inhospitable working environment, social injustice and political stability. Halting significant outflow of highly skilled personnel and attracting those who have already left will require putting in place effective incentive structures: financial and tax incentives, opportunities for self-employment and private practice, especially for doctors and university teachers. The return home could further be cushioned with attractive remuneration packages: for example, job offers, housing allowances and car loans, affordable mortgages, duty-free exemptions and special customs status on entry of professional equipment and personal effects. The one good time is that the cost of all these incentives is relatively small compared to the cost of current and continued flight of highly skilled manpower.

4. Improvements in housing and the environment

Most African countries have experienced spontaneous and haphazard urban sprawl and are usually unable to keep infrastructure and services in harmony with population growth and rising expectations. Systematic urban development planning and maintenance is urgently needed to deal with large concentrations of people in a few capital cities at the expense of secondary cities and rural service centres. Policies are also needed to arrest the proliferation of shanty towns, periurban areas and urban slums and to halt urban decay in African major cities as old infrastructure deteriorates due to lack of maintenance and new planned investment, insufficient political and civic commitment and enormous population pressure.

Within the framework of an urban environment, sustainable human settlement presupposes, among other things, adequate shelter for all. Underpinning integrated human settlements planning is a need for political commitment, well-trained staff and strong local and national institutions for planning and managing human settlements, balanced land-use development within sectors and in both urban and rural areas. Given the unprecedented high rate of urbanization in Africa and the rising expectations and demand for basic services, effective human settlements management and development policies are urgently needed. These are among the major issues discussed during the forthcoming United Nations Conference on Human Settlements (Habitat II) in Istanbul, Turkey in June 1996.

African Governments will need to take advantage of the outcome of the Conference, which is expected to be a source of encouragement to governments and local authorities to build partnerships with urban dwellers to improve management of cities. Policies promoting well-managed and well-serviced urban centres maximize their mandate and capacity to function as growth poles and centres of economic productivity and social development. Cities not only offer significant economies of scale in production, employment, housing and services, they provide also the impetus for innovation and change.

Agenda 21 of United Nations Conference on Environment and Development's (UNCED) Rio Conference in 1992 discussed human settlements, environment and population policies and noted the need to mitigate rural/urban migration flows. Given the need for balanced spatial population distribution, governments were encouraged to achieve urban consolidation through small- and medium-sized urban centres and to promote rural industrialization through labour-intensive projects, job and agricultural training for women and youth and effective transport and communications.

The above-mentioned Experts and NGOs Workshop on the Implementation of the Dakar/Ngor Declaration and the ICPD Programme of Action stressed the importance of effective population policies and programmes at country level and highlighted such implementation constraints as the unrealistic targets set out in both documents without adequate regard for national financial and institutional capacities. It also stressed the need for countries to integrate population and human settlements planning into ongoing and future SAPs.

Financing and maintaining infrastructure for human settlements needs national and local budgetary allocation as well as affordable cost-recovery measures. If urban decay in Africa is to be halted, governments and city councils and managers need to upgrade standards, systems and equipment. Garbage disposal systems and provision and improvement of toilet facilities and basic sanitation, piped water systems that deliver clean water regularly, continuous electricity supplies, health and education services all require committed management and an integrated policy co-ordination.

5. Promoting earnest productive employment and sustainable livelihoods

Informal sector employment policy both in urban and rural areas needs far more emphasis for employment generation, since strategies aimed at it and at the unemployed may have more positive impact on the lives of the majority of the population and the critically poor. The United Nations System-wide Special Initiative on Africa urges promotion of employment-generating opportunities, particularly in the informal sector and sustainable livelihoods, particularly in environmentally marginal areas. In this regard, the Initiative supports building on local knowledge and community-based action, increased access to technology, skills development, entrepreneurial training and micro-credit and a participatory approach, especially in rural communities in arid and semi-arid environments.

Sustainable rural development policies geared to real local resources are part and parcel of policies to support productive employment and livelihoods. Governments have to create alternatives to out-migration from rural areas. Attention to land reform and access to land is one of the pre-conditions. Access of rural populations to water, electricity, transport and communications, schools and hospitals, recreational and other physical and social facilities is also crucial. To be effectively implemented, adequate decentralization of administrative systems is needed, along with budgetary responsibility at local, district and regional levels. There is need for governmental action to encourage establishment of new businesses, industrial units and income-generating projects in the rural areas. In improving the conditions in the rural areas, African socio-economic policy-makers can learn a great deal from the Asian newly industrialized countries (NICS). These countries have been successful in formulating and implementing policies to pave the way for social transformation through increased pace of small-scale industrial development which however required adequate rural/agricultural development to create effective demand. They promoted the transfer of agricultural underemployed workers to industry and heavy investment in labour-intensive employment in rural areas during the early stages of development. Investment was directed not only at agricultural productivity and expansion but at rural small-scale industrialization as well, with well coordinated movement into export-oriented production from the early phase of import-substitution industries. There was also planned and sustained political and budgetary commitment to human and physical capital development and investment in agricultural and agro-industrial research and development.

6. Mainstreaming gender issues into all sectors of development activities

Sustainable integration of women in development can only be achieved within the framework of gender relations and analysis vis-à-vis issues such as equity, equality and justice between men and women. Among the many recommendations emanating from the United Nations fourth World Conference on Women are five priority areas of focus for the next five years. These are poverty eradication, health, education, promoting women's human and legal rights and women's participation in decision-making.

In Africa, women are increasingly becoming the main income earners for a majority of households and the hub of development, particularly in agriculture where they play a key role in food production activities in addition to traditional domestic chores. Still, in many parts of Africa, cultural traits and taboos have continued to underpin the marginalization of women in the development process: low rate of participation of women in areas of education and labour force, women's lack of adequate access to health resources, their relatively high unemployment rate in the formal sector as compared to men as well as their lack of access to credit facilities for investment in self-employment generating activities. In addition, the issues of enhanced women's role in the decision-making process and human and legal rights are critically important, especially in relation to land tenure and poverty reduction. These are some of the constraints that still inhibit gender equality in the African region and it is to be hoped that genuine efforts will be made by African Governments and peoples and their development partners to enhance the status of women and to improve their participation in the development process within the framework of the Beijing Declaration and the Platform for Action.

7. <u>The promise of global conferences</u>

The year 1995, as with 1994, witnessed many important events that will have a salutary effect in advancing social development in Africa. The United Nations Social Summit, held in Copenhagen, Denmark, in March 1995, which brought together 13,000 participants from more than 180 countries, 10,000 observers and 3,000 non-governmental organizations (NGOs), agreed on a social contract to eradicate poverty and unemployment and build a new social solidarity across the world. Copenhagen was part of a series of United Nations conferences - including the Rio Earth Summit (1992), the Vienna Human Rights Summit (1993), the Cairo population summit (1994) and the Beijing women's summit (1995) - which aimed to pro-vide a manifesto on global social organization for the millennium. These different initiatives and particularly the Social Summit were important for Africa which, in spite of having 33 out of the 47 LDCs in the world, attracted barely 6 per cent of the international investment needed to fight growing poverty. Partly as a result of the awareness and deep concerns generated by these conferences, sub-Saharan Africa had, by the end of 1995, emerged as the major development challenge in the world. The Copenhagen Summit concluded by adopting the so-called "20-20 principle" according to which donor countries should reserve 20 per cent of their aid budgets for African social development, while the recipient countries correspondingly commit at least 20 per cent of their national budgets and match the external resources. The expectation is that this will act as a catalyst to the promotion of employment, equality between men and women, universal access to education, adequate health care, and protection of workers' rights.

The fourth World Conference on Women, held in Beijing, China, from 4 to 15 September 1995, adopted the Beijing Declaration on Women and the Platform for Action. The Platform for Action endorses and encompasses the African Platform for Action adopted earlier in Dakar, Senegal, in November 1994, underlying the need to empower African women politically and economically, increase their education and training in science and technology, support their vital role in society and the family and protect their legal and human rights. With the Beijing Declaration on Women and the Platform of Action, the world now has in place a comprehensive action plan for enhancing globally the social, economic and political empowerment of women, for improving their health and advancing their education and training and for promoting their marital and sexual rights and putting an end to gender-based violence. Through the Beijing Conference, the world has come to recognize the crucial role of women in sustainable development and in the protection of the environment, to appreciate better the human rights of women as an inalienable, integral and indivisible part of universal human rights and to see access to health, maternal care and family-planning facilities and education and information as essential ingredients in the exercise of such rights.

In Africa, women are increasingly becoming the hub of development in some countries and the main income earners for a majority of households, particularly in agriculture where they play a key role in food production activities as well as in the traditional domestic chores. Still, in many parts of Africa, cultural traits and taboos have continued to underpin the marginalization of women in the development process: low rate of participation of women in areas of education and labour force, their relatively high unemployment rate in the formal sector, as compared to men as well as their lack of access to credit facilities for investment in self-employment generating activities. These are some of the constraints that still inhibit gender equality in the African region and it is to be hoped that genuine efforts will be made by African Governments and peoples and their development partners to enhance the status of women and improve their participation in the development process within the framework of the Beijing Declaration and the Platform for Action.

Part Two

PERSPECTIVES OF ECONOMIC REVITALIZATION AND DEVELOPMENT IN AFRICA : NEW DIMENSIONS OF AN OLD STRATEGY

II
INTRODUCTION

Africa's economic performance during the last decade and a half has been conspicuously disappointing compared to its past achievements and relative to its own given potential and rich endowment. It has measured unfavourably against performance in other developing countries at similar stages of development and, most importantly, in relation to the rate of population growth. During the decade of the 1960s, the region recorded a buoyant 6 per cent growth in GDP and increases in per capita income that exceeded 3 per cent per annum. In the 1970s, however, the rate of growth decelerated to an annual average of 4.5 per cent and an increase in per capita income of nearly 2 per cent. For the decade of the 1980s and well into the first half of the 1990s, real GDP growth has averaged only 1.8 per cent, resulting in decreasing per capita income by 1.2 per cent annually.

Both the steady decline in economic performance and worsening poverty have had important consequences for the welfare of the African people and the development status of the region within the world community. At the domestic level, population has been increasing at an increasing rate while GDP growth rate decreased at an increasing rate; and the resulting disparity between population and GDP growth has considerably eroded and mortgaged the welfare of present and future generations. Per capita output in agriculture, the mainstay of the economy, declined by an average of one per cent between 1970 and 1990. Per capita food production has fared even worse, with an annual per capita shortfall exceeding 1 per cent per annum since the 1970s, despite important scientific breakthroughs and proliferation of modern agrarian inputs and easily adaptable technologies world-wide.

As already indicated in part one of this Survey, the annual increase in real GDP in Africa has also been well below the global growth of output, as a consequence of which the region's share of world GDP declined from an average of 2 per cent in the 1960s to 1.7 per cent in 1990, and its share of world trade fell from 7 per cent to less than 2 per cent. At the same time the share of its population increased from 8 per cent in 1960 to 12 per cent in the 1990s. Africa is currently the most external aid-dependent of the regions. Its external debt, although the lowest in the world, is well above its paying capacity and is widely acknowledged to be among the major constraints to economic recovery and sustained growth.

One could go on cataloguing the misfortunes and the consequential indices of misery that have been the lot of the African countries. However, while it may be useful to revisit the past and reminisce on the difficulties and obstacles to economic revival in Africa, the real and more urgent task and target must be the design of a pragmatic and workable framework of a growth and development strategy for the economic transformation of the continent. This is precisely what this chapter of the Survey strives to do, by attempting to answer the two broad questions of what needs to be done and how. The emphasis is on the imperatives of a renewed focus on the revival of horizontal and vertical diversification in the African countries, an objective that has been and continues to be pursued by African governments, albeit with varying degrees of latitude and intensity.

As an integral part of overall development,[1] economic diversification is capable of transforming old activities, creating new ones and establishing linkages between sectors. In this way, the proportion of value added in manufacturing output, and the range of locally-produced intermediate goods serving as inputs into other domestic industries or exports, can be greatly enhanced. In the context of the current globalization of the world economy, diversification should also imply that domestic industries become more integrated with the world industrial system, with increasing interlinkages of production structures in several countries. Successful diversification should also translate into major changes in the structure and volume of trade, with exports and imports becoming more diversified and, more importantly, closely integrated with domestic production structures. In a sense, therefore, economic diversification is an embodiment of mutually-reinforcing processes of technical change, rising productivity and steady innovation; and of continuous improvements in the production environment as well as human resource development. It also implies substantial upgrading of domestic economic and social infrastructure and more open access to the expanding world of ideas and information.

A review of recent literature on economic diversification shows that the bulk of research on this issue has concentrated on "export diversification", understood narrowly as the widening of the range of export products. However, "economic diversification", is a broader concept of which export diversification is a subset, and is the result rather than the cause of output differentiation. It touches on the whole process of structural change and development, expansion of capacities for production of an expanding range of diversified output, both for domestic use and for exports ; physical infrastructural expansion for closer integration within the national economy ; the establishment of appropriate linkages with external production structures : the building up of human capital that will transform countries from purchasers to producers of skill-intensive capital goods; and, the creation of efficient national marketing systems and related institutions.

In order to chart a viable strategy for the future, therefore, it is important to review Africa's past experience with diversification, and to draw appropriate lessons from the more than three decades of efforts on the continent in this area. An examination of the approaches underpinning past policies, the results achieved, and the constraints and problems that have limited the achievements, will greatly assist the design of future strategy. But, in looking ahead to future policy, it will be necessary also to consider the changing world environment and its implications for future strategy on economic diversification, noting in this connection the major lessons that can be learnt from countries in and out of Africa that have achieved notable successes in diversifying their economies over the past two decades.

Viewed against that background, it is obvious that successful economic diversification in Africa requires new approaches that will meet the demands of an increasingly more complex world -- a world that is at once becoming more global and more regionally divided, and that is becoming ever more competitive, thanks to new trade rules. Because of the central importance of competitiveness in the present world environment, a successful diversification strategy in Africa must be based simultaneously on a major programme to improve the physical and social infrastructure that will contribute to higher productivity, a more relentless pursuit of regional and sub-regional integration efforts ; and, a more determined attempt to explore new export opportunities in the world market. It must additionally focus more serious attention on human resource development so as to produce the skills that will be much in demand by new industries and processes.

[1] UN, Critical Economic Situation in Africa: Final Review and Appraisal of the Implementation of the United Nations Programme of Action for African Recovery and Development, 1986-1990 - Report of the Secretary-General, A/46/324/ Add.1, August.

II
AFRICA'S DIVERSIFICATION EXPERIENCE: LESSONS FROM THE PAST

Economic diversification policy has featured in virtually all the development plans and programmes of African countries since the attainment of political independence. Its aim was to reduce the dependence of exports on a narrow range of primary commodities, and to increase the scope of processed and manufactured goods produced for domestic use and exports, both considered as essential measures in the effort to industrialize African economies. There is, therefore, a considerable wealth of experience and background information available for evaluating the results of past policies in this area and for drawing appropriate lessons for future strategy. In particular, the programmes of the first and second Industrial Decades for Africa -- IDDA-1 and IDDA-2 --and the evaluation of those programmes, provide abundant information about the problems and constraints facing African countries in implementing the industrialization component of their diversification programmes.[2]

Two dimensions of diversification -- horizontal and vertical -- have played a prominent role in African development strategies. Horizontal diversification aims to widen the export base, resulting in the promotion of new export commodities and new product varieties. Vertical diversification, on the other hand, aims to transform raw materials into semi-manufactures and manufactures, producing intermediate products that can be fed into further production processes at home and abroad as a well as a wide range of final products for domestic consumption and exports.

For African countries, therefore, and sub-Saharan countries in particular, economic diversification is not a matter of choice but a necessity in order to prevent the marginalization of their economies and minimize the risks associated with unpredictable fluctuations in export earnings. This can be achieved through vertical and horizontal diversification since a diversified production base and portfolio of export commodities will be less subject to the risk of fluctuations in export earnings. A country with a well-diversified export base reduces the risk of wide fluctuations in export earnings associated with the volatility and unpredictability of the international market for primary commodities.[3] Even for rich oil-exporting countries, a recent study argues that diversification is necessary in order to create alternative sources of income, in anticipation of the exhaustion of oil reserves, increase their bargaining power and their terms of trade, and amplify the multiplier effects of oil revenues on their national economies.[4]

These observations have been borne out by recent empirical studies, where it was shown that while international prices of both oil and non-oil

[2] See, for example, the documents presented to the Eleventh Meeting of the Conference of African Ministers of Industry CAMI, Port Louis, Mauritius, 31 May - 4 June 1993, especially: Report of the Eleventh Meeting of the Conference of African Ministers of Industry on Problems, Policies, Issues and Prospects by the Year 2000 of Africa's Basic Industries, namely: Chemical, Metal and Engineering Industries, ECA Document No. CAMI.11/4, ICE/1993/8 of 30 April 1993.

[3] See Alwang, J. and P.B. Siegel, "Portfolio Models and Planning for Export Diversification: Malawi, Tanzania and Zimbabwe", Journal of Development Studies, Vol.30, (1994).

[4] See for example, Shafaeddin, Mehdi, "Some Conceptual Issues on Diversification, Bargaining Power and Self-Reliance in the Context of an Oil Exporting Country", UNCTAD, Discussion Paper No.14, Geneva: UNCTAD, 1986.

primary commodities declined in six out of nine years during 1986-1994, the magnitude of the changes in the price of oil was considerably greater than the changes in the prices of non-oil commodities.[5] This shows that high oil revenues are not sustainable in the long term and should not be depended upon as the only source of a country's revenue. Hence the need for oil producing countries to devote a major part of their oil revenues to the diversification of their economies. [See Box II.8 for the experience of Nigeria].

Economic diversification is important therefore not only because it stabilizes the economy by increasing the supply of goods in

Box II.7

EXPERIENCES OF DIVERSIFICATION INTO HORTICULTURE IN EASTERN AND SOUTHERN AFRICA

Most countries in eastern and southern Africa have potential for expanding horticultural exports due to their favourable climatic conditions. The development of horticultural exports to date has been the result of efforts in these countries to diversify into non-traditional products. Kenya, which grows horticultural products for local and export markets, is the largest horticultural exporter in Sub-Saharan Africa, and the seventh largest world exporter of cut flowers. Exports consist mainly of cut flowers, green beans, vegetables, mangoes, avocadoes and passion fruit. 80 per cent of horticultural exports go to the European Community. Devaluations have led to sharp increases in exports. Kenya is the obvious success story in Africa in the export of horticultural products.

The export of horticultural products has played a major role in Kenya's economic development. Horticultural exports have a synergy with the tourist industry. Exports have grown from almost nothing to being the third foreign exchange earner after tea and tourism. For 25 years Kenya's horticultural export sector has experienced phenomenal growth with selective assistance from the government and its agencies. There has also been extensive encouragement of private investment in Kenya, and the liberalization policy in place has aided growth. Green beans, which are the most important fresh produce export of Kenya, are grown by small-scale farmers with skills in grading and packing. The growth of flower exports from Kenya has been through the efforts of a few big firms and some small and medium-sized farmers. The large companies have invested in cold storage and cooling facilities, grading halls, refrigerated and insulated vehicles and green houses. Most of Kenya's flowers are sold through the Dutch auction although some of them were sold directly to importers in these markets who in turn organize distribution.

In Ethiopia, efforts to diversify the economy have been successful. Since the early 1980, growth of non-traditional products such as fresh fruits, vegetables and cut flowers has been significant with an average growth rate of 4.5 per cent. Export of horticultural products is undertaken by a state parastatal. Part of the strong increase in exports of the horticultural sector is a result of a 50 per cent devaluation of the national currency. Malawi has sought the development of the horticultural sector for export. Malawi can export horticultural crops like vegetables. In the early 1980s, Zimbabwe did not have an important horticultural sector. Exports from this sector however, have risen from $4 million in 1985 to $150 million in 1993. Zimbabwe is now the third largest exporter of horticultural products in Sub-Saharan Africa. In the case of Zimbabwe, the growth of the horticultural sector can be attributed to the fact that the country produces most of its flowers during the off season in Europe. Tanzania has traditionally had a wide range of commodity exports, but most non-traditional commodities have only marginally contributed to the country's export. There has also been successful vertical diversification in the sisal sector of Tanzania.[6] It was in the late 1980s and early 1990s that exports of horticultural products expanded from the country. The horticultural sector in Tanzania has been highly unregulated with the private sector controlling production and marketing. However, the lack of facilities, especially, the lack of air freight and storing place at the Kilimanjaro and Dar-es-Salaam airports have hurt exports. Foreign ventures have recently been attracted to the horticultural sector in Tanzania.

[5] Mohammed, Nadir A.L. and Mubila, M.M.- "Commodity Prospects and Growth in Africa". Economic Research Series, No. 23, African Development Bank, 1996.

[6] UNCTAD/COM/48 base study on "National Experience of the United Republic of Tanzania in horizontal and vertical diversification, including possibilities for crop substitution".

The range of goods produced in Africa has not changed significantly despite the considerable technological transformation that has taken place in the world at large.

Although primary commodities still account for almost a quarter of the US$3.5 trillion in world trade, Africa's share in total world trade has been on a declining trend, from 6.5 per cent in 1950, through 4.7 per cent in 1970 and 3.4 per cent in 1985 to 2.5 per cent in 1993. On the basis of its current primary commodity dependence and trade structure, the net effect on Africa of the changes ushered in by the Uruguay Round agreement is expected to be a further erosion of this share.[14] According to preliminary estimates, world trade is projected to grow by at least US$200 billion annually when the Uruguay Round agreement comes into full effect. The developed countries will reap about 70 per cent of this benefit (about US$140 billion), while the balance is distributed between China (16 per cent), other Asian countries (11 per cent) and Latin America (3 per cent). In contrast, African countries (excluding Egypt and Libyan Arab Jamahiriya) are expected to incur losses of about US$2.6 billion, annually, associated with intense global competition and erosion of preferences, especially the benefits currently derived under the Generalized System of Preferences (GSP) and the Lome Convention[15].

The stability of the annual foreign exchange earnings as well as the market outlook for Africa's leading export commodities depends on factors which are beyond the control of African countries. For instance, as a result of the commodity boom that started in 1993, it is estimated that Ethiopia's export revenue rose by 80 per cent in 1994, and that increases of 50 per cent for Uganda and Benin, 30 per cent for Chad and 20 per cent for Tanzania were recorded. However, these positive shocks are the exceptions and never good indicators of long-term prospects in the commodity trade of African exporters, since real prices are on a downward trend. The World Bank projects real commodity price decreases of 1.1 per cent a year over the next ten years.[16] Similarly, FAO expects the growth in agricultural trade to slow down over the 1990s to almost half the rate seen in 1980s, a development which can only depress commodity prices.

Based on forecasts of Africa's eleven leading agricultural exports, only cashew nuts have clear prospects for world market growth exceeding 3 per cent per year. Few of the commodities have prospects to recover and maintain real price levels above the cost of production. For instance, in the case of cocoa, two countries, i.e. Ghana and Cote d'Ivoire, have a lot to lose from increasing their cocoa output because of the very high price elasticities. The same conditions apply to coffee, tea, tobacco, sisal, tropical timber and, probably cotton and oil seeds/nuts including olive and palm oil, cotton seed and groundnuts.[17]

The mercurial external environment and the risks of an ever declining foreign exchange earnings have prodded many countries into export diversification. According to UNCTAD, fourteen African countries have managed to reduce export dependence during the decade of the 1980s, but there has been no significant change in 21 countries and the situation has worsened for 11 others despite (or because of) significant government interventions. Countries that have significantly reduced their dependence tend not to depend on any commodity sector (foods, agricultural raw materials, minerals and

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14 UNECA, "Anticipated Impact of the Uruguay Round Agreement on African Economies: A Preliminary Analysis. E/ECA/Trade/94/7, September 1994 and Mohammed, Nadir A. L. and Mubila, M. M.- "Commodity Prospects and Growth in Africa". Economic Research Papers, No. 23, African Development Bank, 1996.

15 Ian Goldin, Odin Koudsen and D. van der Mensbrugghe, "Trade Liberalization: Global implications", OECD/World Bank study, Paris, September 1993, as quoted in UNECA, "Anticipated Impact of the Uruguay Round Agreements on African Economies: A Preliminary Analysis" -E/ECA/TRADE/94/7, 28 September 1994.

16 WORLD BANK NEWS. Vol. XV. No. 9, March 7, 1996, pp.9.

17 ADB, African Development Report, 1994.

metals, fuels) for more than 50 per cent of their export earnings. The North African countries have, in general, been relatively more successful in this respect than those of Sub-Saharan Africa. As for South Africa, its broad-based production and export structure is a clear indication of a successful effort to reduce the country's dependence on the outside world during the apartheid regime.

Africa's continued dependence on a narrow range of primary commodity exports is a clear indication of the limited success achieved so far in economic diversification.[18] A well diversified export trade presupposes a well diversified domestic production and this failure to induce and nurture an across the board specialization confines their exports to the narrow range of primary commodities which seriously hampered the expansion of trade, and contributed to the increasing marginalization of the region in an international environment dominated by trade in manufactures, knowledge-intensive products and services. This is compounded by the lack of an adequate marketing strategy and the absence of investment in industrial processing activities. The result is a further decline of Africa's shares in world trade, even in trade in primary commodities, thereby compromising the growth of production capacities and overall development prospects.

The two industrial development decades for Africa -- IDDA-1 and IDDA-2 -- have been central to Africa's strategy for economic diversification, through, among others, the development of export-processing zones (EPZs). The EPZs strategy aimed at attracting foreign direct investment (FDI) and promoting exports of manufactures, generating employment and expediting the transfer of technology. Although EPZ products face intense competition from the new industrializing countries (NICs) in Asia and Latin America, the industrialized countries of EC have, in accordance with the protocols of the Lomé IV Convention, allowed African EPZ products to enter the comunity's market duty- and quota-free in so much as the products comply with the requirements of rules of origin. It was also expected that subregional industrial cooperation among African countries will ensure additional market access for EPZ good in the African subregions themselves.

Although the EPZs have been successful in some countries with respect to export diversification and employment generation, their contributions in terms of technology transfer and the energizing of the rest of the economy have been below expectations. This is due to the fact that EPZs have remained largely an enclave, with minimal linkages with and limited spillovers to the economy beyond the confines of their narrow boundaries.

A number of African countries adopted strategies of horizontal diversification, especially into "footloose" industries, such as textiles, clothing, and footwear. The low wage and labour-intensive nature of such enterprises make them an attractive option in developing countries.[19] However, in spite of the fact that their position as cotton producers should have enabled them to exploit their comparative advantage in textiles production, cotton-producing African countries have been unable to develop significant export activities in the textile sector because of inadequate financial resources, lack of relevant know-how and skills, and poor infrastructure. The textile industries in some cotton-producing countries are too large relative to the size of the domestic market and uncompetitive in the foreign market in terms of quality, dependability and price. The high cost of domestic production, their dependence on imported inputs in an era of weak domestic currencies, combined with the change in domestic consumption patterns and the rise in cheap

[18] UNCTAD, Recent Developments in the Diversification of Developing Countries' Commodity Exports, Geneva: UNCTAD/COM/62, July 1995.

[19] UNCTAD, Analysis of National Experiences in Horizontal and Vertical Diversification, Including the Possibilities for Crop Substitution-Colombia, Geneva: UNCTAD/COM/20, April 1994.

Box II.8

NEEDS FOR DIVERSIFICATION IN NIGERIA

Since independence in 1960, Nigerian governments neglected the country's agriculture and its rural areas, although in every development plan for more[7] than 25 years, there has been a rhetorical emphasis on agriculture. With the oil boom of 1973 and 1974, rural to urban migration reached a peak. The price of Nigerian oil quadrupled in six months, government revenues quintupled in nine months and government expenditure tripled. Oil exports were providing about 80 per cent of government revenue and 90 per cent of total exports. Increasing national income from petroleum was largely used in the urban areas, causing higher urban wages, rural to urban migration and a shortage of labour of agricultural production. The agricultural exports which used to account for 83 per cent in 1996 declined to only 6 per cent in 1977, per capita food production fell and the labour force in agriculture declined from 71 per cent to 55 per cent in the same period.

In 1980, the civilian government was alarmed by the fact that known Nigerian oil reserves at current rates of use would be exhausted by the year 2000[8], whereas the population could reach 170 million by then. The deteriorating economic climate galvanised the government into realizing that Nigeria's urgent need was to diversify the economy[9]. In the 1981-1985 national development plan, priority was given to agriculture for food self-sufficiency, since although oil provides 80 per cent of export earnings, more than 60 per cent of labour force are found in the rural sector and domestic food supply is produced by smallholders. With Nigeria's enormous potential for agricultural production, it is logical that the government now sets the rehabilitation of this sector, both for export and domestic consumption, as the "prime objective for greater diversification"[10].

This has been dome by encouraging the private sector, particularly the small farmer, as the enterprise of plans to increase production, by providing credit and technical advice and improving feeder roads and rural infrastructure generally. The government commodity boards have been abolished in order to improve marketing efficiency as well as producer prices; agricultural exports are encouraged and the import of certain agricultural commodities such as maize, rice, wheat and vegetable oil have been banned; this has forced agro-processing industries to use domestic products and has encouraged people to revert to traditional foods such as yams and cassava. The result appears encouraging and, as a result of the oil collapse in the mid-1980s, the previous rural to urban migration is now being partly reversed as workers take advantage of the improving job opportunities in farming and in the rural areas generally. Experts reckoned that Nigerian agriculture would be back on its feet only around the turn of the century[11]. It remains to be seen whether these predictions will be proved correct.

The upstream sector of the oil industry itself has been in crisis for the past one year and Nigeria has been unable to meet its OPEC assigned production quota of 1.8 million barrels per day. Although higher oil prices, averaging US$18 per barrel against budget estimates of US$15 per barrel, have made up for the decline in production in 1995, the dangers are clear. Hostility of the oil producing communities and poor funding are bound to have long-term effects on the sector. To address these problems, the government has decided that the oil producing communities should have a stake in the industry, such that an increase or decrease in output would directly affect them. Oil companies are advised to employ indigenous of the communities in which they operate and to execute development and environmental protection projects in such areas as a means of further diversification of the economy.

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7 T.J.D. Fair, "Nigeria's unbalanced development: Urban growth and rural stagnation", Africa Insight, Vol. 14, No. 4, 1984.

8 World Bank, World Bank Report 1982, Washington, D.C.: World Bank, 1982.

9 S.P. Schatz, "The Nigeria Economy since the Great Oil-Price Increase of 1973-1974",

10 "Nigeria: The African Colossus", The Courier, No. 106, 1987.

13 N. Tzermias, "Trouble with Nigeria's Green Revolution", Swiss Review of World Affairs, December 1983.

the domestic market, increases employment, intensifies the use of domestic resources, increases export earnings, but also because it would help a country to diversify into commodities such that its export earnings remain stable and sustainable. Diversification into a wider range of exports would almost certainly increase the stability of export earnings, since it rarely happens that the prices of all commodities move in the same direction, and to the same extent.[12] While diversification into manufactures deserves special effort, this should not be done at the expense of agricultural production. Progress on both fronts should reinforce rather than contradict each other. With progress on both fronts, economic diversification should aim to arrest rather than contribute to the persistent decline in the market shares of African commodity exports in the world market.[13] It is within this broad framework that the future of diversification in Africa must be conceived and pursued.

Past Strategies achieved Very Limited Results

The dependence of African economies in most cases on one, two or three export products, for most of their export earnings, endangers their short-term prosperity and jeopardizes their long-term viability. Firstly, excessive specialization makes these economies highly sensitive to the fluctuations in world markets. Secondly, lack of diversification has meant that a disproportionate share of foreign exchange resources is devoted to the importation of the bulk of consumer goods which could have been produced domestically. Thirdly, lack of diversification has also retarded the growth of production capacities and seriously eroded the competitiveness of African countries, compared to producers in other developing regions.

About 98 per cent of Zambia's export earnings comes from copper, while Cote d'Ivoire depends on cocoa for 60 per cent of its export earnings. For the region as a whole, mineral fuels (mainly crude oil) contributed 60 per cent of exports in 1990, while coffee and tea represented 13.2 per cent. The situation has hardly changed during the 30 or more years of political independence, and has even gotten worse with the emergence of crude oil as the most important export commodity. Africa's dependence on the export of primary commodities (including fuels) is not only the highest in the world but also manifests very slow progress in economic transformation. Between 1970 and 1990, the share of primary commodities in world trade declined from 36 per cent to 26 per cent. The declining share of primary commodities in the export of developing countries was even more dramatic, falling from a high of 80 per cent in 1970 to 34 per cent in 1990. Africa has not in this respect followed the global trend to any significant length as its share fell from 94 per cent in 1970 to only 83 per cent in 1990.

The predominance of primary commodities in Africa's trade reflects the lack of progress in structural transformation and, more so, in agriculture which has remained locked into low productivity traditional techniques, while industrialization has failed to take root. If the share of agriculture in GDP has declined, this has not been from progress in industrialization, but because of the predominance of services, including non-productive government recurrent expenditure, and the growing informalization of the economy.

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[12] Brainard, W.C. and Cooper, Richard N. "Uncertainty and Diversification in International Trade"- Centre Paper No.145, Yale University Growth Centre, 1970; New Haven, as quoted by Sonko, K. N.- "Export Diversification in West Africa Sahel: The Problems and Prospects in Mauritania and Niger"- Stanford Journal of International Affairs, Summer, 1993.

[13] See Love, James, "Commodity Concentration and Export Earnings Instability: A Shift from Cross Section to Time Series Analysis", Journal of Development Economics, No. 24, December 1986; Berhman, Jere R., "Commodity Price Instability and Economic Goal Attainment in Developing Countries", World Development, No. 5, May 1987.

clothing imports, have strangled the development of the textile industry in many African countries. Other factors, such as the failure of output to adjust fast enough to the more sophisticated consumer tastes on European and North American markets, and inadequate market information and strategies, have constrained investment in new production or in the rehabilitation of existing plants.

Many African countries have found horizontal diversification an easier option because of their lack of capabilities for upstream processing of raw materials and the non-availability of the required technology and physical and human capital needed for vertical diversification. In these circumstances, export diversification tends to be concentrated on the production of non-traditional commodities, particularly horticultural products such as fruits, vegetables, cut flowers; and also cereals, veneer sheets and plywoods, which could be produced and exported with little or no deepening of the industrial process. Countries which have had successful horizontal diversification are: Ghana (gold, wood), Kenya and Tanzania (horticultural products), and Uganda (cereals). Madagascar has diversified out of coffee, while Uganda is also diversifying into the production of other products such as silk, vanilla, pepper and honey.

Horizontal diversification into the so-called non-traditional primary commodities is more of a stop-gap measure rather than a lasting solution. The focus on commodities that are non-traditional to a country or a region, and the indiscriminate expansion in their production is likely to flood the market, intensify the downward pressure on prices and, in the final analysis damage the economies dependent on these commodities as the main source of foreign exchange earnings.[20]

Diversification that has the capacity to engender structural transformation and endow an economy with the internal dynamics required for take-off and location on the parth of self-sustained growth and a development trajectory is usually of the vertical variant. The aim of vertical diversification is not only to raise the value-added of exports through the domestic processing of raw materials, but also, among others, to foster economic integration by encouraging greater intersectoral linkages, promoting regional trade in raw materials and intermediate goods, create processing industries that generate employment and promote the acquisition of technology. A number of oil-exporting countries in the region have utilized their crude and/or refined petroleum exports in the production of some energy-intensive products including chemicals and fertilizers in order to reduce their dependence on a single commodity.

Most non-oil exporting African countries that have started to export semi-processed or processed products have done so by first diversifying horizontally into the different areas of the commodity sector. For example, Equatorial Guinea reduced its raw commodity exports (mainly cocoa) from 95 per cent to 70 per cent, while raising its semi-processed exports (mainly sawn wood and veneer sheets) from 4 to 8 per cent, between 1979/1981 and 1989/1991; Mauritius (diversifying from sugar to textiles) and the Seychelles (from copra to fisheries preparation) reduced their raw commodity exports, respectively, from about 70 per cent to 35 per cent and from about 95 per cent to 20 per cent, while raising their processed commodity exports, respectively, from 20 to 50 per cent and from 10 to 70 per cent. The textile sector is at the heart of successful diversification in countries such as Egypt, Tunisia, and Mauritius. The success of diversification in Mauritius owes much to the fact that foreign investors were attracted by low wages; a workforce with a good general education; a reasonably well-functioning financial sector; an

[20] Befekadu Degefe "An African Perspective on Long-term development in Sub-Saharan Africa" in G.A. Cornia and G.K. Helleiner (eds.) from Adjustment to Development in Africa (New York St. Martins Press) 1994.

efficient communication system; a stable exchange rate; a restriction-free access to inputs and, an assured market access to the European Union.

Cameroon is a relatively well-endowed country due to its favourable geographical location, and diversified mineral resource base, wide range of climatic zones, a relatively sizeable domestic market, and important energy resources including petroleum, natural gas, and hydroelectric potential. While the economy's export structure is relatively diversified, none of the processed local commodities contribute significantly to exports. The processing activities are not without major difficulties because of obsolete machinery and the heavy costs of importing new equipment and spare parts. For example, in 1991/1992, only about 50 per cent of logs underwent domestic processing although currently, this is changing gradually. A good part of wood processing is now done locally because by law, at least 60 per cent of logs have to be so processed. [21]

B In Spite of the Implementation of IDDA-1 and IDDA-2, Major Constraints and Obstacles Remain Unresolved

On the whole the African experience with diversification has been rather poor and parochial, given the immense potential of the region. Efforts by African countries to diversify their economies have been constrained by inappropriate policies, lack of capital, technological know-how and skilled labour, as well as by the limited size of domestic markets. These factors have prevented them from taking advantage of internal economies of scale, and from developing the level of competitiveness that will enable them penetrate the world market. Even with favourable market conditions, inadequate technical and financial resources for the development of viable export activities, poor infrastructure, underdeveloped information systems, and inappropriate exchange-rate policies, have prevented them from taking advantage of the available opportunities. The case of South East Asia (Korea, Taiwan, Hong Kong and Singapore) has shown that a well-designed diversification strategy with a menu of appropriate policies, can be a major driving force for rapid economic growth, regardless of the country's size, natural resource endowment or geographical location.

In Africa, the industrial sector, which is central to structural transformation and economic diversification has remained weak, with few linkages with the rest of the economies. It is dominated by light consumer goods industries such as food processing and textiles, with ill-developed intermediate inputs and lack of supportive engineering industries. The production process remains, therefore, relatively inflexible and critically dependent on the availability of foreign exchange to import machinery, spare parts and critical inputs. This explains the perennial problem of low capacity utilization in manufacturing and mining industries which have fallen below 20 per cent in many African countries. The share of the manufacturing sector in GDP (estimated at 15.7 per cent in 1995) is small and, has not shown any significant change since the beginning of the 1980s. With such a small and undiversified industrial production base, there is a widespread dependence on imports for basic consumption goods as well as intermediate inputs for industrial processing. Given the region's limited industrial capability, natural resources have remained relatively undeveloped and unexploited.

The industrial sector in Africa is beset with structural constraints and impediments. With the present low level of development of the sector, it would be necessary to raise physical investments significantly to boost productive capacity, rehabilitate run-down factories and modernize obsolete machinery and equipment.

[21] See H. Younes, Project on Commodity Processing in Developing Countries: Case of Cameroon (INT/91/006), Geneva,1993

To ensure full capacity utilization, foreign exchange must be available to sustain imports of essential inputs and services. This is a critical policy issue for governments facing perennial foreign exchange shortages, due in part to an ever-declining foreign exchange earning capacity and pressures to service external debt. These difficulties notwithstanding, it is appreciated that the long-term development of industrial capability, and the expansion of domestic production and exports of manufactures and semi-manufactures, is fundamental to the success of economic diversification in African countries.

A cursory review of those economies that have been successfully transformed from basket cases into economic power houses demonstrates that their prosperity was based on and driven primarily by the interactions of well developed physical infrastructure, high levels of human capital accumulation and savings rate in a stable market oriented environment, supported by active and effective government intervention, [22] all of which are conspicuously lacking in Africa, quantitatively and qualitatively. Although government intervention is rife in Africa, most of it has been of the wrong mix, considering the outcome. The underdeveloped physical infrastructure has failed to effectively link domestic sources of raw materials, consumers and producers. A good example is the generation and distribution of power, which though a basic prerequisite for a successful industrialization drive, remains underdeveloped even in those countries that have the greatest potential within an easy reach, while modern transport and communication is yet to permeate the hinterland where a vast proportion of the population lives. The effectiveness of modern technology embodied in imported capital is often compromised by scarcity of trained personnel and low standard of maintenance. High interest rates, excessive loan guarantee requirements, tight repayment conditions, coupled with the high urban bias of modern financial institutions, have impeded effective flow of resources into economically and socially productive activities.

A renewed diversification drive in Africa must seek to ease these bottlenecks and start by creating an environment conducive to economic and social transformation. African governments need to have a clear vision of where they aim to take their countries, and to develop the requisite policies and instruments that will help and support private sector development. Efforts to launch the African economies on the path of self-sustained growth without the active and supportive intervention and involvement of the governments would be futile, if the lessons of experience from outside Africa are anything to go by.

Structural Adjustment Policies Have Had Mixed Results on Diversification

Under pressure of mounting economic difficulties emanating from deteriorating economic conditions and rising external debt, practically all African countries have adopted the Bretton Woods institutions - inspired and supported SAPs since the early 1980s. The package of SAP policies called for the liberalization of trade, domestic prices and interest rates, devaluation of currencies, reduction of fiscal deficits, the withdrawal of the state from active participation in the economy through privatization of existing public enterprises and the deregulation of the totality of the economy. These measures were expected to reverse the declining trends in the economy through the dynamics of private sector development and foreign investment.

After almost a decade and half, the expected turnaround has not materialized in the majority of the SAP-implementing countries. In the very few acclaimed cases, such as in Ghana

[22] Dani Rodrik "Getting Interventions Right: How South Korea and Taiwan Grew Rich" Economic Policy No. 20 April 1995 and Joseph E. Stigliz, "Some Lessons from the East Asian Miracle" , The World Bank Research Observer, Vol. No. 2 August 1996.

and Uganda, significant successes have been achieved only because of the considerable foreign aid that has been made available. In the majority of the countries, the volume of investment has declined because of a combination of drastically limited public sector expenditure, excessively high interest rates on bank credits and overpricing of foreign exchange, and difficulties asscociated with the importation of capital goods. Nor has there been a quick turnaround in the external balance following increased exports and reduced imports. Rather, the reduction in the current account deficit was achieved through import repression, which in turn has had drastic effects on capacity utilization in the industrial sector.

One possible explanation of the lack of systematic association between SAP and the growth and diversification of output and exports in African countries emanates from the overly optimistic assumptions relating to the supply response and the capacity of the private sector, the power of market forces to eliminate structural rigidities as well as the "crowding-out" effect of public sector investment. From a review of empirical evidence, we now know that public sector investment has a "crowding-in" rather than "crowding-out" effect on private investment; that when it comes to the building up of productive capacity, the market forces have limited power to override structural rigidities; and, that the process of adjustment must fully take cognizance of changing external environment.

Experience has also shown that despite the enormous potential and opportunities in Africa, the success of many African countries in diversifying out of traditional export commodities has been limited, and that several critical barriers need to be overcome to make faster progress in this sphere. Among others, the experience shows that diversification has been hamstrung by the non-availability of adequate investment resources, undeveloped physical infrastructure, inadequate human resource development, small and fragmented product and factor markets, lack of appropriate technology and skills and unsupportive policy environment. It is also to be noted that shifting production from traditional to non-traditional commodities requires extensive programmes of education and extension which are often not available or poorly planned. Lacking the knowledge and practices necessary to grow a particular crop in many rural areas, many farmers may have been hesitant to shift from familiar products into new ventures.

III

IMPLICATIONS OF A CHANGING WORLD ENVIRONMENT: IMPACT OF GLOBALIZATION, TRADE BLOCS, TECHNOLOGICAL CHANGE AND NEW TRADE RULES

Even if the changes in the external environment had been at a much slower pace, the failure of Africa to make significant progress with diversification during the past thirty years would have called for a major change in orientation and strategy to overcome the constraints and problems that have impeded past efforts. As it has happened, the international environment has undergone a profound revolution in these past decades, and this has made the challenges facing African countries even more difficult.

A Major Changes in the World Environment Offer New Challenges and Opportunities

Presently, the international economic environment is characterized by two closely linked but distinct trends: globalization and liberalization. The latter has become the standard of the new international economic order, following the Uruguay Round of agreements to be overseen by the World Trade Organization (WTO). While the very closely related trends of globalization and liberalization open vast possibilities for world growth and development, they are also fraught with risks of instability and marginalization for the weaker countries. Given their infrastructural deficiencies, their financial constraints and high dependency on primary commodities, African countries are expected to encounter particular difficulties in adapting to the emerging international economic environment. They should therefore formulate policies and take practical measures and initiatives that will enable them to: (i) reduce their dependence on commodity exports through diversification; (ii) achieve competitiveness in export production so as to be able to exploit the opportunities brought about by globalization and liberalization; and, (iii) create the domestic environment that will be conducive to structural change and sustained economic growth and development.

There is enormous potential in Africa to increase production of existing export commodities, diversify into new export products, and expand industrial processing of raw materials. While the Uruguay Round agreements will erode some of the existing preferences that African countries enjoy under the Lomé of the potentials for diversification, and the exploration of new export opportunities, provided that African countries can improve the competitiveness of their exports and create an enabling environment for private investment. In designing their diversification strategy, they also need to take into account that the key to the future is vertical diversification. While horizontal diversification into a wider variety of primary products may still have some contribution to make, there are a number of factors which will continue to affect the long-term potential viability of primary commodities as an investment option in economic diversification. First, a persistent slower growth rate in industrialized countries may translate into slackening demand and put a downward pressure on prices; second, many primary commodities of export interest to African countries face low income elasticities of demand, and increased supplies may not yield a corresponding increase in export earnings; thirdly, technological revolution has increased efficiency in the use of commodities in manufacturing processes, created man-made substitutes for many natural raw materials, and raised the proportion of value added in production attributable to a variety of services. All of this has had a dampening effect on the demand for primary commodities, and the trend is likely to continue.

The prospects for African countries to improve their competitive position in world trade and in the international financial markets, depends on their capacity to innovate in technology, organization and human resource development. In this respect, Africa has a long way to go being the least technologically advanced among developing regions, and lacking coherent national policies dealing specifically with science and technological capacity building.

B Successful Diversification in Other Developing Regions Point to Enormous African Possibilities

The stark contrast in diversification experience between Africa and the other developing regions is illustrated in Table III.1. While the share of primary commodities in total exports for East and South Asia had fallen by more than half from 69 and 53 per cent in 1970 to 26 and 27 per cent in 1992, respectively, the decline for sub-Saharan African is a mere 7 per cent. An even greater contrast is that while the Asian economies increased the real value of commodity exports as well as their market share, and at the same time reduced the share of commodities in total exports, the real value of commodities exported by sub-Saharan African countries as well as their market share declined markedly, although the dependence of the region on commodity export was not much reduced.

Statistics from UNCTAD data sources reveal that developing countries, particularly those belonging to the LDCs group, continued to be very dependent on primary commodities for their export earnings between 1979/81 and 1989/91, with only a few countries reducing their overall dependence on raw commodities and increasing the share of processed commodity exports. Overall, commodity dependence declined in South and South-East Asia, West Asia and Latin America, while it was relatively unchanged in Africa, the Caribbean and developing Oceania. Countries in North Africa and in South and South-East Asia were especially successful in reducing the share of unprocessed commodities in their exports. In West Asia, Latin America and the Caribbean, few countries have made some progress in this area.[23]

Colombia's dependence on coffee was reduced from more than half of export earnings in the 1960s and 1970s to as little as 20 per cent in 1990, in favour of other non-traditional exports (like gold, fuels, bananas, cotton/textiles, fruits, coal, flowers). This marked success in diversification was due to a number of factors, among which were: i) the existence of a relatively well developed private sector, having at its disposal a well trained labour force with many of the specific skills necessary for adapting to export-oriented activities; ii) a supportive macroeconomic environment from the mid-1980s onward, with government policies often decided in cooperation with the private

[23] UNCTAD, "Recent Developments in the Diversification of Developing Countries' Commodity Exports" - UNCTAD/COM/62. Geneva, July 1995.

Table III.1
Primary Commodities as Percentage of Exports

	1970		1992	
	ALL	RNR	ALL	RNR
EAST ASIA	69	(45)	26	(18)
SOUTH ASIA	53	(44)	27	(21)
LATIN AMERICA AND CARRIBBEAN	88	(45)	62	(30)
MIDDLE EAST AND NORTH AFRICA	92	(18)	90	(5)
SUB-SAHARAN AFRICA	83	(46)	76	(32)

Source : Commodity Markets : Options for Developing Countries-ODI Briefing Paper, No. 5, November 1995

Note : RNR = Renewable Natural Resources-Based Commodities.

sector; iii) a general framework of government support services that enabled private entrepreneurs to initiate new exports, and as well protected specific export sectors during the early 1980s against a poor macroeconomic environment; (iv) the willingness of the government to undertake specific activities to support new export sectors at critical moments; and, (v) access to foreign capital, technology and marketing know-how.[24]

Likewise, the composition of Malaysia's exports has changed dramatically since the 1970s. While three largely unprocessed primary commodities (rubber, tin and sawn logs) accounted for about 80 per cent of the country's export earnings in 1970, manufactures accounted for about half of the earnings during the early 1990s. Three main phases of the export diversification process can be identified: diversification into palm oil and textiles during the 1970s; into cocoa during the early 1980s; and then into rubber-based products, wearing apparel, furniture and electrical machinery since the mid-1980s. At the same time, other Asian countries, in particular the NICs, have become increasingly important as Malaysia's export destination.[25]

A successful pattern of diversification as practiced by other developing countries entails a two-pronged approach that is worth emulating by African countries. The process begins through horizontal diversification to broaden the base of the commodity sector (food and agricultural raw materials and minerals), followed by a shift into vertical diversification on the basis of an aggressive promotion of outward-oriented industrialization with emphasis on the processing of locally produced raw materials. In the process, the growth of commodity production acted as a stimulus to industry, with an efficient raw materials sector contributing to industrial expansion. A notable example of this strategy is Malaysia which relied on primary commodities for 90 per cent of export earnings in the 1960s, a proportion reduced to 30 per cent presently. In order to scale back its dependence on rubber and tin, the government of Malaysia, at first, promoted horizontal diversification, achieving phenomenal success in expanding cocoa and palm oil products. At the same time, the refining of palm oil was actively encouraged with dramatic results. While in 1975 all the palm oil exported was in crude form, by 1994 almost all was processed locally.[26]

[24] UNCTAD, "Analysis of National Experiences in Horizontal and Vertical Diversification, Including the possibilities for crop substitution: COLOMBIA", Geneva: UNCTAD/COM/30, April 1994.

[25] UNCTAD, "Analysis of National Experiences in Horizontal and Vertical Diversification, including the possibilities for Crop Substitution: MALAYSIA", Geneva: UNCTAD/COM/73, December 1995.

[26] ODI Briefing Paper, No.5, op. cit.

The export-oriented policies of some developing countries, in the form of tariff protection, trade restrictions, and subsidized interest rates, have contributed immensely to substantial and sustained increases in export earnings. Evidence suggest that the leading NICs had maintained their export momentum by rapid diversification, subsequent relocation of some activities to other production sites (in developing and, increasingly, in developed countries) and skillful exploitation of loopholes in the protective structures of their target markets. With re-exports from Hong Kong and Singapore, Taiwan is ranked as the World's 12th largest merchandise exporter in 1994. [27] The country is natural resource-poor but its phenomenal success during the recent decades in achieving sustained economic growth is underlined by investment-led growth strategies fuelled by a combination of government savings and foreign savings and a well coordinated selective intervention backed by a range of incentives for exporters. Industrial progress has also been spurred by a highly educated and dynamic workforce, nurtured by a "supportive" policy environment as well as strong partnership with the private sector, guided by an accepted overriding principle of putting the national interest at the centre of development management.

Government interventions in East Asian economies were designed to counteract a number of factors that typically limit the capacity and willingness of individual firms to undertake long-term investment and to modernize their methods of production and organization. The interventions were directed at accelerating the pace of growth, changing the composition of industry through rapid capital accumulation, and promoting greater dynamism and efficiency of the industrialization processes. They sought to make profitable sectors and activities which would not have been attractive to investors in a completely laissez-faire regime, but which in time could be nurtured to withstand international competition. The experience provides, in a sense, a classic illustration of the infant industry argument, where industries are successfully nurtured and protected until they grow out of infancy.

The above illustrations provide indications as to some of the advantages that African countries have in designing and implementing a successful economic diversification programme with industrialization at its core, and how they can usefully draw on the experience of some of the world's most successful economies - Japan, Republic of Korea and Taiwan - which have shown that, even in regimes dominated by private enterprise, government intervention can be very effective in spurring industrial growth and development. The success of the "visible hand" of government in those economies illustrates the effectiveness of partnership between public and private sectors in circumstances where accelerating capital accumulation, industrialization, technological transformation, and diversification of exports and growth, are essential elements of a conscious and deliberate economic policy, based on a broad national consensus. To achieve these objectives, the governments of these countries, within the agreed policy framework, shaped and guided the market in order to ensure that individual firms and entrepreneurs acted not only in their own immediate self-interest but also in harmony with the longer-term interests of society and the economy at large.

C. Experience Suggests that Africa's Future Trade Strategy Should Rely More on Increased Competitiveness than on Special Trade Preferences

In the past two decades, a large proportion of Africa's trade with the EU has been covered by preferential arrangements under the Lomé convention. Products of interest to Africa covered

[27] Financial Times, March 26, 1996.

by such arrangements include bananas, cocoa, coffee, fisheries, cut flowers and other wood products not included in EU Common Agricultural Policy(CAP). The majority of African countries have benefitted little from such preferences and have seen their share of EU imports of these products decline steadily in the past two decades.[28] African countries have also had the least success in exporting processed commodities to the European Union (EU) despite tariff preferences for a wide range of such products, although some like Cote d'Ivoire and Senegal, have succeeded in increasing processed exports for canned tuna, while Cameroon, Congo, Cote d'Ivoire and Ghana have expanded their exports of processed wood. On the whole, other developing regions which did not enjoy such preferences have done much better than African countries in the EU market, and have been able to increase their share of EU imports of those products in which they compete with African countries.

The special preferences enjoyed by African countries in the EU market have now been largely eroded by the Uruguay Round Agreement, and in future these countries would have to face the full glare of foreign competition in the world market. Furthermore, the future of the Lomé Convention itself, after the expiration of the present Convention in the year 2000, is at present under debate. With special, non-reciprocal preferences now falling out of favour, it is being increasingly suggested that future relations between Africa and Europe should be based on massive European assistance for Africa's effort to diversify its economies, increase the productivity and competitiveness of domestic industries, and expand its exports of semi-manufactures and manufactures. It has also been suggested that, in the area of market access, the possibility should still be explored, in spite of the Uruguay Round agreement, of providing some preferential treatment to African countries, for instance, by the removal of non-tariff measures affecting some of their principal exports. Forthcoming discussions in the ACP-EU forum and within the WTO should clarify such possibility. What appears certain is that special treatments, some of them provided for by the Uruguay Round agreement itself, cannot be more than palliative and transient. They should not obscure what should be the fundamental thrust of Africa's response to the changing world environment: integrated effort for massive improvements in physical infrastructure and human resources to promote the diversification of African economies and to improve the competitiveness of exports.

[28] Peter Harold- "The Impact of the Uruguay Round on Africa"- World Bank Discussion Paper Series, No. 311; op. cit.

IV
FUTURE PERSPECTIVES ON ECONOMIC DIVERSIFICATION IN AFRICA

In discussing future perspectives on economic diversification in Africa, it is important to bear in mind the broad objectives to be achieved, namely sustainable economic growth and development underlined by price stability and external viability. Because of the predominant role played by primary commodities in African economies, particularly as the main source of foreign exchange earnings, economic development in the region will depend crucially on the productive use of these earnings for the diversification process in the medium term.

Although the preceding discussions on diversification have focused mainly on exports, the underlying strategy, as already pointed out, envisages the totality of the economy. In the African setting, there must be a special focus on food self-sufficiency and the development of resource-based import competing goods at the initial stage. Exports are not the end or the final target of economic diversification but as one means to achieving the goals of economic activity, namely, the continuous improvement in the standard of living of the people.

A To Exploit Africa's Great Potential for Diversification Calls for New Strategies

Africa enjoys an extensive potential for horizontal and vertical diversification, deriving from its rich agricultural and mineral endowments, which provides it with vast possibilities for resource-based industrialization. What has been conspicuously missing is the capacity to exploit these potentials.

The potentials in agriculture are enormous and, if fully utilized, are capable of emancipating the region from perennial food shortages and embarrassing dependance on food aid, as well as providing the region with an easy access to horizontal and, more importantly, vertical diversification at an early stage.

The region has 800 million hectares of land suitable for agriculture, with sufficient rainfall for a growing period of 180-270 days. Presently, only 238 million hectares of land is in crop production. FAO has identified four agro-ecological areas: arid/semi-arid; dry sub-humid; moist sub-humid and humid. In view of the differences in ecological characteristics of these zones, there are specific crops with the best production potential in each climatic/soil zone. For example: millet in low rainfall areas; groundnut in good rainfall areas and rice in naturally flooded areas.

But, there are problems that require concentrated ecological management and investment in R & D over a long period under well-constructed and well-funded programmes. Firstly, tropical soils are fragile and easily eroded, and *the loss of the top-soil often reduces crop yields considerably*. The traditional technology of shifting-cultivation which allowed for a sufficiently long fallow to give time for the regeneration of the soil's physical condition and fertility when land was plentiful, is no longer sustainable. Secondly, Africa's tropical rainstorms do not necessarily make plentiful water available for agriculture and other uses, and drought and aridity is a recurrent problem. It is estimated that some 4200 billion cubic metres of river water and ground water return to the sea each year. As a result, the region has one of the lowest water supply rates of any continent, and shows an average deficit of more than 1100 mm a year. While two-thirds of the world's irrigated land is in Asia, only 13 per cent is to be found in Africa. Thirdly, pests and diseases have been decisive factors in human settlements and agricultural activity. Fourthly, the agricultural extension system is unreliable and undeveloped in most African countries. What is needed is a strategic approach that combines basic research with solution-oriented technological development.

Africa is hardly making any progress in conventional plant breeding and more so it is losing its comparative advantage and competitive edge in traditional export crops such as cocoa, oil palm, and cassava to other regions. Until recently, 80 percent of world production of pyrethrum was undertaken in Kenya, and much of the rest was cultivated in Tanzania, Rwanda, etc. The situation is now completely changed as Asia has taken the lead by leapfrogging the conventional breeding cycle of seven years and adopting tissue-culture techniques. African countries lack the facilities and do not have the know-how to undertake tissue culture or genetic engineering. Biotechnology is mostly undertaken in developed countries. Many techniques that are prevalent and common in other developing countries are at an early stage of development, and the application of those currently available is constrained by the limited local research facilities, a dependence on public funds, and patent difficulties. However, if Africa is to keep pace with such a development as illustrated by the case of pyrethrum, it would have to make considerable R&D investment in biotechnology-based methods and processes.

With regards to livestock, the most promising areas for increasing production of food of animal origin are: the expansion of crop-livestock-farming in the sub-humid zone and adjacent wetter portions of the semi-arid zone; increased productivity in the highland zone through greater use of technology and inputs; and, the expansion of intensive commercial poultry and pig production systems. Also, the fishery sub-sector is very vital to Africa both as a source of protein supply and as a foreign exchange earner.

The potential for further development of trade in forest products is particularly high as regards semi-manufactures in wood products. Production of sawnwood in Africa is just 13.2 per cent of world production. An average of 90 per cent of wood output is consumed as fuel, while the balance constitutes industrial round wood, of which a limited amount of wood is processed for paper production. In spite of the vast forest resources, Africa's regional market for paper products is forecast to experience a deficit of 5 million tons of paper by the year 2000. The region has the raw material base to fill this gap but what is lacking is the necessary investment.

The development of wood-based processing industries would therefore be an important example of resource-based vertical diversification strategy, contributing to employment creation and foreign exchange earnings. Because of the small size of individual national markets and the enormous investment necessary for a viable plant in this sector, a pragmatic approach would be to promote multinational ventures within the framework of regional or subregional economic groupings. This should involve cooperation in the exchange of know-how and in the provision of training facilities for the required skilled personnel.

Africa has large deposits of a wide range of minerals such as copper, bauxite, lead, zinc, nickel and uranium, gold and diamonds, etc. But, the mining sector remains highly under-invested and as such, most of the mineral wealth of the region remains untapped. According to a survey of 137 mining companies carried out in 1993, the percentage of exploration expenditure made in Africa (excluding South Africa), amounted to less than 4 per cent of world-wide investments in this sector. The factors responsible for this situation have been identified as: state ownership and control to exploit these natural resources but without the ability to mobilize the resources necessary for commercial-scale mining development; a weak domestic private sector that is incapable, financially and otherwise, of undertaking mining operations on any significant scale; and most importantly, political instability which breeds lack of confidence, and prevents investors from committing the huge investment resources required in large scale mining operations.[29]

With the decline in mining exploration in the traditional mining areas of Latin America, Australia and Canada, Africa has begun to attract mining companies in search of new minerals and mining opportunities. It is estimated that, if political stability in African countries can be sustained by the current wave of democratization, foreign direct investment in exploration, which rose to about 4 to 5 per cent in 1995, should double in the years ahead.[30] In addition to political and macroeconomic stability, African governments are required to develop a coherent legislative framework, a stable and reasonable tax system, and a competitive incentive structure in order to attract the quantum of FDI, and the associated technologies and marketing expertise, needed for long-term development of the mining sector.

Africa has immense energy resources which it can harness and exploit to serve the needs of its economic diversification strategies. The region's reserves of energy resources are estimated as follows: coal: 311.1 billion tons; oil: 57.8 billion barrels; natural gas: 189,423 billion cubic feet; uranium: 1.35 million tons; thorium: 26,000 tons; and hydropower: 200,000 MW. Potentials also exist in other areas, such as geothermal, solar, wind, oil shales and tar sands and biogas. The exploitation of these potentials, especially through sub-regional and regional cooperation, could minimize the foreign exchange burden of energy imports as well as lessen the environmental damage caused by massive deforestation to meet the energy requirements of the rural and urban poor.

A recent study by the World Bank [31] provides a good picture of Africa's export capabilities in the textile and clothing industry. The study argues that there is a significant niche in the US market for Afro-centric products including standardized garments, a market estimated to be at least US$200 million per year. It maintains that producers of standardized garment in Africa have become competitive with their Asian rivals, as reflected in production costs which compare favourably with those of production centres in India. The study suggests that foreign investors, trading companies and buyers -- all of which have proven to be important catalyst for development in Asia and Latin America -- have a larger role to play in Africa than previously thought.

However, the study also finds that African suppliers are not yet able to meet the rigorous demands of foreign buyers in terms of quality and have experienced problems in packaging and coordinating input supplies. Furthermore, citing the example of the export success of the Associated Merchandise Corporation (AMC) in Kenya, the study suggests that this has depended crucially on the intermediary role of a public enterprise, the Kenya External Trade Authority (KETA), in providing basic support functions. This demonstrates the need for a strong commitment by governments to promote and help build the supply capacities and competitiveness of African export-oriented enterprises in international markets.

B An Enabling Domestic Environment is a Fundamental Requirement for Progress with Diversification

Inappropriate domestic policy framework, undeveloped infrastructure, poor product quality,

[29] A special report on "Mining in Africa" - West Africa Magazine, 26 February-3 March, 1996.

[30] Ibid.

[31] World Bank, " A Continent in Transition: Sub-Saharan Africa in the Mid-1990s" - African Region, The World Bank, November, 1995.

unfavourable climate for foreign investment, and low levels of technology, managerial capability and entrepreneurial skills, impair the development of processed commodity exports even where trade preferences are substantial. Economic diversification will succeed only to the extent the domestic economy diversifies and expands. This implies that Africa's diversification programme will require a favourable macroeconomic policy and an institutional framework that creates an enabling environment for expansion, productivity growth and competitiveness.

A stable macroeconomic environment is, therefore, a fundamental prerequisite for a successful drive for economic diversification in Africa and for promoting high rates of investment and strong productivity growth. Such objectives will be served by low and predictable inflation; stable and sustainable fiscal balances; predictable taxation policies; low but positive real interest rates; a competitive and relatively stable real exchange rate, and a fairly stable external current account balance that allows enterprises to plan foreign transactions with little fear of foreign exchange losses. In this connection, it is worth noting that the fast-growing East Asian economies have generally maintained low inflation rates and, for the most part, avoided balance of payments crisis.

However, the evidence shows that the nature and urgency, timing and speed of policy reform, have not been the same everywhere and that the implementation of SAPs have been marked by mid-course corrections or even, some policy reversals. Measures to promote private sector initiatives, curb excessive regulation and control, particularly price controls, promote efficient allocation of resources, and liberalize exchange rates, are essential for a successful economic diversification programme. Such measures should reduce capital flight, which has contributed to macroeconomic instability and reduced investment in African economies.

Two broad approaches which have featured in the policy framework for economic diversification need to be critically reviewed. These are: "liberalization", which requires a reduction of government intervention (privatization, elimination of subsidies, etc.) and the "neutrality" approach that offers to give more equal incentives to export activity as compared to domestic sales, without necessarily reducing government intervention [32].

It has been argued that policies that promote rapid import liberalization have had the effect of introducing competitive conditions prior to effective restructuring of domestic industry, leading in some cases to a process of disinvestment and de-industrialization. It has also been pointed out that the high emphasis placed on the expansion of traditional commodity exports, achieved mainly through currency devaluations, price controls, and reforms of marketing parastatal, has often been self-defeating. Even where it had led to sharp increases in the region's production and export of such commodities, this had often been offset by sharp falls in prices of those commodities. It is contended that instead of emphasizing the expansion of traditional exports, trade and commercial policy should encourage the development of non-traditional exports in which the region has, or may be able to develop a comparative advantage.[33]

Given the weakness of African economies, especially in the industrial sector, it would appear that the "neutrality" policy approach would encourage a more economical use of available resources and their growth over time. To buttress

[32] Sanjaya Lall(1993)- "Trade Policies for Development: A policy prescription for Africa" -Development Policy Review; Vol. 11(1993); 47-65; Overseas Development Institute.

[33] Henock Kifle and T.W. Oshikoya(1993)- "Towards new development strategies for Africa in the 1990s: Key lessons from the past and policy options for the future"; OAU/ECA/ADB Seminar on the South Commission Report; Addis Ababa, 15-16 September, 1993.

this argument, one only needs to point to the less than optimal selection of industries for investment in the earlier years of the diversification process. Some industrial projects were launched that were intrinsically uneconomic, while others that could have been competitive were not given sufficient capability and institutional support.[34]

The neutrality approach accepts that different industries may need different levels of assistance (defined broadly) in order to offset varying costs of learning, and that externalities, complementarities and other industry-specific factors call for selective promotion and protection to achieve the same objective. The experiences of the larger Newly Industrializing Countries (NICs), shows that neutrality policy combined with high levels of intervention could be the key to rapid growth of the industrial sector and export success. In Korea, for example, highly protected industries were induced to export by strong incentives, while given access to high levels of skills, technological and institutional support, a profitable line market and subsidized credit.[35]

In the context of the neutrality approach, potentially viable and competitive undertakings, should be revamped and refurbished, as opposed to wholesale dismembering and outright sales under liberalization, while providing them with incentives linked to export performance. The selection of new ventures must be on the basis of availability of local skills and technological capacities, reliable access to inputs and an infrastructure that will enhance competitiveness. Going by the experiences of the NICs in East Asia, they should be offered a variety of tax credit, flexibilities in granting import licenses and other incentives to offset the higher cost of domestic inputs and to absorb the cost of penetrating international markets.

Increasing Africa's capacity to implement its own development programmes, which invariably include broader economic diversification schemes, is one of the fundamental challenges facing the region. Meeting these challenges involves investments in human resource development and in capacities to strengthen the long-term competitiveness of African economies. A competitive agricultural sector has often served as a dynamic springboard for further commodity diversification. To support the sector, emphasis must be placed on rural infrastructure, especially farm-to-market roads, that will provide the incentives for small holder farmers who are the main producers of food crops, to contribute meaningfully to diversification schemes. This should include marketing infrastructure, such as centres for produce collection and distribution of farm inputs; and others such as storage and preservation facilities; small-scale irrigation and water distribution facilities; and electricity supplies and other support services.

The international economic environment shaped by the explosion of information technology and the production of high-tech knowledge-based products, makes it imperative for African countries to recognize the deficiencies in their technological capacities and how these have retarded the forging of vital links with the global economy. It is also important for them to appreciate that technology has now become more important than labour as a determinant of international competitiveness.

As regards diversification in the commodity sector, the promotion of exports should be rationalized instead of the current approach of generalized export promotion in order to counteract shrinking export markets due to changes in demand for raw materials and the use of synthetic substitutes. As has been pointed out, farmers are often reluctant to shift from a crop they know well into one which is new to them. To stimulate them to innovate, governments

[34] World Bank (1989); sub-Saharan Africa: From crisis to sustainable growth". Washington, D.C.

[35] F. Khiljil(1988), " Policy Alternatives for Commodity Exporters"- Economic Bulletin for Asia and the Pacific; Vol. XXXIX; No.1, 1988.

should, in addition to undertaking agricultural research, provide farming communities with rural infrastructure and extension services and ensure a regulatory framework which allows for a reliable supply of inputs and easy access to credits. These factors played a major role in South East Asia's success.

The increasing popularity in recent years of Export Processing Zones (EPZ), or in-bond facilities for wholly export-oriented activities, as an aid to vertical diversification, has been encouraged in part by the success of such zones in Mauritius and other developing countries. The Mauritius EPZ has attracted almost 600 enterprises providing upwards of over 80,000 jobs while exports from the zone represent on average over 60 percent of the country's export trade. In the past decade, EPZs have been set up in Senegal, Ghana, Zaire, Togo, Madagascar, Cameroon, Kenya, Nigeria, among others. They intend to attract in particular manufacturing industries, which are considered to be the dynamic force behind GDP growth and rapid export expansion.[36]

A good number of other countries have followed these examples and are now introducing relevant changes to the legal status of their EPZs in order to attract more investors. The current approach is the "delocalization" of the EPZs, based on the premise that the potential benefits of the zones can be maximized only if they are integrated with the economy as a whole. In Togo, Madagascar and Cameroon, this approach had led to the granting of "duty-free" status to export-oriented enterprises irrespective of their geographical location. In Mauritius, the whole country is designated as an EPZ. Another current feature is the emphasis on high value-added products involving more sophisticated technological processes. This is vital for African countries as a means of establishing a broad technological base and developing skills that are much in demand in the production of knowledge-intensive products.

EPZs rely primarily on private sector initiatives supported by appropriate institutions and incentives. The aim is to create a free market environment, provide a number of concessions, including substantial tax concessions, a flexible regulatory framework and minimum bureaucratic obligations. The expectation is that these measures will attract investors to take advantage of the opportunities offered within the zones, thereby contributing to industrial growth, employment and foreign exchange earnings.

In order to make maximum contribution to employment and provide other spread effects, EPZs must be structured to accommodate the development and promotion of small and medium scale enterprises as central elements of a broader industrial development strategy. The success of the zones in attracting export-oriented private investments, especially foreign direct investments, depends on the vigorous marketing of their benefits. This calls for investment promotion agencies in African countries to assess which particular needs can be efficiently met through target marketing. African countries also need to focus on countries or regions most likely to take advantage of the manufacturing facilities in the zones. In this connection, it may be worthwhile to target the NICs of East Asia, which are rapidly shifting their production of labour-intensive exports into other developing countries. The targeting of Asian investors by Mauritius and the results achieved therefrom is illustrative of the beneficial impact of such strategies.

Various forms of commodity exchange exist in a few African countries, such as the sophisticated commodity operations in South Africa and Zimbabwe, especially in the tobacco industry. These exchanges help to create awareness about international marketing conditions, and the bargaining skills developed among the farmers, manufacturers, merchants, traders and other agents participating in the

[36] UNCTAD, "Export Processing Zones and sub-Saharan Africa" -UNCTAD Bulletin, No.15, July/August, 1992.

operations tend to increase considerably with decades of cumulative experience. Such exchanges may also be helpful in the efforts to strengthen the negotiating capabilities of African countries in the international marketing of primary commodities.

Based on this experience, a strong case can be made for the establishment of national Commodity Exchange Markets in African countries. Such markets would provide information and exchange facilities through which producers and consumers can interact to promote efficient marketing and distribution of traded commodities. However, in view of the limited supply capacities of individual African countries, sub-regional or regional commodity exchange markets may be more viable. For such schemes, the first practical step would be to undertake comprehensive studies on the needs of the local commodity industries and to examine the different forms that a commodity exchange market might take. The possibilities range from an independent 'open out-cry' markets, and an electronic-based system, to the franchising of internationally traded contracts. To help the development and effective functioning of the commodity exchanges, countries belonging to a particular sub-regional arrangement will be encouraged to ensure that their national regulatory systems, taxation policies and foreign exchange regulations, are coherent and consistent. In this connection, studies to identify the main problems and issues in these areas will be necessary.

C Diversification Requires Active Government Support

Weak governance and over-bloated bureaucracies and limited administrative capacity are some of identified causes of poor economic performance and growing poverty in Africa. In particular, the process of extensive intervention and participation in the economy through establishment of public enterprises and the extensive use of regulatory powers have been cited as some of the principal vehicles through which the government stifled the emergence of a dynamic private sector. And this was in fact the basic objective behind the various SAP driven policy reforms initiation of the process of deregulating the economy and minimizing the role of governments.

More recently however, the World Bank has, in one of its studies, acknowledged the activist and salutary role of the governments of the East-Asian tigers in the miraculous achievements of accelerated growth, and elaborated on their extensive intervention as follows: "Policy intervention took many forms-targeted and subsidized credit to selected industries, low deposit and ceilings on borrowing rates to increase profits and retained earnings, protection of domestic industries, the establishment and support of government banks, public investment in applied research, firm and industry-specific export targets, development of export marketing institutions, and wide sharing of information between public and private sectors. Some industries were promoted while others were not".[37] If these interventionists policies and instruments that have resulted in a resounding success in East Asian countries are the same ones that have featured in the African development paradigm, albeit without comparable success, then the challenge lies not in their wholesale annulment or recreation for a more *laissez-faire* policy stance in Africa but in a fundamental reexamination of the reasons and causes of their failure. As Dani Rodrik argued recently, and quite persuasively, much more than the micro-economic distortions resulting from extensive and intensive interventions, it is macro-economic stability and intersectoral cohesiveness of

[37] World Bank, The East Asian Miracle(Oxford University Press for the World Bank, New York, 1993) p. 6. Despite this acknowledgement, the Bank surprisingly and contrary to othes, concludes that these and other interventions had limited effect.

policies that critically determine the outcome of a development strategy.[38]

With the structural rigidities in most African countries and extremely weak private sector and underdeveloped markets and technological backwardness, successful diversification is not likely to be realized without the active involvement of the state in the creation of the minimum critical mass and synergy, especially in the areas of human resources development, accelerated investment and absorptive capacity.

D Effective Implementation of Integration Programmes Will Assist Diversification and Encourage Inter-country Production Linkages

The creation of wider markets through regional and sub-regional economic integration remains a fundamental prerequisite for a viable economic diversification strategy in Africa, in order to make up for the small size of domestic markets. This would require and encourage the restructuring of national production systems to take advantage of complementarities in resource endowment and the exploitation of economies of scale.

The challenge of regional economic integration and cooperation lies in the capacity to design cooperation schemes with moderate administrative costs, whose benefits are equitably distributed such that they can be felt by the less developed partners. In designing such schemes, it would be necessary to undertake comprehensive studies identifying the kinds of products, actual and potential, that could enter into a network of regional trade among the members of the schemes. Such a study should be the basis for the adoption of policies on trade facilitation and the elaboration of investment strategies which would explore and encourage complementarities and interlinkages among the production units in the integrated areas.

The importance of regional and subregional economic integration for diversification was underlined in the programme for IDDA-1, when subregional integrated programmes were drawn up and adopted. The basic concept that was fundamental to the first Industrial Development Decade for Africa (1980-1990) was self-reliance and self-sustainment as elaborated in the Lagos Plan of Action (LPA). The major goals of IDDA were, therefore, to make the industrial sector fully contribute to the realization and achievement of collective self-reliance and self-sustainment. It meant in practical terms, the building up of capacities to produce goods and services competitively based on use of domestic resources, for the regional market with surpluses for overseas markets. This was to be achieved over time, through the development of indigenous industrial, entrepreneurial, and managerial capabilities. [39]

However, as it turned out, implementation of the programmes was stalled by the economic difficulties of the 1980s, as well as by lack of political and institutional coordination, and financial constraints. During that decade, the industrial sector as whole recorded small or negative growth rates in most African countries with the exception of a few countries in North Africa. Therefore, the subregional programmes were subsequently revised and included in the programme for the second IDDA, with the recommendation that, in each subregion, it should be supported by a number of important measures. As noted, "Paramount among such measures are the political will of the governments in each subregion and the democratization of political, social and economic activities in order to release

[38] Dani Rodrik, "Understanding Economic Policy Reform" Journal of Economic Literature vol. 34 No. 1 March 1996. See also his "Getting Interventions Right: How South Korea and Taiwan Grew Rich " Economic Policy, No. 20, April 1995.

[39] UNECA and UNIDO, The Second Industrial Development Decade for Africa (IDDA) (1991-2000), Document No. CAMI.1016/ vol. 2. p.3.

the potential of the populations concerned in a broad context of the subregion as a whole. The success of the subregional programmes for the second IDDA will also depend on the efficient utilization of existing regional development institutions such as the ECA and its specialized institutions, the African Development Bank (ADB) and the regional programmes of the United Nations agencies." It was also expected that the African Economic Community (AEC), given its mandate which included the creation of an appropriate environment for economic integration, would play a major role in facilitating the implementation of the subregional industrial programmes. The IDDA-2 programme also emphasized the importance of strengthening political will, enhancing the regional dimension of policy reforms, mobilizing financial resources, and utilizing the services and facilities of appropriate regional and international institutions.

e Large Scale Investment Needed for Diversification Calls for Greater Mobilization of Financial Resources

Most African countries are heavily dependent on official development finance (ODF), particularly bilateral ODA from the OECD countries. Net resource flows of ODA to Africa declined from US$25 billion in 1992 to US$21 billion in 1993 and US$23 billion in 1994. Sub-Saharan Africa is said to be the largest recipient of concessional flows, 36 per cent of the total flows compared to 16 per cent for Eastern Europe and Central Asia, 13 per cent each for South Asia, the Middle East and North Africa and 8 per cent for Latin America and the Caribbean.[40] But, effectiveness of development assistance is largely compromised by the burden of servicing Africa's huge external debt. Despite buoyant commodity exports by some countries, export growth has not kept pace with the growth of external debt. Estimated at US$322 billion in 1995(an increase of 4 per cent over the 1994 level of US$310 billion), it represents 70 per cent of the region's GDP and 250 per cent of the value of exports. In some of the highly indebted countries in sub-Saharan Africa which number 33 out of the 43 highly indebted poor countries (HIPCs), scheduled debt service payments could absorb as much as 90 per cent of government revenue (excluding grants). The implications of these trends on the credit standing of the debtor countries is obvious, since investors' decision regarding country credit-worthiness and the attractiveness of an economy for FDI are based to a large extent on an analysis of debt-servicing ratios, growth rates and other internal economic factors.

The tight resource situation underlines the need for the efficient utilization of available external financing for economic diversification programmes. In this connection, it can be said that efficient allocation and management of external resources for productive investments is a key factor in a successful diversification programme. African countries need to break away from the past practice of misallocating resources in unproductive investments, and develop strategic and well-focused investment programmes in the aid of diversification.

At the domestic level, an increase in the domestic savings rate and the efficient channeling of resources into productive investment are preconditions for economic diversification and sustained growth and development. However, the low savings potential and chronic shortage of domestic financial resources constitute a major constraint on investment in diversification. Most countries in the region have gross domestic savings below 10 per cent in 1988-1993, and some, like Burkina Faso, Central African Republic, Chad, Comoros, Equatorial Guinea, Guinea-Bissau, Lesotho, Mozambique, Tanzania and Uganda, had negative rates. For the region as a

[40] WORLD BANK NEWS, Vol. XV, No. 10, March 14, 1996.

V
CONCLUSIONS

The current situation of African economies shows that African countries are having serious difficulties in adapting to the prevailing changes in the international environment. These changes are altering the way the international economy operates and are demanding new approaches to the diversification and development of African economies. Given the structural rigidities of their economies and the long gestation period of new investments, a number of African countries will continue to depend in the foreseeable future on commodity exports as a major source of foreign exchange earnings. More investments will therefore be required and urgently to expand infrastructure, promote new strategies for economic diversification, and improve the productivity and competitiveness of African industries.

An assessment of the potential for economic diversification can be done on the basis of well-designed surveys of the available natural resources and the potential for diversification. New options for diversification can then be defined, and attention drawn to the physical and economic constraints that need to be alleviated or removed, in order to facilitate the diversification process. For example, island and land-locked countries may consider diversifying into products with relatively low volume/value ratio and with a modest demand for energy or imported inputs. This is on account of the geographical handicaps that increase production and other transaction costs which could adversely affect the competitiveness of enterprises in those areas.

While the present international economic environment, characterized by globalization and liberalization, offer new possibilities for expanding exports, only countries with adequate capacities to respond to these changes, will benefit. The great challenge facing African countries is to put themselves into this category, and join the rank of competitive exporters. To do so will require a broader and more effective approach to economic diversification. This will hinge on four basic elements: substantial improvement in physical infrastructure (the transport modes and communication facilities and services), human resource development that focuses on imparting scientific capabilities, notably engineering skills, and that includes the acquisition of appropriate technical skills and their adaptation to local conditions; an effective system for monitoring information world market developments, and the operation of specific markets; and institutional arrangements that will promote interaction between the public and private sectors on diversification policies and the conditions for a successful penetration of foreign markets. Additional to these basic elements, the aims of economic diversification can be furthered by the strengthening of financial institutions to promote effective mobilization of domestic resources and their efficient use in the diversification process.

Given the region's considerable mineral and agricultural resources, it is essential to develop and acquire the skills necessary for vertically and horizontally-integrated industries that will provide the impetus for more rapid industrial development and structural change. Therefore, the strategies and policies should focus on the enhancement of supply capacities and on measures to increase the range and competitiveness of exports, and to enable African economies to exploit the new opportunities arising from the increasing globalization and liberalization of world markets.

Practical measures and initiatives to create an enabling domestic environment for diversification, as already discussed, should be pursued vigorously both at the national, sub-regional and regional levels, in order to transform Africa's economic space on the basis of new policies and strategies, thereby reducing the dependence of African economies on primary commodity exports, and minimizing their vulnerability to unexpected changes in the international economic environment. At the national level, this will mean, among others, raising productivity in the agricultural sector substantially, so as to increase food production sufficiently to meet local needs and reduce reliance on food imports, while simultaneously expanding the production of cash crops; and formulating and pursuing horizontal and vertical diversification programmes with a view to widening the economic base and creating the intersectoral linkages needed for sustained economic growth and development.

Regional economic integration can help to rationalize the location of production units, encourage specialization in production, realize greater economies of scale, and enhance marketing and production efficiency in various economic activities. It can also reduce vulnerability to external shocks. Aside from the opportunity to realize economies of scale and to exploit complementarities in sub-regional economies, regional economic integration Africa in the coming decades will yield two major benefits: i) substantial cost savings resulting from coordinated investments in the region's physical infrastructure; and, ii) expansion of intra-regional trade, and intensified cross-border investments which will promote cross-border production complementarities and interlinkages.[45]

Since most agro-economic zones cut across one or more national boundaries, agricultural research and extension services which reflect regional rather than national dimensions will yield big potential gains for farming and diversification. A regional approach to agricultural research should focus on such areas as: disease control; development of disease-resistant and improved varieties of crops; conservation and land use planning, extension services, plant protection, etc. Additionally, collaborative efforts would be required for effective marketing, supported by the harmonization of national policies on transport.

An appropriate mix of liberalization measures and neutrality policy approaches, combined with selective promotion of strategic sectors, is vital if African countries are to pursue effective and successful diversification strategies. Faced with the conditionalities of structural adjustment programmes that require less government intervention in economic activities, the solution lies in clearly defining strategic options in areas where deliberate and targeted intervention is absolutely necessary in the context of national aspirations. As national entrepreneurs become more experienced and acquire the requisite knowledge and managerial and financial capability, it will be possible for governments to disengage from direct involvement in businesses operations, particularly where the private sector can assume effective control.

New means will have to be found to harness the capabilities of the private sector and, where necessary, in partnership with the government and bilateral and multilateral financing institutions, such as the IFC. However, the focus of government must be to keep in place a policy and institutional framework that will foster the diversification process. Governments must ensure a "supportive" policy environment for the development of a competitive and vibrant private sector that is capable of playing an effective role in meeting the challenges of economic diversification and committed to the strategies and policies defined

[45] S.M. Wangwe - "Economic Integration in Southern Africa: Towards Cost and Benefit Analysis for Tanzania" - Paper presented to the National seminar on Study of Economic Integration in Southern Africa, Dar-es-Salaam, 15-16 March, 1995.

whole, with the ratio of savings to GDP at 14 per cent, the World Bank's long-term perspective goal of achieving 18 per cent by the year 2000 remains a challenge for most countries in the region. [41]

In recognition of the difficult resource situation and the reality that the present prospects for economic transformation of African countries would depend on the commodity sector, the United Nations General Assembly decided in resolution A49/142 to establish the African Diversification Facility under the operations of the African Development Fund of the (ADB). The basic idea behind the special facility is to enable African countries to finance horizontal and vertical diversification programmes aimed at reducing their excessive dependence on the export of primary commodities. The expectation is that this will hasten the pace of African recovery and economic progress envisaged by the United Nations New Agenda for the Development of Africa in the 1990s (UN-NADAF). In establishing the facility, the General Assembly urged participants in the ADF to "consider urgently making an initial adequate special contribution to finance the preparatory phase of commodity diversification projects and programmes in African countries."[42].

The instability of commodity earnings is one of the major problems that seriously affects the financing capacity of African countries. International cooperation to reduce such instability through buffer stock interventions provided for in commodity agreements has collapsed, and arrangements to compensate producing countries for export earnings losses have either failed to achieve their objectives or proved unattractive. Moreover, the application of structural adjustment programmes had led to the dismantling of the instruments for government intervention in commodity markets, particularly marketing boards and stabilization funds, which did provide a measure of income stability to domestic producers. In this connection, the various compensatory financing schemes --IMF/CCFF, the EU/STABEX/SYSMIN -- need to be revitalized and provided with adequate resources and, the terms and conditions made more flexible in order to increase accessibility.

Experience shows that successful diversification, as concerns both the development of new commodity exports and the pre-export processing of traditional commodities, is to a large extent, correlated with the flows of FDI. FDI provides not only the capital but also the technology and, quite often, the market access required to make a diversification effort successful. Global private capital flows slowed in 1995, growing by 5 per cent compared to a three-fold increase between 1990 and 1993. This was primarily due to drop in portfolio flows from US$84 billion in 1993 to US$56 billion in 1995, driven by the sharp fall in equity flows from US$46 billion in 1993 to US$22 billion in 1995. [43]

Prospects for attracting FDI in Africa are clouded by political instability, uncertainties related to investment incentives and the regulatory framework, the small size of domestic markets and poor infrastructure. For a viable diversification programme, these impediments would have to be removed, since FDI flows are targeted mostly to the exploitation of natural resources. In this connection, African countries have recently made appropriate changes in national investment codes in order to liberalize inward FDI flows. The changes involve introduction of market liberalization measures,

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[41] World Bank, "A Continent in Transition: Sub-Saharan Africa in the Mid-1990s". African Region, The World Bank, November, 1995.

[42] See: FAO, "Horizontal Diversification of African Agricultural, Commodities" - Paper presented at the ECA sponsored Inter-Agency Workshop on Diversification, Yaounde, Cameroon, 13-17 February 1995.

[43] WORLD BANK NEWS, Volume XV, No. 10. March 14, 1996.

increased use of incentives and the removal of obstacles to the proper functioning of the regulatory framework under the management of one-stop investment centres.

Several forms of debt conversion measures and other mechanisms can be used by African countries to finance industrial development and other elements of their diversification programmes. These are: debt-equity swaps; venture capital companies and funds; country funds focused on national stock markets; industrial leasing; and built-operate-transfer (BOT) arrangements.[44] Some of these have been used by a few African countries, but much more can be done in this area. The promotion of these financing mechanisms was part of the policy packages of the NICs in South East Asia and the success of their industrial sector is a persuasive argument that these forms of financial mobilization deserve consideration by African countries, possibly with modification before adaptation.

Venture capital is important in the financing of small and medium-scale enterprises especially where they produce non-traditional products. If the main aim is to create employment and to deepen the industrialization process, industrial leasing provides an effective means of financing small-scale enterprises. Investments resulting from debt-equity swaps is often oriented to the export of non-traditional products, in particular manufactures, while country funds provide the means through which the "star performers" within the economy are identified and further promoted. BOT arrangements involve the private sector in the provision of infrastructure services, in the expectation that it would provide services of better value and at lower prices than government-supplied services.

In African countries that are promoting privatization, the private sector will be able to generate the necessary finance for diversification activities through appropriate credit systems. In the context of the African Diversification Facility, for example, African countries should establish national diversification funds financed with taxes on the main commodity exports, and the proceeds should be available to both the public and private sectors to be used in financing diversification projects. The World Bank, especially its affiliate the International Finance Corporation (IFC), the ADB and other financing institutions could make national diversification programmes effective by allocating more of their funding to such programmes, and to the development of relevant infrastructure and institutions that will encourage and facilitate investment in diversification projects.

[44] For a better appreciation of the application of these mechanisms, See: UNIDO, Industry and Development: GLOBAL REPORT, 1991/92, Vienna, 1991.

in the framework of national development. There must be a clearly defined role for key economic institutions, in particular a strong and development-oriented central bank that will determine and enforce the modus operandi of the financial sector, while at the same time requiring national development financing institutions and commercial banks to play a more visible role in the diversification process.

In general, economic diversification should be pursued by African countries on the basis of country-specific realities and the long-term comparative advantage that their natural resource base, human capital and other factors in the economy can offer. Over-concentration on horizontal diversification into commodities can be counter-productive when such products have low demand or price elasticities and face import barriers. The medium and long-term goals should be diversification into manufactures and services, which will promote the overall structural transformation of African economies.

Part Three

POLICY IMPERATIVES FOR AFRICA'S ECONOMIC AND SOCIAL TRANSFORMATION: TWO SPECIAL STUDIES

II
MOBILIZATION OF DOMESTIC RESOURCES

African governments are fully aware that effective mobilization of domestic resources is crucial for long-term sustained development. Mindful of the disappointing performance of their economies in the 1980s and anxious to make a success of the SAPs that many of them are now implementing, they have made mobilization of resources a central issue in the current vision and strategy of African development. With the expected decline in external resource inflows and with little or no prospects for any major improvements in accessing external savings, particularly in the form of ODA and non-debt creating foreign investment in the short and medium run, African countries need to redouble their efforts in increasing domestic resource mobilization to the maximum extent possible.

Given the critical importance of savings and investment for the growth of per capita income, it is evident that savings and investment ratios for sub-Saharan Africa (SSA) in particular have been too low to support sustainable expansion in income. ECA estimates indicate that average gross domestic saving and investment ratios of 24.8 per cent and 32.5 per cent between 1993-2005 for the whole of Africa would be required if the UN-NADAF growth target of 6 per cent is to be achieved by the year 2005. The estimate assumes that 60-75 per cent of the required gross domestic investment (GDI) will be financed from domestic resources.

Closely linked with the effort to mobilize financial resources is the need to ensure efficient management and judicious allocation of these resources. By reducing inefficiency, creating an environment conducive to the retention of savings within their individual countries, reversing capital flight and, above all, encouraging savings through appropriate policies and necessary institutional mechanisms for its intensive mobilization, African governments could place themselves in a situation in which they would be able to mobilize the necessary resources to finance the additional investment. The challenges of initiating and fostering a self-reliant and self-sustained socio-economic transformation will not be an easy task, and will not be realized, unless the present trends in savings can be substantially improved.

It has been estimated that with a substantial improvement in the efficiency of resource use and with an investment of US$45 billion additional to the already existing annual investment of US$115 billion in constant 1990 dollars, Africa can attain and maintain an annual growth rate of 8 per cent, which would enable a doubling of the per capita income over the next decade or, at most, a decade and half. Since the major, if not the entire additional investment, must be financed from domestic sources, a resource requirement of the magnitude indicated could only be mobilized by tapping into the unexploited domestic savings potential, and requires reforming and revitalizing institutional and incentive structure. The adoption of appropriate institutional reforms, sound and predictable macroeconomic policies and adequate incentives for the private sector, would not only make such mobilization of additional resources possible but also bring to an end and possibly reverse the enormous flow of resources out of Africa in the form of capital flight.

While efforts at increasing the volume of savings is the primary target of this study, it is recognized also that the attainment and maintenance of rate of economic growth that would make a difference is dependant on the quality and efficiency of resource use. Therefore along with the drive to enhance and optimize investible resources, African governments would need to ensure that the financial resources mobilized are channelled to those sectors and activities that promise the highest rates of economic and social returns.

The study has relied on quantitative data in appraising the performance and measuring future resource needs. But, the figures must be used cautiously, as measuring and estimating the trend of saving in Africa suffers from the very poor quality and availability of data. Given the limitation of direct measurements, saving is derived as a residual from gross investment and the current account deficit. Private saving is in turn obtained by deducting public saving from gross domestic saving. Thus, the data obtained may not accurately measure the volume of resources saved. Similarly, estimates of gross domestic investment have limitations in that they include data that are large enough to be captured by the annual surveys but may not necessarily cover the whole of investment carried out in the country, particularly in the vast rural areas. Consequently, the statistical information included here must be considered as merely indicative rather than a true measure of the saving effort of African countries. For this reason, it would be necessary in Africa to invest in the collection and organization of data to improve and upgrade the analytical processes and provide policy makers with correct and up-to-date information on savings and investment.

Savings Trends and Potentials for Mobilization

1. Saving trends in Africa has lagged behind development needs

The trend of gross domestic and national savings in Africa is presented in Table 1.1. The table shows that gross domestic savings declined from a high of 21 per cent in the 1975-79 period to 18 per cent during the latter half of the decade of the 1980s.

The decline was most pronounced for the West African countries, where the savings to GDP ratio fell by more than 30 per cent during 1986-90 relative to the average for 1975-79. Excluding Nigeria, which has enjoyed relatively high rates of saving compared with other countries in the region, the savings to GDP ratio declined from 14 per cent in 1975-79 to 12 per cent during the second half of the 1980s. In the CFA countries, gross domestic savings averaged 10 per cent during the latter half of the 1970s but fell to half this level during the 1986-90 period.

In Central Africa, the fall in the savings ratio was also pronounced, from a high of 23 per cent to 16 per cent, owing mainly to the poor performance in Gabon where the ratio declined from a high of 60 per cent in the 1976-79 period to 25 per cent in the second half of the 1980s, and in Zaire where it declined from 16 per cent to 8 per cent. The increase in the saving ratios in the Congo from 12 per cent to 20 per cent tempered the fall in the subregional gross domestic savings ratio. In Eastern and Southern Africa, gross domestic saving as a ratio of GDP experienced a declining trend similar to the regional trend. It declined from 17 per cent in the latter half of the 1970s to 12 per cent in the second half of the 1980s.

The poor region-wide performance masks the high savings rates of several individual countries as well as subregions. In North Africa, the savings to GDP ratio averaged 25 per cent for the entire period under consideration. In three countries of southern Africa: Botswana, Mauritius and Zimbabwe, gross domestic savings increased continuously. In some countries such as Kenya, South Africa and Algeria, the decline in the saving ratio was relatively small, averaging less than 10 per cent.

The generally low levels of gross domestic saving reflects and explains in part the poor performance of the region's economy during the decade of the 1980s. With population increasing at a rate faster than the growth of real GDP, it was inevitable for the share of consumption to increase and that of savings to fall.

To a large extent, the trend of gross national savings in African countries as a whole has followed that of the gross domestic savings. On the whole, average gross national savings declined continuously during the decade of the 1980s, from 19 per cent during 1975-79 to 13 per cent for the latter half of the 1980s. For sub-Saharan Africa, the comparable figures are 15 per cent and 8 per cent, respectively. There are, however, notable exceptions. In Eastern and Southern Africa, gross national savings declined from 11 per cent in the second half of the 1970s to 9.0 per cent during the first half of the 1980s and increased to 11 per cent in the 1986-90 period. The same held true for West Africa where the steep decline during the first half of the 1980s was reversed during the latter half of the decade.

The difference between gross domestic savings and gross national savings reflects the larger magnitude of the resource outflow from Africa compared to the inward flow. This may be largely the result of capital flight arising from political instability, inappropriate macro-economic policies and the generally inhospitable environment facing private economic operators. The large amount of resource outflow from Africa clearly points to the need to develop and implement imaginative policies not only to stem the tide but also to reverse the process.

2. Private savings has been more vigorous than government savings

As Table I.2 shows, private sector saving has contributed more to total savings than government savings. Government saving during the 1986-92 period was negative for four of the seven years. During these four years, government revenue was insufficient to cover current expenditure let alone finance public sector investment. The shortfall was severe in 1992 when the deficit on the current budget was 3.4 per cent of GDP. The overall deficit, including investment, ranged between 5.4 per cent and 9.3 per cent of GDP. The increase in government deficit resulted from increased recurrent expenditure, rather than increased investment. Public investment during the years under consideration declined from a high of 7.2 per cent of GDP in 1986 to 5.9 per cent of GDP in 1992.

Private sector savings in SSA averaged 15 per cent of GDP between 1986 and 1992 and exceeded the volume of private investment. However, compared to other developing countries, both the level of savings and investment in SSA are considerably low, and has thus contributed to the low level of growth. For example, private sector saving in East Asian countries averaged 28 per cent of GDP during the 1986-93 period. The low level of saving in African countries underlines the need for

Table I.1
Trends in Gross Domestic Savings (% of GDP)

NORTH AFRICA	1975-79	1980-85	1986-90
NORTH AFRICA	24.7 (25.9)	27.3 (27.1)	22.1 (20.4)
WEST AFRICA	18.1 (5.3)	12.3 (1.2)	9.4 (3.9)
EASTERN & SOUTHERN AFRICA	16.8 (11.3)	14.5 (0.4)	11.8 (10.7)
CENTRAL AFRICA	23.2 (14.4)	22.6 (21.6)	16.0 (11.6)
SUB-SAHARA AFRICA (SSA)	18.9 (15.4)	13.4 (9.8)	12.7 (7.7)
SSA EXCLUDING NIGERIA	14.2 (10.0)	12.9 (8.3)	12.1 (7.4)
SOUTH AFRICA	32.3 (27.17)	30.3 (25.8)	27.3 (23.0)
AFRICA	20.7 (18.5)	18.2 (15.6)	17.5 (13.3)

SOURCE : COMPUTED FROM WORLD BANK COUNTRY DATA.

appropriate policies to increase the volume of saving as well as its mobilization in order to sustain a higher level of investment.

Determinants of Domestic Savings

1. Determinants of savings in African societies are complex but income is the most dominant

A useful discussion on the mobilization of domestic resources should be concerned initially with the identification and review of the principal determinants of domestic savings. This will help to focus attention on the areas of public policy that require to be emphasized.

Over the past two decades, a substantial body of literature has developed on the determinants of savings in Africa and the impact of various government policies on its levels. But such are the complexities of the savings behaviour that available studies often reflect wide disagreements about the determinants and measurement of savings. Because savings involve not only economic variables, but also social, demographic and cultural factors, its determinants in any society are complex. King (1971) drew attention to this complexity, noting that "Perhaps no other characteristic of an economy is at the same time so important, so elusive of precise measurement and so difficult to explain as the private savings rate". In African countries, where private savings account for the overwhelming proportion of national savings, this statement is valid equally for national savings.

An exhaustive discussion of the determinants of savings should, therefore, cover a wide range of factors: the level of income, income distribution, interest rates, and such other factors as liquidity constraints, availability of savings instruments, confidence in the financial system, inflation, insurance schemes, work patterns and cultural considerations. An example of the influence of the cultural factor is found in the impact of the extended family. In African societies, an assessment of the effect of income on saving must contend with the sharing of personal income among the members of the family, which does not encourage substantial household savings, considering the fact that not all members of the family are income earners. The need to support a chain of dependents

Table I.2
Government and Private sector savings in sub-Saharan Africa (% of GDP)

	1986	1987	1988	1989	1990	1991	1992
GOVERNMENT SECTOR							
SAVINGS	1.1	-0.2	-0.7	0.7	0.1	-0.4	-3.4
GROSS INVESTMENT	7.2	7.0	6.6	6.1	5.9	6.3	5.9
NET FINANCIAL BALANCE	-6.1	-7.2	-7.3	-5.4	-5.8	-6.7	-9.3
PRIVATE SECTOR							
SAVINGS	12.9	15.8	15.7	14.9	16.4	15.5	16.9
GROSS INVESTMENT	10.3	11.5	13.0	12.7	12.7	11.5	11.0
NET FINANCIAL BALANCE	2.6	4.3	2.7	2.2	3.7	4.0	5.9
TOTAL ECONOMY							
NATIONAL SAVINGS	14.0	15.6	15.0	15.6	16.5	15.1	13.5
GROSS INVESTMENT	17.5	18.5	19.6	18.8	18.6	17.8	16.9
NET FINANCIAL BALANCE	-3.5	-2.9	-4.6	-3.2	-2.1	-2.7	-3.4
FOREIGN GRANTS	1.1	1.2	1.3	1.5	1.3	1.3	1.4
NET NATIONAL BALANCE (INCLUDING GRANTS)	-2.4	-1.7	-3.3	-1.7	-0.8	-1.4	2.0
GROWTH RATE OF GDP	1.4	1.2	4.0	3.3	1.2	1.1	-0.7

SOURCE : WORLD BANK AND IMF.

reduces the savings rate and often generates dissavings in many households.

a. The effect of income on savings

Despite the dearth of empirical research on the relationship between savings and income in African countries, the few studies that have been done have found a very strong direct relationship between the income and saving.[1] Moreover,studies at both the regional and country levels also show that a strong savings habit exists among the population independently of the large number of explanatory variables usually included in the statistical analysis.

Differences in savings behaviour at different levels of income have been viewed and exploited as a major means by which tax policy might affect income distribution and therefore the level of savings. Individuals at subsistence and low income levels could save little, if at all, while those at higher points on the income scale tend to save more. Because the marginal propensity to save tends to rise with rising levels of income, it has been argued that regressive tax policies, i.e., those that shift the tax burden from individuals with high incomes to those with low and middle incomes, would increase the level of saving and contribute to the level of investment and growth.[2] On the other hand, studies have found that income transfers to those with very low incomes and liquidity constrained members of the society does contribute to higher savings by increasing the profit of private producers by broading the market base but also indirectly through its impact on political stability and increased productivity.[3]

b. The effect of the rate of interest on saving

The effect of the rate of interest on saving has always been controversial, and empirical evidence regarding the impact of interest rates on real saving in Africa is rather mixed. In some countries, financial liberalization resulted in high nominal interest rates, while attempts to ensure that these translate into positive real interest rates were often defeated by surging inflationary pressures. In other cases, it was found that interest rates have no effect on total saving other than changing the portfolio of savers. Likewise, interest rates seem to play a less important role in mobilizing and channelling savings in the large non-monetized sector of African economies.

While some studies have argued that there is little or no response of saving to interest

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1 Umo's (1981) study of 19 African countries for the period 1960-74 finds that (1) the marginal propensity to save obtained from the linear function was positively significant and below unity for most countries in his sample, (b) the savings function exhibited a non-linear behavior implying that the rate at which savings increases is faster than the rate of increase in income (Ostry and Reinhart, 1995), and that the elasticities exceeded unity implying that the marginal propensity was greater than the average propensity. Two recent studies confirmed these findings of Umo. Hadjimichael et al (1995) regressed domestic savings as a ratio of GDP for 31 countries on a number of variables including lagged growth rate of real GDP and real per capita income. The estimated coefficients of the growth rate of real GDP were all significant at the 1 per cent level. In the case of per capita, the estimates were all significant at 10 per cent level. In addition, the MPS obtained in the study were less than unity. Hadjimichael and Ghura (1995), using pulled data from 31 CFA and non-CFA countries in sub-Saharan Africa for the period of 1986-92, found that the estimates for both the growth rate of GDP and per capita income were significant at the 5 per cent level.

The studies relating savings and income at country level substantiate the aggregate findings. For example, Mwega et al (1990), using OLS and two stage least squares, regressed savings ratio on per capita income as well as on the rate of GDP growth and obtained results that were significant at the 5 per cent level. Soyibo and Adekanye (1992) carried out similar study for Nigeria and obtained results that were significant at the 1 per cent level.

2 As reported in Break (1974), Musgrave found in 1963 that substituting an equal-yield general sales tax for the federal individual income tax would increase personal saving by 13 per cent. Goode (1976) estimated that a similar change for 1960-61 would increase personal salving by 6 per cent, and Break's estimate for 1960 was a 10.5 per cent increase.

3 See for example Donald J. Hanis, Capital Accumulation and Income Distribution (Routledge & Kegan Paul, London) 1978, and Ragnar Lindgren, On Capital Formation and Effects of Capital Income Taxation (Stockholm School of Economics) 1985.

rates,[4] others, such as the influential works of Mckinnon (1973) and Shaw (1973) support the positive role of interest rate on saving; that is, that an increase in real rates of interest in developing countries should encourage saving and increase the supply of available credit to domestic investors, thereby contributing to economic growth. This point of view has been a rationale for the financial liberalization process in many developing countries, supported by the international financial institutions over the years. Shoven (1984), after reviewing the evidence, concluded that the interest elasticity of saving has been recognized as "one of the most important behavioural parameters affecting the economy", noting further that "despite disagreements among researchers, the centre of the debate has moved toward higher estimates for this elasticity".

The impact of other factors may be important. The availability of consumer credit is often mentioned as a factor contributing to low saving in the United States, while lack of consumer credit or the large down payment required on homes have been used to explain the high rates of saving in Japan.

Saving and consumption behaviour in developing countries, especially in low-income countries, are more likely to respond to income than to changes in interest rates. Some of the principal explanations, among a number of others, are: subsistence level of consumption ; large proportion of necessity consumption in people's budget ; high degree of liquidity constraints ; and imperfect nature of capital markets. For example, there is little evidence that the generally high interest rates in the informal sector influence saving or spending. First, consumption in low-income countries may be more related to satisfying subsistence needs than to other considerations. Hence the rate of interest may have little effect on the decision to consume or save. A large share of necessities in the budgets of relatively poor households is likely to have the same effect. Second, in developing countries, direct government regulation or lack of sophistication and depth in domestic financial markets may result in nominal interest rates that do not adequately reflect expectations about the underlying economic fundamentals. Finally, the presence of a pervasive liquidity constraint in low-income developing countries implies that consumption growth in those countries is more likely to follow income growth than changes in expected rates of return.

In addition to economic fundamentals, savings in African have been blighted by political instability, civil unrest, natural disasters and other factors. These destabilizing forces not only dislocate the economy but also create the "push" factor to capital flight.

The conclusion of the survey of factors determining savings therefore point to the need to create a stable and credible policy framework and political infrastructure as an all-important prerequisite. Among the critical economic variables, income stands out as the most important determinant, given the poorly developed level of financial intermediation.

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4 Evans (1983), Friend and Hasbrouck (1983), Hendershott and Peek (1985), and Baum (1988) do not support the interest rate sensitivity of saving, arguing that there is little or no response of saving to interest rates. Giovannini (1983), focusing on Asian countries, also found insignificant and often negative effects of real interest rates on savings. Another study by the same author (1985) finds that in only 5 out of the 18 developing countries in his sample are consumption and saving sensitive to changes in the real interest rate. He thus concludes that there are "negligible responses of aggregate saving to the rate of real interest in developing countries". Fry (1985) also argued that although his previous findings of positive correlation were statistically significant, their magnitudes were not large enough to warrant much policy significance. Rossi (1988) also finds that increases in the real rate of return are not likely to elicit substantial increases in savings, especially in low-income developing countries. Dornbusch and Reynoso (1989) do not support the positive correlation between the two variables, even for developed economies, by stating that "evidence from the US and other industrialized countries supports skepticism in that virtually no study has demonstrated a discernable effect of interest rate on savings".

C Financial Institutions and Domestic Resource Mobilization

1. Appropriate financial institutions and financial intermediation improve the environment for resource mobilization

Accelerated economic growth, credible and sustained macro-economic policies are critical in the strategy to improve the environment for better resource mobilization. Aside from these, however, empirical evidence suggests that there is a positive relationship between the quality of financial services and the geographical spread of financial facilities, on the one hand, and the volume of resources mobilized, on the other. The modernization and diffusion of financial institutions to capture savings, particularly those that escaped the resource mobilization net, as well as the creation of a domestic financial and capital market should, therefore, be an essential part of the overall strategy for the mobilization of domestic resources. Initially this would encompass a secondary market for government securities, then expanded to allow private sector companies to issue their own debentures, and finally leading to the emergence of an equity market that can be used for privatization and for the private sector to raise new capital. The capital market will thus serve several useful purposes. Among others, it will provide a valuable channel for mobilizing savings, a mechanism for investors to raise financial resources, and a channel for attracting foreign investment into the country.

Financial institutions provide payment services, mobilize savings and allocate credit and risk capital. These diverse services are used in varying combinations by households, business, and governments, and are rendered through an array of instruments and institutions. The ultimate function of financial institutions is to increase the financial resources available to the economy and to encourage a more efficient utilization of those resources.

In many African countries, the limitation of the financial sector in mobilizing and efficiently allocating domestic savings to the most profitable investment channels is a major issue in their domestic resource mobilization efforts. Most countries except South Africa, Mauritius and, to some extent, Egypt, are in the primary stage of financial intermediation, characterized by the absence of diversified financial instruments. In many of these countries, the dominant institutions are the commercial banks which have tenuous connections with the rural areas and are, therefore, unable to mobilize the savings of a vast majority of the population.

The capability of financial intermediaries to mobilize savings can be assessed in several ways. The ratio of deposits to broad money determines the financial depth or shallowness of the banking system ; the ratio of deposits to GDP shows the stage of development of the financial institutions ; the ratio of financial assets to GDP is a reflection of the real capacity of the banking sector to grow, while the index of bank density illustrates the extent that banks are involved in financial intermediation. The level of real interest rates has also been used to assess optimality of the financial institutions, while the concept of elasticity of demand for money with respect to the rate of inflation has been used to measure the degree of financial repression in the economy.

An analysis of the financial depth, as measured by the ratio of money to GDP (M_2 GDP), for thirteen least developed African countries between 1970 and 1985, indicates the very limited role of money, the existence of a large non-monetized sector and the virtual absence of corporate securities [Adera (1990)]. All these point to the rudimentary stage of the banking system in these countries. The real lending capacity of the banking system in Africa and its capacity for financial intermediation has remained low compared with other regions of the world.

It may be concluded from the above that the role and capability of financial institutions in mobilizing savings are limited by their relatively shallow operations in the sense that they are able to relate only to a small fraction of economic activity and financial transactions. They are not spread adequately throughout the economy, particularly the rural areas where the bulk of the population live and work. Where they are able to operate, the levels of their operations are well below optimum capacity.

2. Formal financial institutions are the dominant contributors to institutional savings

Financial institutions in Africa and their role in the mobilization and allocation of resources could be further examined by dividing them into their three components of formal, informal and semi-formal.

The formal financial system comprises banking and non-bank financial intermediaries: the central bank, a number of commercial banks, various specialist development banks, and non-bank financial intermediaries, such as insurance companies, housing finance institutions, post office savings banks, leasing companies and securities market.

The **commercial banks** usually account for more than 50 per cent of the assets of the banking system and are also the dominant contributors to institutional savings. Their share of institutional savings in Nigeria, for example, was 71 per cent in 1994. Nigeria is in fact one of the few African countries with diversified financial institutions, consisting of a large number of commercial banks and merchant banks, community banks, mortgage institutions and the Nigerian Deposit Insurance Corporation. Although the number of commercial banks in Nigeria is fairly large, only a few of them account for the largest share of deposits. Such a high degree of concentration reduces competition and reduces the banking sector into an oligopolistic structure.

At the time of independence in the 1960s, commercial banks in the African countries were privately but mainly foreign owned. But the 1970s were marked by the growth of government-owned banks. By the end of that decade, many African governments held directly or indirectly a majority interest in a number of domestic banking institutions. The predominance of governments as shareholders in such institutions was part of the policy of expanding the public sector in order to facilitate government intervention in the economy. However, by early 1990s, the dominance of government in the banking sector had started to decline, evidenced by the spate of privatization and commercialization of state-owned banks.

Commercial banks in African countries are usually located in urban centres and concentrate on funding large farming enterprises, consumer-based industries and the foreign trade sector. As a result, the banking needs of small farmers and indigenous small- scale enterprises are not adequately catered for, although they usually possess a large share of the deposit resources on which bank credit is based. For example, in Kenya, commercial banks generally transfer a large proportion of funds from rural to urban areas, depriving small-scale agriculture, a critical sector for sustained development, of vital credit. The opportunity to lend to large, credit-worthy clients in urban centres leaves them with little or no incentive to tackle the much harder job of providing credit to small farmers. In cases where banks have expanded to rural and less formal sectors, they usually complain of higher costs than could be justified by revenues, and lack of commercially viable and bankable projects.

An ADB special study has analyzed the growth of assets and liabilities of commercial banks for the CFA, Non-CFA and ECOWAS countries for the period 1980-1992 (ADB, 1994). The result of the study indicates that, in CFA countries, deposit liabilities declined for many years, due to lack of confidence in the banking system, negative real interest rates, high inflation and capital flight. In non-CFA, ECOWAS countries, however, there was a steady growth of deposits throughout the 1980s, most significantly in Nigeria and Ghana, correspondingly with the growth of branch network of the commercial banks and the establishment of many new banks.

With respect to credit creation, there was a marked growth in CFA countries in the first half of the 1980s, followed by a marked decline in the second half of the decade. This was partly the result of a slowdown in these economies towards the end of the 1980s and, in some countries, partly the result of implementing structural adjustment programmes. In non-CFA, ECOWAS countries, the experience was more mixed, although in the two major economies of Nigeria and Ghana, credit growth also slowed. In the PTA countries, there was hardly any difference, on average, between the two periods, although the experience varied from country to country. Credit growth of over 10-20 per cent per annum suggests a healthy demand for credit in the vast majority of countries. Its impact on economic development, however, depends on the sectors to which it is allocated, and on the productivity of investment in those sectors.

On the whole and because of their parochial concentration and narrow market base, commercial bank operations suffer from domestic- and internationally-sourced business cycles. In many of the African countries, the impetus and tempo of economic activity is generated by external trade, particularly exports. This has tremendous impact on the capacity and well being of commercial banks as well as making their operations pro-cyclical, and amplifying economic instability. When the export sector is vibrant, their capacity to extend credit also expands, and vice versa.

Development Finance Institutions (DFIs) are special banks established to fill the gap in the supply of long-term investible funds to enterprises and projects that the commercial banks are unable or unwilling to accommodate. In many African countries, their mandates were also broadened to include the promotion of priority sectors. They cater mainly to manufacturing industry, private and state-owned large-scale agricultural undertakings and have not yet had an appreciable impact on small-scale enterprises and small-holder agriculture. Their domestic resource mobilization record is very poor since they specialize in the allocation and not the sourcing of financial resources. They obtain their funds mostly from the government and donors. While the purpose for which DFI's were created remained sound, their operations have been less than optimal mainly because they have not been endowed with the necessary autonomy required for their activities. Because of inordinate government interference, their investment and credit were directed mostly to projects that were not financially and economically viable. Because of the non-performing nature of their loans, many of these institutions were forced into bankruptcy and/or restructuring. DFIs' narrow specialization made it difficult to diversify their risks. Finally, frequent government intervention in their operations has undermined the soundness of their portfolios. As a result, DFIs in a number of African countries were liquidated in 1980s. The DFIs in Côte d'Ivoire and Benin were liquidated at the end of the 1980s. In Niger and Togo, the DFIs' specializing in agriculture were liquidated, respectively, in 1988 and 1990. In other countries,the DFIs were reformed and mandated to mobilize their own resources. In Ghana, the DFIs are now providing commercial banking services. In Ethiopia, Uganda, Togo and Mali they are currently being restructured. In Kenya, the DFIs accounted for about 10 per cent of the total assets of the financial system in 1987 and are being restructured to make them viable.

Housing Finance: In contrast with Latin America where housing finance is a widespread financial service, housing finance is relatively underdeveloped in SSA. In certain countries like Benin, Burkina Faso, Madagascar, Mali, Niger, Togo, no particular system has been created and housing finance is provided mainly by commercial banks. In SSA Anglophone countries there were initially well-developed networks of building societies. But because of the structures of their assets and liabilities, few of these survived the financial repression of the 1970s and the macro-financial instability of the 1980s. Those that survived did so by expanding into short-term financial intermediation.

The system in some African countries, for example Kenya and Uganda, is based on collection of deposits from private pensions and institutions. They require potential borrowers to accumulate their savings first in order to qualify for a loan. The system in Ghana on the other hand is financed by the National Pension Funds. This system appear to be well balanced, with loans backed by funds of similar duration. In a number of African countries the viability of housing finance was assured by a careful selection of customers, mainly from the middle class, and by a careful debt management programme.

The key problem for developing housing finance institutions in African countries is to design a mechanism that allows for and supports a high degree of maturity transformation in an unstable macro-financial environment. With the expanded demand for housing that comes with increasing urbanization, housing finance, if it is well managed, could offer a large scope for greater mobilization of savings.

Contractual Savings Institutions, such as life insurance companies, funded pension schemes, and national provident funds, have generally predictable liabilities. They are potentially good sources of finance for investment in corporate bonds and equities. In developed countries, these institutions are the main suppliers of long-term finance. But in SSA, there have been three major impediments to the development of such institutions. First, macro-economic instability combined with financial repression has discouraged long-term savings. Second, the pre-emptive use of the funds by governments has affected public confidence in the institutions. Third, price controls imposed by governments on many financial products of insurance companies have constrained their operations. Finally, the development of contractual saving institutions has been stifled by the lack of an appropriate legal, regulatory, and prudential framework.

Postal saving institutions, or post office savings banks as they are known in many countries, are among the oldest forms of financial institutions in Africa and the most widespread. They are however the slowest to modernize, and their close links with the postal systems have imparted to them a number of financial and accounting rigidities that have not contributed to their development. Their activities in the urban areas are therefore rather minimal although they remain strong in the rural areas where their nearness to the depositors is their greatest asset.

Post office savings banks in many SSA countries are distressed and are subjected to frequent restructuring. The bureaucratic procedures adopted by post office savings banks often frustrate savers. In particular, the requirement of an advance notice for the withdrawal of savings is a major source of inconvenience to savers. In some instances, depositors are unable to withdraw their deposits because of the problem of personal identification. For withdrawals exceeding specified amounts, depositors may have to wait for weeks until the head office has given its approval or the branch office has accumulated sufficient cash to honour its obligations.

Securities market: The SSA has the least developed capital markets compared to other developing regions. Not more than nine countries have established stock exchanges, while a few are just in the process of doing so.

In countries with a stock exchange, the number and size of participating firms is very low, capitalization is often less than five per cent of GDP and the turnover is low, averaging less than one per cent. This is far below the figures in the stock exchanges in the emerging markets of South and South-East Asia. In no SSA country has capitalization increased markedly during the past six years.[5]

[5] International Finance Corporation, Emerging Stock Markets 1987-93 (IFC, Washington D.C., 1994).

The main factors behind the weak development of capital markets in SSA countries include, on the one hand, weak and unclear legal and regulatory framework and the predominance of banks as the major source of finance, and on the other, reluctance of owners to go public. African governments have generally shied from encouraging the development of domestic capital markets. Government instruments of debt, such as bonds and treasury bills, favour and target banks and non-bank financial institutions to the exclusion of the private sector. They have remained sole owners of public enterprises and, where these have been privatized, they have preferred to dispose of them through lump-sum valuations rather than through the issuing of stocks. Neither have they encouraged the development of the market by providing clear legal and institutional framework.

Even in countries where the stock market has been in existence for a long time, the number of firms and capitalization has remained static, reflecting the stagnation in the economy and the traditional reliance of the private business sector.

The general conclusion on stock exchanges in Africa therefore is that they have not been able to make a significant impact on the mobilization of saving, and that the potential for their growth is rather limited in the present business and economic environment in many African countries.

3. <u>Financial sector reforms must aim to put formal financial institutions on a sound footing</u>

For many African countries, the decade of the 1980s was marked by an unprecedented banking crisis, characterized, among others, by lack of public confidence and large portfolio of non-performing loans. There was inadequate capitalization, episodes of runs on deposits, a large number of technically insolvent or failed banks and persistent liquidity problems. There were growing defaults in general in meeting depositor/creditor obligations. In Nigeria for example, out of the 118 licensed banks as at the first quarter of 1994, 40 were in distress.

The causes of the distress in the formal financial system in African countries are many and varied. With reference to non-CFA ECOWAS countries, the following are some of the weaknesses and constraints responsible for their underdevelopment: dependency on government policies; inadequate banking supervision; urban bias of most financial institutions;bulk of monetary circulation in coins and bank notes (and not in cheques); short-term maturity structure of commercial and merchant banks' lending; limited range of financial instruments (usually issued by government); underdevelopment of money and financial markets; serious problems in bank's solvency; absence of adequate accounting standards; direct credit to so called preferred areas; doubtful and disputable collaterals used to secure loans; and, forgeries and frauds affecting quite a number of banks.

A number of studies on the financial system in Africa also point to structural problems arising from the low level of economic development, particularly in the SSA countries. Absence of an enabling environment for private sector development, financial repression, and persistent government interference, impeded the development of the financial markets and related institutions.

In order to solve these problems most African governments have embarked on financial sector reforms aimed to achieve three major objectives: stabilization, adjustment and development. Specific contents of the reforms include the following: gradual deregulation of interest rates; achieving positive real interest rates; greater reliance on indirect monetary policy instruments, particularly auctioning of treasury bills; greater autonomy for central banks; management of non-performing assets; increased competition within the financial system; bank restructuring; development of human capital in the financial system; and, improvement of the information base of the financial system.

The financial sector reforms carried out by African countries, have not always achieved however all the desired results, given the poor policy environment, including lack of political commitment by governments, prevalence of an unstable macro-economic environment, inappropriate interest rate levels, lack of flexibility and inappropriate sequencing in implementing financial liberalization, and inadequate human and institutional capacity. Financial reforms in most countries stopped short of achieving the desired highly deepened financial markets. In contrast, financial reforms in East Asia were able to move progressively from stabilization to adjustment, and from adjustment to fully developed and deepened financial markets. Box III.9 illustrates the lessons that can be drawn from the successes of East Asian countries from financial sector reform.

4. Informal and semi-formal financial institutions continue to fill a vital gap in the financial system

The **informal and semi-formal financial sector** refers to all financial transactions taking place outside the formal banking and financial system. It is generally believed that the informal financial sector in African countries is large, even though it is difficult to provide quantitative evidence to measure its actual size.

There is a wide variety of arrangements in the **informal financial sector**, rooted in customs and traditions, some dating back for centuries, but constantly evolving in response to changing economic and social conditions. The sector is characterized by a high degree of spontaneity and flexibility, with demand creating its own supply. The major participants are money lenders,

Box III.9

FACTORS CONTRIBUTING TO THE SUCCESS OF FINANCIAL SECTOR REFORM IN EAST ASIAN COUNTRIES

- Appropriate macro-economic policies including low budget deficits, favourable exchange rate, high tariff, low interest rate and stable price ;
- The adaptation of the legal, regulatory and prudential framework to the evolving financial system and continuous improvement of the supervision of financial institutions as an ongoing process ;
- Great importance attached to institution building from the commencement of the financial sector reforms, in the appreciation that institution building takes time to yield results, but provides essential support to the financial reform effort.
- Deepening and diversification of financial markets, after the stabilization phase was successfully completed and the adjustment phase was well advanced. Macro-economic stability contributed to the emergence of medium and long-term markets;
- East Asian economies relied on selective credit control as a deliberate policy over time as a means of securing resources to finance the budget or transfer resources to selected economic sectors. In latter years, financial repression was used in selected periods, usually after an external shock, to transfer resources to aid ailing industrial borrowers or the banking system. Financial repression was used only moderately and was undertaken in an environment of macro-economic stability and not in response to rapid inflation. The spread between deposit and lending rates was also regulated to ensure that low rates paid to depositors were passed on to borrowers. *The effective interest rate subsidy from households to firms increases the corporate profitability of investment by reducing borrowing costs* ;
- When directing credit to priority sectors, East Asian countries applied stringent standards in the selection and implementation of projects. This helped to increase loan repayment rates and ensured the overall success of directed credit. In Korea for example repayment rates have been in excess of 98 per cent.

Source: World Bank "The East Asian Miracle: Economic Growth and Public Policy" A World Bank Policy Research Report.

merchants, loan brokers, savings groups and friends and relatives.

One form of informal finance widely in use is the rotating savings and credit association (ROSCA). These associations are found world-wide under many names and provide saving-based credit. Their popularity among low and middle income groups demonstrates the propensity to save of these groups. A typical ROSCA, whose members know each other, is established by an organizer who oversees meetings. Members contribute a mutually acceptable amount of money to a fund that is then available to them on a rotating basis.

In Ghana, ROSCAs - or "Susus" as they are called, have evolved into larger scale credit and saving facilities. Money collectors visit markets daily to accept deposits, no matter how small. Informal credit in Ghana is four to five times larger than formal credit.

In Ethiopia, a non-institutional form of group controlled pooled capital known as "Equb" brings savings and credit facilities down to the very poorest segments of the population. The net savings in "Equb" was 44.5 per cent of total household savings deposited in commercial bank of Ethiopia at the end of July 1986. In Cameroon the informal financial sector (Tontines) is estimated to account for about 75 per cent of rural financial assets and obligations. In Zimbabwe and Zambia 87 and 43 per cent, respectively, of farmers' credit needs are met by informal sources.

Informal finance offers many advantages. The informal or indigenous agents know their clients better than formal banks do, which reduces their information costs. Their administrative and staff overhead is lower ; their interest rates are not regulated so they can adjust to market forces. Their rates are astronomically high, however, since informal markets handle high risk loans and require a high premium to cover payment default. But despite their popularity and potential, most forms of informal finance have their limitations too, especially in terms of economies of scope and scale, maturity transformation, spacial transfer of savings, predominance of cash transaction, maturity spectrum of instruments and shallowness of intermediation. For these reasons, it has been suggested that so long as poor people rely mainly on informal markets, they will for that long also remain outside the economic mainstream.

Semi-formal financial institutions include a variety of arrangements, often involving groups of persons as members of an organization. These are usually outside the purview of the formal monetary and banking authorities, but are sometimes licensed and supervised by other government agencies. They include cooperatives and credit unions, NGOs that provide financial services to the poor outside the formal financial sector, and rural banks.

Cooperative banks, which were intended to spearhead a process of rural transformation, have not been entirely successful. Not only are credit cooperatives fundamentally weak in both financial strength and economic impact, they have tended to reinforce existing social structures or even aggravate class divisions rather than serve as a vehicle of equitable change. In a large number of African countries, the financial position of credit cooperatives has considerably deteriorated in recent years, due to bad management, lack of trained staff, and a large number of non-performing loans, particularly as a result of economic crisis.

A large number of the NGOs involved in financing activities in a large number of African countries see savings and credit schemes as a means of promoting micro income generating activities both in rural and urban settings. However, such schemes have generally achieved very little, because they have also been similarly plagued by the failure to follow sound banking and business practices and lack of a professional financial staff.

Rural banks in African countries have made some contributions to improvement of access of small farmers to credit, but, on the whole, their performance has not been as satisfactory as was expected. In Ghana an evaluation of the rural banking scheme showed that negative real interest rates and staff costs were strongly associated with poor debt collection and decline in the growth rates of deposits and loans.

5. Future reform should aim at strengthening both the formal and informal financial sectors and at expanding the linkages between them

Any attempt at deepening and broading financial mobilization must target the vast majority of the people, more so the rural milieu that have for long remained outside the network of formal institutions. For this purpose it would be necessary to strengthen, promote and modernize self-help informal financial intermediaries. As a way of extending and intensifying financial intermediation, policy should aim to encourage linkages between the formal and informal financial institutions. This will be to the advantage of both sets of institutions. For example, due to their wide regional outreach, cooperative societies acting as financial intermediaries may assist the banks to effectively extend their services to the rural population at low costs. Informal societies also have a number of small entrepreneurs who are already accustomed to financial activities. With training and institutional support, these grassroots-based entrepreneurs could bridge the gap between the modern financial institutions and the community. This linkage is important in that the savings collected from the rural areas can be re-channelled finance loans to barriers within the communities from which they were mobilized, thus reversing the present dominant flow of cash from rural to urban areas.

Developing the **formal financial markets** requires a strong financial infrastructure (see Box III.10) that will foster financial institutions dealing in short and long-term assets and liabilities as well as equity financing.

Intensive and extensive mobilization of financialized savings depends on strong financial infrastructure, the most salient elements of which include the following:

a. *A strong and autonomous central bank working largely through a vibrant money market*

Because of the very strong link between monetary and fiscal policy in Africa, the former has been nothing but an extension of the latter. However, a prerequisite for savings mobilization is macro-economic and price stability. In the interest of creating an environment for sound monetary management, a key condition is a large degree of de jure and defacto autonomy of the central bank vis-a-vis the Ministry of Finance and other government agencies.

An autonomous central bank charged with the task and responsibility of managing the nations monetary and financial resources would be able to create the necessary instruments as well as nurture and maintain an environment conducive to their efficient mobilization and allocation. The development of short- to medium-term financial markets could transform monetary

Box III.10

CHARACTERISTICS OF A STRONG FINANCIAL STRUCTURE

In the field of financial intermediation, a strong infrastructure is characterized by (i) an appropriate legal, regulatory and prudential framework which is consistent and flexible in the face of deeply changing macro-financial environment (ii) financial strength in terms of solvency and liquidity of individual institutions (iii) diversity of financial institutions and instruments (iv) existence of an adequate amount of financial information (v) availability of relevant technologies and human skills.

management from direct controls to indirect methods and instruments.

b. Well diversified financial instruments and institutions will cater for a variety of needs and circumstances

The indirect methods and instruments of monetary management implies the emergence and proliferation of short- and long-term financial instruments such as bankers acceptance, Certificate of Deposits (CDs), bills, bonds and other securities, notably equities. Commercial bills and banker's acceptance based on co-operative or"mutualistic" guarantees are very important instruments for establishing a linkage between informal, semi-formal and formal financial institutions.

This should involve reforming all aspects of the operations of the formal financial system, and decisive actions to restructure distressed financial institutions. The strengthening of these institutions should enable them to deliver more and better financial services efficiently, and to contribute to closing the gap between the demand for and supply of financial services, particularly for the large majority of the population in rural areas. In this regard, commercial banks should pursue aggressive branch expansion policy to reach remote areas by experimenting with non-traditional lending techniques. They need to develop innovative methods to reach micro-enterprise operators both in urban and rural areas, and to devise ways and means by which they will link up with informal financial institutions.

Non-bank financial intermediaries (NBFIs) provide special services and therefore deserve to be promoted and strengthened with a view to enhancing competition; diversifying financial services; developing the money and capital markets; and promoting local entrepreneurship. NBFIs not only compete with banks in common areas of service provision but also specialize in areas in which banks are less efficient or only marginally involved. As a result, in addition to competing with banks, they widen the range of financial services and instruments available. NBFIs contribute to the development of money and capital markets by introducing new financial instruments. Since NBFIs seldom offer retail deposit services and instead issue CDs, bills and bonds of different maturities as they try to match maturities to their assets and liabilities. By this process, they introduce new financial instruments and contribute to the development of money and capital markets. NBFIs also require substantially lower start-up capital than banks, and their operations necessitate a narrower range of financial skills and experience, at least at the beginning. Because of these characteristics, they offer greater opportunities for domestic financial entrepreneurship. The types of NBFIs that could greatly contribute to the expansion and diversification of financial services in Africa according to a World Bank study are: leasing finance houses, consumer credit houses and brokerage offices. Leasing is an attractive financial vehicle for encouraging domestic investment. However an adequate legal and accounting framework needs to be designed to allow leasing companies to be established and operate within a conducive environment. The enacting of specific leasing laws and regulations is usually the first best solution. Leasing companies usually seek to match assets and liabilities maturities. This means that they ideally need medium-term liabilities which they should incur in the form of medium-term bonds. But given the infant stage of financial markets in Africa, particularly in SSA countries, this may be difficult.

Consumer credit houses generally provide retail credit to small entrepreneurs, artisans, farmers, and individuals and finance their operations on the money and bond markets by issuing CDs, notes, bills, and bonds. They deal with customers deemed marginal by banks because of the relatively high costs of obtaining information pertaining to them and of dealing with them.

Brokers mainly intermediate between buyers and sellers of financial services. They deal in CDs, notes, commercial papers, bills, bonds and stocks; perform private placements, run small investment funds, and sell insurance contracts. Through these activities, they usually contribute significantly to the development of money and capital markets and the diversification of financial instruments.

c. *Improved legal and regulatory framework*

This will require reform of the judicial system, contractual laws and the enforcement apparatus. Without essential legal framework, there would be no scope for raising the level of domestic savings, making financial intermediation more efficient and financial markets deepened. A large number of African countries have taken the first step in this direction, but more must be done in this area.

Strengthening of prudential regulations and supervision of financial institutions are necessary in order to ensure the adequate functioning of financial intermediation, protect property rights, maintain confidence in the financial system and minimize social losses caused by non respect for contractual obligations, laws and regulations.

d. *Promotion of securities and capital markets*

A strategy for the development of security markets in Africa should be two pronged: First, it should aim at developing money markets and associated market functions and skills. It should then foster the transfer of some of the functions and skills to the budding securities and capital markets. Second, it should gradually promote the setting up of institutions that would lead to the establishment and expansion of securities and capital markets.

Developing strong and viable capital markets requires a systematic and integrated approach, with particular emphasis on the need to develop, strengthen and improve all aspects of the financial sector. Financial markets tend to be sensitive not only to the legal, regulatory, and tax framework existing in the host countries, but also to the macro-economic and sector policies, growth prospects and the political environment. An adaptable regulatory and supervision framework which provides balance between market freedom and investor protection is essential for the development of well functioning and efficient capital markets.

The key elements of an effective capital market can, therefore, be summarized as follows: an appropriate legal framework which spells out the rights and obligations of lenders and borrowers; a regulatory framework which delineates norms and rules of conduct for operators in the market; an efficient banking system, which facilitates transactions in the capital market; an adequate infrastructure supportive of the capital market, particularly efficient non-bank financial intermediaries (trust companies, brokerage firms etc) and reliable communication net work; and an enabling environment in the nature of appropriate macro-economic policies adopted by the authorities.

e. *A clear strategy for developing the informal and semi-formal financial system*

While the advantages of an informal financial system and its complementarity with the formal financial institutions are readily conceded, there is no clear perception of what constitutes a viable public policy in this area, except for the removal of identifiable legal constraints. Obviously, it is neither necessary nor desirable to subject the informal system to strict regulations, as this may seriously undermine the very rationale for its existence. To the extent that regulations are desirable, these should be designed in such a way as to encourage the expansion of the informal units, and to innovate mechanisms and means for their modernization with the intention of developing them into grass-roots based formal financial institutions. Other measures should aim to create linkages between the informal and formal financial sectors, among others, by (i) providing training and technical assistance to upgrade the activities of the informal institutions, (ii) facilitating their borrowing from commercial banks on the collateral of self-help group funds deposited with the banks, and (iii) generally ensuring that deposits in the formal financial system by informal financial institutions are reciprocated by a reverse flow of resources from the former to the latter for on-lending. The central bank can contribute to an expanding linkage between the formal and informal financial sectors by introducing refinancing schemes to encourage more effective mobilization and utilization of the latter's financial resources, and to promote contributions by the formal financial sector to the share capital of the mutual aid associations until such time that these associations become self sustaining.

Semi-formal financial institutions perform useful functions, and provide an important link between the informal and formal sectors. For example, user-owned financial cooperatives tend to have more democratic decision making, are sensitive to the needs of their customers, provide the most basic financial services and hence a broad-based market with low transaction costs. Such institutions should therefore be encouraged by such as the measures the following:

(i) establishment of a network of user-owned savings and loan associations or cooperatives for financing small-scale private farming operations, support processing and marketing activities;

(ii) ensuring that user-owned savings and loan associations or cooperatives are grassroots institutions based on voluntary membership, self organized and self-managed; providing such basic financial services as taking deposits and operate money transfers, and provide credit; abide by simple, standardized by-laws; become eventually financially viable; while using peer guarantees or repayment or alternative forms of collateral, to motivate repayment.

(iii) encouraging a range of micro-financing institutions (both traditional and non-traditional) that can provide responsive services to the poor majority in rural areas in a profitable and sustainable manner. Such institutions should focus on low income clients, specially those who lack access to formal financial institutions. They should give quick, simple, and convenient access to small, short-term loans, using peer guarantees or repayment incentives and alternative forms of collateral to motivate repayment. They should offer saving mobilization services;

(iv) encouraging the establishment of community based banks owned by local investors, with the support of the government and donors. An example is the Grameen Bank in Bangladesh which provides credit and organizational help to the poor, who are otherwise excluded from the formal credit system for lack of material collateral. These banks promote socio-economic development by making the poor individually and socially accountable.

(v) encouraging partnership of community banks and financial cooperatives with the commercial banks. Since community banks and user-owned savings and loan associations will generally mobilize more savings than they can lend, these institutions need to be assisted to put the cash management of their funds on a sound basis. Accordingly, these institutions should develop a relationship with commercial banks and insurance companies for placement facilities. The relationship with commercial banks should include placing excess savings, providing short-term liquidity facilities and providing syndicated lending for loans too large or complex for community banks or financial cooperatives to process.

(vi) streamlining legislation and supervision and adapting them to the needs and operations of semi-formal institutions. It is also necessary to have simple but separate codes of law for cooperatives, credit unions, micro-financing institutions and rural banks with specific provisions for adequate capital, reserves and proper audit.

(vii) coordinating the activities of NGOs which undertake financial activities, to avoid unnecessary duplication and to ensure that these activities promote national monetary and financial policies.

Future Perspectives: Towards an Efficient System of Resource Mobilization and Investment

1. Policies should concentrate on promoting private savings habits, revitalizing private investment and avoiding capital flight

An increase in domestic financial resources for financing sustainable economic growth and development is ultimately the responsibility of national governments. Through their fiscal and monetary policies, and in many other ways, they can provide incentives for households and the private sector to make significant contributions to the flow of national savings. In this regard, fiscal policy should ensure that government deficit relative to GDP is at a reasonable level, and the use of central bank credit to finance it is kept at a minimal level. In this way monetary policy could play a crucial role in promoting financial discipline, so that inflation will be low and predictable, exchange rate realistic, and real interest rates positive and sustainable. All this should create an environment of macroeconomic stability, which would send the correct signals to the private sector about the direction of economic policy and the credibility of the commitment of government authorities to manage the economy efficiently.

Fiscal policy should also aim at increasing the productive capacity of the economy by rehabilitating and expanding physical and social infrastructure, and by strengthening economic incentives and promoting private savings and investment through appropriate taxation policies. In this connection, governments can achieve credibility and show greater commitment to private sector development, by undertaking a number of measures designed to minimize the constraints inhibiting private investment and to reduce resource wastage and reverse capital flight. Measures to foster and maintain conducive environment include:

- macroeconomic policies fostering growth and stability;
- legislation and policy reforms to facilitate the establishment and protection of property rights;
- the provision of appropriate and efficient infrastructure. Investment in health and education is vital, in particular for the development of a healthy labour force with the technical skills required for the advanced technologies necessary for increased competitiveness of African industries. Improvement in infrastructure will also facilitate investment by the private sector and reduce the cost of doing business;
- rational, legal and regulatory policies that balance legitimate controls and regulations with concerns of the private sector for predictable rules, efficiency, and simplicity;
- efficient and up-to-date information systems for disseminating information about markets, enterprises and government policies; and
- improved institutional environment to encourage and support private sector initiatives. In this area the government needs to have sophisticated managerial skills to supervise and regulate economic activities, administer justice and provide essential services that cannot be provided

by the private sector. The efficient working of free markets requires institutions and laws that facilitate and guarantee the free exchange of assets, and strengthen public confidence in financial and capital market institutions. Finally, there is need to strengthen public agencies that provide services for the private sector. Such institutions, as the Chamber of Commerce the export credit and guarantee agencies, and the statistical information services, also need to be assisted to work more efficiently in support of private investors.

2. Mobilization of savings by the State should be a major policy objective

Financial resource mobilization is largely influenced by the monetary and fiscal systems and institutions operating in a country. Governments could play an important role in mobilizing domestic financial resources for economic development either indirectly by providing fiscal and monetary incentives for private savings, or directly through surpluses in their own recurrent budgets.

a. Upgrading tax administration

On the revenue side, in many African countries, the tax structure has a narrow base. Taxes on imports, sales and excise taxes on a limited range of consumer items, such as tobacco, petroleum products and beverages provide the bulk of tax revenues of most African countries. Since many African countries have been forced to restrict imports in recent years on account of unfavourable terms of trade and other factors affecting their foreign exchange earnings, the base for import taxes has correspondingly narrowed. Revenue from import taxes are further aggravated by the drastic reduction of the marginal rate. Therefore, any policy to expand revenue in the state budget will inevitably call for upgrading tax administration, expanding the tax base and introducing new taxes.

Many countries in Africa lack an effective and efficient tax assessment and collection mechanism. In countries where the tax administration is weak, sources of revenue that impose a heavy burden on administrative resources are less intensively exploited, the focus being on those sources that are easier to administer. The system of administration needs to be drastically upgraded by instituting an effective tax authority, manned by the necessary personnel to properly and honestly execute the task and backed by appropriate tax laws that are simple to administer with severe penalties for evasion.

b. Spreading the tax net

While improved tax administration is necessary, it is nevertheless insufficient to maximize government revenue. In addition, the tax net needs to be cast widely enough to capture all potential tax payers, including operators in the informal sector. The informal sector in Africa has two distinct characteristics that are important from the standpoint of tax coverage. Firstly, it is vast in number of operators and involved in practically all types of activities. From an already large base the sector has been growing at an accelerated pace in recent years partly because of the failure of the formal sector to expand at a rate fast enough to accommodate and capture the growing population. Secondly, informal sector operators are often neither registered nor accountable to the authorities, and do not pay taxes. Given the growing importance of this sector, its large number of operators and its potentially extensive revenue base, and additionally for reasons of equitable tax administration, it is important to bring them under the tax net. The process of inducing these operators into the tax net could take two forms, based on their size and activities. The relatively large operators could be required to formalize their operations by obtaining licences, keep good records, where possible, and shoulder the obligation to pay taxes on profits.

The formalization of the bigger informal operators is bound to leave out still a good proportion of the informal sector outside the tax net. To draft these operators into the tax net and further widen the tax base, governments could design special methods. The easiest and the most common approach is the imposition of the presumptive tax whereby lump-sum taxes are levied on all small-scale activities based on standard assessments using simple indicators or proxies to estimate taxable income. Where these methods are difficult to implement, as is likely to be in many case, the tax authority could impose a flat lump-sum tax based on some assessments of capacity to pay.

c. *Reforming the structure of taxes*

In addition to reforming the process of tax administration and expanding the tax base, it may be necessary to change the tax structure and consider the viability of applying consumption tax in order to minimize tax evasion. The multiplicity of indirect taxes such sales tax, transactions tax, excise tax, etc., that are currently in use in many countries could be simplified by lumping these into a single tax. Secondly, the nature of the tax could also shift to consumption as well as value added to facilitate collection and eliminate the cascading effect. The shift from a multiple tax to a single consumption tax, particularly those targeting luxury goods, has extra advantages in that it reduces the burden on tax administration and encourages savings by deterring consumption. These measures, taken as a whole, are likely to expand the tax base and help increase government revenue.

d. *Introducing new taxes*

In addition to a review of the indirect tax and tariff structures, some few specific areas for general policy consideration can be suggested with the aim of increasing tax revenues from these sources. These include the introduction of taxes on unearned incomes in the form of wealth or property taxes, capital gains taxes, gift taxes, real estate and inheritance duties which either do not exist or are at present insignificant as a proportion of total tax revenue. The immediate introduction of sales and excise taxes on such services as hotels, restaurants, banking, insurance and construction which either are non-existent or only yield modest revenues are likely to become more revenue productive.

Governments could also introduce, where feasible, taxes targeted at financing specific infrastructural developments including, for example, education tax, health tax, and tolls on roads. Pension schemes into which wage and salary earners may pay a portion of their incomes with matching contributions by employers could be expanded for the public sector and the resources along with those from private sector schemes made available for investment on the capital market.

e. *Making taxes more progressive in nature*

Adoption of a tax structure of a highly progressive nature is recommended not only to enhance the effect of taxation, but also to ensure a more equitable distribution of income. The propensity to save among the upper income groups is very low in most African countries and equitable income distribution through highly progressive taxation could enhance the scope for increasing the rate of saving.

f. *Improving income from public enterprises*

Public enterprises are important sources of government revenue. In many countries, these enterprises have been established and managed less with the objective of maximizing profit and more to meet other public policy goals, including employment creation and price stabilization. Poor management coupled with corruption and embezzlement arising from lack of transparency and accountability have contributed to the erosion of the financial position of many of these enterprises, often necessitating transfers from the central government with adverse consequences on public sector saving.

There is a growing perception and appreciation that public enterprises could serve as the vehicle for increased revenue. To that end, governments have restructured, reoriented and recapitalized public enterprises to improve their efficiency and strengthen their competitive position. In many countries these reforms have paid off handsomely, as a result of which public enterprises have managed not only to cover their costs and make profits but also to contribute to the government treasury.

The process of reform should continue to deepen and the efficiency and profitability of these enterprises broadened. Concomitant with the reform of public enterprises, governments should also consider the most opportune mechanism to spin them off as private concerns. One possible avenue for their divesture with positive impact on resource mobilization is to convert them into limited lability companies with shares made available to the wider public, especially the small savers. Such a process of governmental disinvestment, beside spurring the development of capital market as a means of mobilizing domestic financial resources, would lead to an increase in government income relative to what it would be under the wholesale privatization.

g. *Rationalizing government expenditure*

On the expenditure side, a rise in state revenue constitutes a powerful incentive to step up public expenditure. During the last few years, expenditures have been rising in many African countries because of: increased outlay for general government administration; defence and security, subsidies to public enterprises and utilities, debt service payments, etc., without a concomitant rise in revenue. In some African countries efforts are being made to limit recurrent expenditures by streamlining administrative services, making public enterprises self-financing and through cost-sharing experiments in the provision of social services. In spite of these measures, the fiscal potential for mobilizing developmental resources in African countries has not yet been fully exploited. Government therefore should design and adopt a programme of austerity with efficiency of resource use and strict control of budgetary expenditures to eliminate internal leakages in the form of wasteful expenditures, and engineer a shift of savings to finance investment. In this connection, African Governments need to introduce and further enhance cost-effective operations and revise their defence and security related outlays. Although significant strides have been made by a number of countries, more needs to be done to divert resources from these lines of expenditure to more productive uses, poverty alleviation and sustainable development.

Overall, it is essential to underline once again the imperative of domestic resource mobilization in fostering and sustaining enduring socio-economic transformation in Africa. African countries urgently need to develop appropriate modalities and policies for tapping into the huge potentials of domestic resources.

Conclusions

Despite the progress with SAPs in many African countries in correcting macro-economic imbalances, national economic mismanagement is still a problem, characterized and underscored by poor monetary and fiscal policy; poor management of the privatization and divestiture programmes; failure to implement policies due to lack of institutional capacity; political instability; ineffective maintenance of law and order; incompetent and/or uncommitted public servants; ineffective or non-existent accountability; undiversified financial systems;

and, weak supervision of banking and credit institutions. Not only has there been inadequate development of human capital, a good part of the small cadre of available experts have fled to other regions.

To attain and sustain higher growth rates, Africa needs to raise both its domestic savings and levels of investment. Furthermore, economic reforms that incorporate consistent measures for stabilization, adjustment, economic restructuring and capacity building that will ensure higher savings and investment ratios translate into sustainable long term economic development must be pursued. Macro-economic management needs to be supported by intensification of financial sector reform, including deepening of financial markets, broadening of financial instruments and improvement in the solvency of banks. While economic liberalization measures are often necessary to improve the mobilization of resources, they may not be sufficient in the African context to secure and protect productive investment if there is inadequate attention to maintenance, or if infrastructural facilities are allowed to deteriorate in the process of implementing structural adjustment policies.

In addition to economic reforms, rapid and sustained development requires equal attention to non-economic factors, such as an effective public administration, a functioning legal system, efficient regulatory structures and transparent systems for both financial and legal accountability, which, in brief, are the essential attributes of what is now generally referred to as good governance.

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II II
SOCIAL SECURITY SYSTEMS IN AFRICA: TRENDS AND PROSPECTS

Across the length and breadth of Africa, social security arrangements, whether modern or traditional, are in a state of crisis and disintegration. The vast and rich traditional arrangements in which family members and communities at large helped and supported each other are falling prey to forces unleashed by modernization. As the old systems of extended family and mutual assistance schemes disappear, state and private sector sponsored arrangements have failed to expand fast enough to provide a safety net sufficiently vast to cover majority of the people in dire need of assistance. Even on most generous estimates, the believe is that employment-related social security programmes hardly cover more than 20 per cent of population of working age in any African country.

The modicum of available social assistance in Africa has been further eroded in recent years through public sector retrenchment exercises and the reform and pruning of the state to reduce fiscal pressure. Free or subsidized health and education as well as price controls and subsidies on basic necessities have been eliminated in countries one after another in favour of cost sharing and market determined prices, thereby increasing the cost and burden of survival on the vast majority of the population.

What makes the breakdown in social security arrangements in Africa rather traumatic is that it has happened when such support was most needed. Poor economic performance coupled with high population growth have increased poverty, quantitatively and qualitatively. During the last decade and a half, per capita income declined by at least one per cent per annum. In addition to low GDP growth in real terms, natural disasters, political instability and civil wars have exacerbated and impaired capacities to provide continued support while the number of people in need of assistance has increased phenomenally. The resulting failure of African countries to provide social security assistance to the needy has generated concerns that transcend the region itself, and has stimulated and nurtured a growth industry in the mobilization and distribution of international charity. In many African countries, the constellation of externally-financed NGOs one is by now easily one if not the major source of basic necessities, including food, shelter, clothing, health and education.

The need to develop a viable social security programme in Africa cannot be over-emphasized. Whether provided by the state, private employers or the insurance business or some combination of these, the availability of social security has as its indispensable pre-requisites robust economic growth and equitable income distribution. If people are to be catered adequately for their needs during periods of adversity and emergency, they must be empowered in the first place to generate enough savings from current disposable income and provided with avenues for investment with stable returns.

In developing a social security scheme, African countries can draw on the lessons of experience from their own past as well as from other countries. Of the many approaches to social security, the following three seem to be particularly relevant to African countries at their present stage of development: (i) informal and traditional schemes and mechanisms at the level of the family and the community; (ii) formal social insurance and compensation schemes, funded with regular contributions to a provident fund or pension scheme by employees and employers, or through private insurance companies; and, (iii) formal, (public and private) social assistance programmes which aim to provide "social protection" through delivery of non-earnings related survival assistance to the poor and vulnerable, such as emergency "safety nets", and other State action for redistribution of wealth, income support measures and services related to health, education, transport, water and electricity under free or subsidized programmes.

In African societies, reducing absolute poverty levels and increasing social welfare are not only basic to the pursuit of social security, it is also an essential ingredient and profitable investment for productivity enhancement. Sustained policy commitment to social security in Africa must necessarily incorporate the formulation and implementation of social development policies, especially as they pertain to issues such as poverty reduction and sustainable human development, and the integration of women in the development process; and must be anchored on an integrated approach that sees social development as an integral and important component of socio-economic transformation. It needs to address the often-neglected issues of excessive rural-urban migration, food insecurity, high levels of unemployment, provision of universal and compulsory basic education, and primary health care. Sustainable poverty reduction is inseparably linked to the issues of democratization and popular participation, which are today some of the most pressing issues on the African development agenda. Hence, to design schemes of social security without attending to the critical and growing levels of poverty would mean constructing an edifice on an insecure foundation. Poverty and lack of basic services are at the heart of social insecurity in Africa, and tackling such problems must be considered fundamental. Formal measures of social security, such as cash supplements and retirement benefits are at best mere supplements to poverty reduction and access to such basic services as agricultural extension services, primary health care and free or subsidized educational facilities for children.

Social Security: A Key Function of African Traditional Societies

In Africa, effective social security systems had existed long before the coming of the Europeans and the rise of modern States. African political systems under the old chiefdoms, kingdoms and empires offered some semblance of collective security and a viable place in society and a sense of belonging to all members. Special protection was available to orphans, the disabled, unmarried women and the elderly, especially those childless, and to war veterans. Social security was provided both through established political structures and, more informally, through kinship and community-based solidarity arrangements. The social and political organization of traditional communities provided general security for its members through the extended family system and its collective responsibility and risk-taking, which was further encouraged and sustained by organizations based on clan, age-grades, occupational guilds and community and ethnic ties. With modernization, however, all this has changed and is changing. As one informed observer has put it, "industrialization, urbanization and the development of wage labour necessitate individual mobility, weaken the family and increase risks for workers and their families. The State, responding to economic changes, takes over functions that were handled differently by preindustrial societies".[6]

1. <u>The extended family: a network of social security</u>

In several African languages, the common word "poor" implies lack of family and friends, and is traditionally used as well to describe

[6] See Niels Ploug (1995), "The Welfare State in Liquidation" in International Social Security Review, Vol. 48, 2/95 Geneva, P. 97.

vulnerable groups, such as orphans and childless female and male elders. A web of highly functional lineage relationships has provided the key social framework for individuals linked by blood, with hierarchy and mechanisms for decision-making. The African extended family and the clans of families forming a tribe use intricate kinship networks, patrilineal or matrilineal, based on descent from a common ancestor. With kinship as the basis of organized solidarity, the extended family was essentially a unit of production, consumption and social security, and has been the underlying basis of the superstructure of subsistence economies in traditional Africa.

Solidarity is expected of kinsmen in undertaking activities such as working the land, producing and storing food, and building houses, albeit in a communal manner. Mutual assistance is expected in times of need and crisis, such as during periods of sickness, funerals, crop failures or poor harvests, as well as during marriages and celebration of achievements, such as in education or employment. Kinship makes mutual aid both an obligation and a benefit. Marriage on its part, as a binding alliance between families and whole lineages, increases the size of the group of relatives to which the individual owes and claims assistance from.[7]

Even in large African cities where disintegration of kinship ties and obligations inevitably begin, kinship and marriage networks retain an impressive strength and air of permanency to a degree no longer found in Western industrialized societies. Family, clan and tribal relationships still function in Africa, for instance when an individual seeks work, housing, education or health care. In many of the countries, even the middle-class professionals on pension may still find themselves in need of supplementary assistance from children and other relatives working in cities or abroad. In most African cultures, the oldest living ancestors in an extended family are awarded great respect and care. Older siblings help to educate and establish younger ones. Grandparents remain active in caring for children and sometimes participate in performing household chores within the extended family.

Moreover, one reason for Africa's high fertility rates is that poor families prefer to have many children who are envisaged as both economic assets and as the source of social security for parents in old age. As fertility declines and there are fewer children to rely on, this form of social security comes under stress. Women provide most of the care directed at the very young and the elderly within the extended family. Even when males provide financial and emotional support, it is generally the women who attend to the daily chores of nursing, cleaning, feeding and general companionship. Thus, the incidence of polygamy in Africa serves a variety of social and economic functions, including home-based health care and contribution to the food security of the extended family through food production, processing, storage and marketing.

The benefits of these traditional arrangements have not been lost on the African policy makers. Resolution 1 of the Fifth Conference of African Ministers of Social Affairs in Arusha, in 1989, which set the tone for development of social policies in African in the 1990s, recognized the African family as fundamental in nurturing and socializing children and youth, caring for the elderly and the disabled and preventing crime and juvenile delinquency. It affirmed that the extended family is:

> ".. a nucleus for socio-economic change taking into consideration its crucial role as the basic unit of society, and the fact that the extended family in particular is a fundamental social institution through which the security, general welfare, protection and cohesion of its members are provided and societal values transmitted".[8]

7 Jacques Maquet (1971): **Power and Society in Africa**, World University Library, London.

8 Report of the Fifth Conference of African Ministers of Social Affairs, Arusha, 1989.

This recognition of the social reality in Africa is enshrined also in the recommendations for essential policy shifts contained in the African Common Position on Human and Social Development, as adopted by the African Heads of State and Government at their thirtieth Ordinary Session in Tunis in 1994. Among the measures recommended for poverty alleviation was "supporting and encouraging the African extended family system to fulfil its traditional functions of social integration and security".[9]

The trend towards a breakdown in traditional structures and the weakening of the customary mutual support within the extended family is of course more apparent in urban areas, where life is more individualistic and market-oriented, and wage-earning family members in cash-based economies increasingly find it expensive or anachronistic to keep up with the old traditions. The breakdown is also evident in the rural areas most affected by economic decline, war, drought, famine, population displacement, and the migration of the young, the educated and the able. However, these changes are often more apparent than real as old cultural practices die hard and are usually not easily obliterated by modernism. For example, there are still few favours that as an African one can refuse to the descendant of a common ancestor who needs help to survive, despite the occasional accusations of "parasitism", "nepotism" and the like which occasionally punctate extended family relations.

2. Social security within African traditional political institutions and solidarity community associations

In traditional Africa, political and social relationships are closely intertwined and, together, provide the framework for channelling social security activities and measures. Political relationships cut across all of society, and affect the use of land and goods and services in the context of community, religion and cultural ceremonies. "Subjects" owed cash or obligations in kind to sovereign rulers, who in turn used their powers to settle disputes, protect and guide communal land access and use, and guarantee law, socio-economic order and basic protection and survival. The power relationships involved hierarchy and the pre-eminence of elders and rulers, but the whole community shared in effect the same system of values and sanctions. Traditional political relationships, although much reduced in colonial and modern times, still exist in many parts of Africa, contributing to social solidarity, and ensuring that group members live and survive together from birth to death.

Age grade solidarity in Africa is acknowledged to be as strong in some cultures as blood ties. A description of one example of these is offered in Box III.11 on the *ton* of Mali, through which the bonding that takes place during circumcision and other age grade activities continue throughout life and even provide for the widow and children of a deceased member.

Public and secret "societies", "fraternities" and "sonorities" are common in traditional Africa, functioning as corporate bodies, some having useful and specific solidarity objectives. For example, the Yorubas of western Nigeria have the *Oro* brotherhood. Chad has the "*lion-men*". In the Congo, the Hamba have "*the masters of the forest*". Bambara men of the Upper Niger become members of six societies in succession, over their lifetimes, each requiring forms of initiation for bonding. Some of these associations played important roles in the anti-colonial and independence struggles, within the framework of modern trade unions and political parties. The ritual dances, vows, masks and so forth of such voluntary associations may have disappeared in modern times but such voluntary fraternities often still play a great role in ensuring

[9] **African Common Position on Human and Social Development in Africa**, Public Administration, Human Resources and Social Development Division, ECA, 1994, pg. 22.

Box III.11

THE *TON* OF MALI

The *ton* is an old non-lineage, age-grade, traditional organization in the rural areas of Mali which existed well before the colonial era. Some pre-colonial States, such as the Bambara Kingdom of Segou, were built on the *ton* organization, which is a collective, mutual assistance organization for rural solidarity among groups of boys, girls, women or men, although not on the basis of a secret society. A *ton* consists of "solidarity from a horizontal point of view". [10] Thus, each age group can organize itself as a *ton*, with its own rules for economic, social and cultural activities.

As a form of group life and social organization, a *ton* makes up for family and community deficits in production or services. Production of goods needed by the community in catering for the annual *ton* festival is one of the original objectives. One can never quit a *ton*. Even when old the "tondem" (member) is consulted and his problems catered for. *Ton* organization opens dialogue between several generations of people, and is a prime vehicle for communication and securing understanding in the whole village. A *ton* can exercise socio-religious functions also, for example, as guardians of sacred woods, pools and communal lands, making the organization a centre of support for environmental sustainability.

In November 1987, Mali had 1497 Groupings and 197 village-based *ton*, and laid down new objectives for modernizing the *ton*, through its reorganization as a cooperative and mutual aid association based on the solidarity and willingness of members to participate. Groupings and village units were entrusted with mobilization of savings, distribution of credit, organization and production operations, processing and marketing and identification and implementation of community development projects.

Source: UNICEF (1992): **Community Participation: An Alternative Way for Development**, Regional Office, Abidjan.

social security through solidarity and mutual aid, particularly during times of birth, marriage, sickness, death and burial. [11]

3. <u>Traditional health care: a key social security function in traditional African societies</u>

Traditional healers, birth attendants, circumcisers and priests and spiritualists provided health care in villages and districts, long before modern hospitals and clinics started to appear in Africa. Herbs, roots, barks, charms and spells, prayer rituals to ancestors and the like provided a range of medicines and treatments, which combined the services of traditional physicians and psychiatrists. In addition, care at home for the sick and the elderly was and still is a well-established norm. The traditional healers and practitioners are more evenly distributed and provide the oldest and most accessible health care to the population. But this traditional sector has not been integrated into formally recognized forms of health provision in most African countries, although some degree of training has been made available to traditional birth attendants, and through activities to train traditional circumcisers in alternative forms of income generation.

Knowledge and use of natural medicines and treatment by healers has been declining with modernization, but several African countries have been trying to preserve the utilization of this knowledge. Associations of traditional healers have been formed, and research institutes in Kenya and Mali, for example, have been confirming and building on the medicinal properties of many traditional medicines. The Ministry of Health in Mali has a special

[10] UNICEF (1992): **Community Participation:An Alternative Way for Development**,Regional Office, Abidjan,in collaboration with UNESCO and World Bank.

[11] Jacques Maquet (1971), <u>Op</u>. <u>Cit</u>.

department for researching, developing and marketing traditional medicines, and has been able to put four new medicines on the market in recent times, including one for treatment of malaria.

4. Access to land: a cornerstone of traditional social security in Africa

Communal and household relationships depend greatly on land availability, since land is the basis of rural social security. The land in Africa is still for most people the closest lifeline to survival, and structural poverty has a lot to do with land scarcity and land use policies. There are numerous examples of land-based, communal forms of social security in Africa. Despite their weakened effects in urban areas, some persist even in these areas through rural-urban linkages. In land-rich parts of Africa, access to land took care of most social security needs, providing support for the old, the young, especially orphans, the disabled and mentally disturbed, unmarried women, and others with little family support.

In land-surplus parts of semi-arid West Africa, or in nomadic areas of North and Central Africa, large households are established, with extended kinship relationships spread over a wide area, permitting scale economies and the pooling of labour, resources and benefits. In the Gambia, large household units or compounds comprising 10-100 people allocate time and land to produce food for the whole unit. In land-scarce however, there is more diversification of sources of income and less social security dependence on community-based relationships. In Rwanda, the most densely populated part of sub-Saharan Africa, and where the non-agricultural share of income is more than fifty per cent, communities are run by the commune administrative unit in the French colonial style, and food insurance is largely assured within the nuclear family unit.[12]

Land availability and use are crucial to food security and famine prevention in traditional Africa, nationally, locally and at the level of the household. Therefore, drought and natural disasters impinge on the community's social security. War and political and ethnic conflicts also upset the status quo and create a need for emergency formal social security measures. Africa now has a huge problem of refugees and displaced persons who have to be cared for and provided with certain rights and facilities until repatriation and reintegration or assimilation takes place. Investment in agriculture and rural infrastructure and relevant policy reform was, and still is, basic to African social security. Indeed, it is in the area of agricultural policy that many sub-Saharan African countries can most rapidly expand social security provisions.

5. Informal sector mechanisms: recent extensions to the traditional framework for social security

The informal sector, especially in urban areas, has had to substitute for much of the social solidarity once found liberally in traditional Africa. It needs to be underlined, contrary to some impressions, that informal sector activities are not restricted to trading and smuggling. The sector is noted for a wide range of artisanal activities, among others. Even formal sector workers such as teachers may have to moonlight by providing private tuition or engaging in informal business activities to supplement low salaries. The informal sector serves in addition as a safety net for those retrenched or retired from formal sector employment and unemployed school leavers and migrants. There are also financial services and credit schemes available, through money lenders, savings associations, and traditional rotating funds known in some countries as *tontines* or *esusus*, which operate outside established banking and financial regulations. These services are of special

[12] Joachim von Braun, **Social Security In Sub-Saharan Africa : Reflections on Policy Challenges, International Food Policy Research Institute.**

interest to the low-income unable to offer collateral for commercial bank credit and are of particular help to women as the main actors in the informal sector in most African countries.

Other forms of non-formal social security schemes provide support to their members in times of adversity. The "edir" in rural and, more importantly, urban Ethiopia provides financial assistance, extends support in household chores and otherwise shares collectively in the afflictions and sorrows of bereaved families.

B. Formal Social Security Systems: Limited But Expanding Coverage in Africa

1. Extending coverage from a minority of state employees to a wider public

In Africa, formal social security was not introduced for indigenous peoples until near the end of the colonial period, and, even thereafter, it existed only as a minor supplement to traditional mechanisms within the family and the community. Formal coverage is even still lower today than in other parts of the world, both in content and scope. In spite of its progressive broadening with modernization and development, and the growth in the number of public employees, it has not come close to meeting the overall needs. In recent years, the implementation of SAPs have forced many African governments to roll back these social security programmes through the reversal of public sector employment trends, introduction of cost-sharing arrangements in the provision of essential services such as education and health, removal of price subsidies and other public assistance schemes.

Whereas social security systems in the developed countries cover most categories of people, the reverse is true in Africa. Formal coverage is usually mostly accessible to the urban formal sector, and only in a few cases to unionized agricultural wage labourers. It thus caters mostly to the benefit of the already reasonably secure employees with moderate to high incomes. The self-employed, domestic servants, family workers, and temporary, seasonal and agricultural workers (all of whom are among the poorest in society) do not participate in the formal arrangements, even though many of them are more or less excluded from the disintegrating traditional protection against social risks. Increasingly, therefore, formal social security systems in Africa tend to reinforce rather than reduce social divisions.[13]

Furthermore, public expenditure on social services and relevant infrastructure is inadequate and on the decline in many countries, due to growing fiscal constraints associated with the implementation of SAPs (Table II.1). Social sector ministries and institutions have remained fragmented, uncoordinated and staffed by poorly paid and insufficiently trained personnel. There have also been little linkages with the NGOs, local communities and private business. Policies have tended to be top-heavy in formulation and implementation, without adequate inputs and feedback from intended beneficiaries.

Extensive provision and coverage of social security is no doubt desirable but effective financing, effective, is daunting and needs to be evaluated against accruing benefits to society and the opportunity costs. In any case, as later argued later in this Survey, improvements in a number of basic services, including services to agriculture and rural development, could contribute substantially to social security in a developing society, thus reducing the burden of formal security provisions on government budgets. Indeed, it may be argued that one of the most cost-effective ways of providing social security to the majority population in Africa is through expansion in food production and improvement in food availability through more efficient transport and distribution systems.

[13] Joachim van Braun (1991): Op. Cit.

Box III.12

SAFETY NETS FOR SOCIAL PROTECTION

Safety nets for social protection, introduced since the latter phases of SAPs in Africa, target specific groups such as retrenched public employees, jobless university graduates and the unemployed in general. Some safety nets are targeting vulnerable women and children, and all target the poorest regions and localities.

Egypt's Emergency Social Fund has about 290,000 beneficiaries. About 47 per cent of the funds went to enterprise development, targeting displaced public sector workers, university graduates, war returnees, urban unemployed and small entrepreneurs. Another 5 per cent has been allocated to pay compensation, training and credit for retrenched civil servants and university graduates, while 18 per cent was invested in public works in the capital city and other urban centres. Improvement of transportation in the two largest cities consumed 10 per cent and 19 per cent went to community development. However, the poorest still hardly benefited and the majority of beneficiaries have been urban middle income groups.

Ghana's Social Action Programme has reached about 50,000 people. Again funds went to groups which were not the poorest. About 34 per cent went to redeployed workers in the public sector, and only 10 per cent to nutrition, 6 per cent to rural areas, 2 per cent to women and 2 per cent for water wells. In terms of actual accomplishment of original objectives, average achievement is only about 24 per cent, although two projects fulfilled respectively 77 and 85 per cent of their targets.

Although safety net provision in Africa is likely to increase in the future to complement and supplement regular forms of social security, and for targeting specific social groups, they are usually dependent on external aid and finance. Politicization also tends to divert assistance from those most in need but with little influence on decision-making.

Source: UNCTAD (1995):**Recent Developments in Social Funds and Safety Nets**, Geneva.

Sub-Saharan African countries devoted an annual average of 10.7 per cent of central government expenditure to social security provision in the mid-1980s. This compared favourably to an average of 10.9 per cent for low-income economies in general, but unfavourably with the 13.6 per cent for the lower middle-income economies, 23.6 per cent for upper middle income economies and 46.9 per cent for industrialized market economies. In the 1970s, African countries devoted only 5 per cent of State budgets or 1-2 per cent of GDP to social security. These figures imply a strong correlation between GDP per capita and the size of State based formal social security. Furthermore, the share of public spending on social security seems to increase significantly only when economies reach the upper-middle income bracket.[14] As per capita incomes rise, State-expenditures on social security are likely to rise exponentially in African countries as in other developing countries. Indeed, it is generally believed that the revitalization of African economies will entail considerable enlargement of public spending on social security and a number of basic services that will improve the social welfare of the population, particularly as economic growth is revived and sustained, and as the debt burden is reduced.

Social security legislation in Africa is generally conservative, with most of its statutory provisions pre-dating the time of independence and without any real follow-up or amendments to reflect changing circumstances and conditions. Legislation for old age, invalidity and survivors benefits date back in some cases to the late 1950s,

[14] **Social Security Systems in Africa**, Research Series No. 2. African Centre for Applied Research and Training in Social Development (ACARTSOD), 1986.

while work injury laws date back even further. For example, the South African legislation was passed in 1914, Algeria's in 1919 and Zambia's in 1929. Thus, it is fair to say that current legislation does not fully reflect enough of the contemporary changes and differentiation, or meet the needs for a wider coverage.

With regard to the access of women to social security, it is important to note that the vast majority of African women work in informal and non-unionized agricultural sectors, in addition to their responsibility for the daily care of the young and the elderly. Being outside the formal sector, they do not participate for the most in formal social security programmes. When women participate at all, their benefits tend to be low, since many have yet to advance to or near the highest pay levels. Compared to men, women generally contribute proportionately more of their incomes to financing household costs and the nutritional and educational needs of children, and tend to withhold less resources for individual own use. [15] Yet, increased participation of women in formal social security is capable of raising family incomes, increasing the tax base generally, and contributing to changes in the patterns of household expenditure and numbers of children. The early social security schemes in Europe were based on the security of the male wage earner and his nuclear family, and this bias was also transferred to the colonies, where it is largely entrenched and has been a stumbling block to the incorporation of changing gender roles in the design and implementation of local schemes of social security.

In recent years, there have been increased female formal employment and numbers of female-headed households, now estimated to be in the region of 30 to 40 per cent of all households. The figures could be even higher in areas where the men migrate to work in mines or in urban areas. Other demographic realities include higher proportions of women among the elderly, and women's special needs for maternity benefits, reproductive health services, and child care time and facilities. Yet, the gender situation of social security coverage in Africa is such that women are found to be not only under-represented, they are, in the case of those married, almost invariably lumped together with spouses, and relegated to a position of great disadvantage upon the death of their husbands.

Table II.1
Central Government expenditure on defence and the social sector in selected African countries, 1972 and 1989 (percentages)

COUNTRY	DEFENSE		EDUCATION		HEALTH	
	1972	1989	1972	1989	1972	1989
BOTSWANA	11.5	17.9	8.2	14.0	8.2	5.2
CAMEROON	NA	6.7	NA	12.0	NA	3.4
EGYPT	NA	14.4	NA	11.9	NA	2.5
GHANA	7.9	3.2	20.0	25.7	6.3	9.0
KENYA	6.0	12.2	20.1	22.1	7.9	5.9
MAURITIUS	0.8	1.0	13.5	15.3	10.3	9.2
TUNISIA	4.9	5.7	30.5	14.6	5.9	7.4
ZAMBIA	0.0	0.0	19.0	8.6	7.4	7.4
ZIMBABWE	NA	16.5	NA	23.4	NA	7.6

Source : ILO, Geneva (1996) : Health Care Under Social Security in Africa.

15 Valentine Moghadam (1993): **Social Protection and Women Workers in Asia,** World Institute for Development Economic Research (WIDER),United Nations University.

Women are particularly adversely affected by lack of maternal and child care assistance; and by gender-based restrictions on non-household employment and ownership of land and property. Elderly women in particular remain a very disadvantaged group.[16]

With regard to retirement, some African countries now allow earlier retirement ages for women. A few are yet to extend maternity benefits to unmarried women; a situation difficult to justify since such benefits arise exclusively from employment relationships and not from marital status. But the concepts of the male bread-winner and the nuclear family, from which such discriminatory gender inequities emanated, are inapplicable to the African situation. The extended family in Africa is large, especially in cultures where polygamy prevails. In addition, marriage has not necessarily or always implied the pooling of resources between husband and wife into one single family purse. For one thing, a man may have several wives among whom to allocate his resources; for another, his own father, uncles and brothers may have far more say about his economic affairs than does any spouse.

The low rate of ratification of ILO Conventions in Africa shows the small extent of State involvement in social security provision so far, and tends to suggest that attempts at overarching. monolithic, State-based provision of social security seem to be unrealistic in the region at the present time. ILO member States are asked to comply with Convention 102 (1952) which deals specifically with general and special social security minimum standards of provision, and requires agreement with general provisions under part I and at least three coverages under part II, concerning coverage such as medical care, sickness benefit, employment, injury benefit, family benefit, maternity invalidity and survivor's benefits. Other relevant provisions include standards for periodic payments, equality of treatment for non-national residents, and common and miscellaneous provisions. [17] Supplementary and complementary provisions are contained in Convention 103, the Maternity Protection Convention (Revised) 1952), Convention 2 on Unemployment, etc. However, very few African States have ratified these Conventions[18], and only a handful offer formal social security in the full accordance with the ILO provisions.

North African countries have in operation the oldest systems of formal social security in Africa. The programmes involved usually include retirement benefits, which are generally proportional to earnings, health insurance, maternity benefits and family allowances.[19] These apply in countries such as Algeria, Egypt and Tunisia, where Islamic religious obligations such as the payment of *zakat* stress social protection and assistance. Some countries, such as Tunisia, are now trying to expand coverage to the self-employed and the rural population, "but there is often a wide gap between legal and real coverage".[20] The most developed social security systems are found however in Southern Africa

[16] **International Social Security Review,** Vol.48,2/95, p 122.

[17] ACARTSOD (1986), op. cit.

[18] See **List of Ratifications by Convention and by Country** (as at 31 December 1994), International Labour Conference, 82nd Session, 1995, ILO Labour Office, Geneva. Convention 102 has been ratified by:

(a) Libyan Arab Jamahiriya (1975), which ratified Parts II to X;
(b) Mauritania (1968) which ratified Parts V to VII, IX and X;
(c) Niger (1966) which ratified Parts V to VIII;
(d) Senegal (1962)which ratified Parts VI to VIII;
(e) Zaire (1987)which ratified Parts V, VII, IX and X.

The Maternity Protection Convention (Revised) has been ratified by Equatorial Guinea (1985); Ghana (1986), Libyan Arab Jamahiriya (1975) and Zambia (1979). Convention 2 on Unemployment (1919), entered into force in 1921. African ratifying States include Djibouti (1978), Egypt (1954), Ethiopia (1966), Kenya (1964), Mauritius (1969), Morocco (1960),Seychelles (1978), South Africa (1924), Sudan (1957).

[19] Abdul Zahra Abdullah Ali: **Insurance Development in the Arab World**, Graham and Trotman, London, 1985.

[20] UNCTAD (1994): **Recent Developments in Social Funds and Safety Nets**, Geneva.

Box III.13

POPULATION COVERAGE OF SOCIAL SECURITY IN TUNISIA

The goal of social policy in Tunisia is to extend coverage as much as possible to most of the population, estimated at 8,284,430 in 1991. With a labour force of about 2,250,000, of which 32 per cent is agricultural and 20 per cent unionized, health services are provided free in some facilities and through social security self-financing contributions. Only one-fifth of the population has full benefits under social security funding; about half has some benefits. About 400,000 public sector employees are formally covered, with an additional 18,000 employees from the utilities and transport sector, 500,000 employees from the private sector, 20,000 self-employed in non-agricultural sector, and about a quarter of the total population of 300,000 farmers.

Source : ILO, Geneva (1996): **Health Care Under Social Security in Africa: Experience and Potential.**

which has the most extensive employment capacity at the formal sector level and the highest degree of industrialization; but even the countries in that subregion are yet to offer universal coverage in basic health and education. Seychelles, Zimbabwe and Mauritius are some of the few with primary education enrolment rates above 90 per cent.

Overall, there is a need for more non-contributory social assistance and a broader economic base for funding social security programmes with wider population coverage in most African countries. Whereas some 61 per cent of the total population of Latin America and the Caribbean enjoyed social security coverage, at a cost of one-third of government spending, and the least developed countries world-wide had an average coverage of 25 per cent in the 1990s, Africa has only about 10 per cent coverage.

2. An expanding range of coverage is needed

The nature and extent of social security coverage in Africa span the gamut of old age, invalidity, death, sickness, maternity, work injury and unemployment benefits, and family allowances.

a. Old age, invalidity and death benefits

These are lump sum or periodic pension payments from contributory or public assistance schemes. The provident fund is more common in former British colonies, while social insurance pension schemes are preferred in former French and Belgian colonies. Ghana, Kenya, Nigeria, Swaziland, Tanzania, Uganda and Zambia have lump sum provisions, with benefits equal to the total amounts paid in by employers and employees, plus accrued interest. Ghana deducts 1 per cent respectively for life insurance and unemployment benefits. Mauritius is one of the few countries which provide a non-earnings related universal pension to all residents.[21] Some countries have special systems for public employees only. These include Botswana, Ethiopia, the Gambia, Malawi, Sierra Leone and Somalia.

Old age, invalidity and death benefits are employee/employer contributory social insurance schemes, but in Mauritius, South Africa and Zimbabwe, coverage takes place under a social assistance scheme for citizens with limited means, and the government pays the full cost. In Africa, generally, employers tend to contribute rates equal to or above those of the insured. Algeria,

[21] ACARTSOD, op. cit.

Table II.2
Benefits Currently Provided by Social Insurance Schemes in Selected African Countries

COUNTRY	INVALIDITY AND SURVIVORS	FUNERAL	SICKNESS	MATERNITY	MEDICAL SERVICES	EMPLOYMENT INJURY	UNEMPLOYMENT	CHILD BENEFIT
A. FRENCH-SPEAKING COUNTRIES								
ALGERIA	X		X	X	X 1/	X		X
BENIN	X			X		X		X
BURUNDI	X					X		
BURKINA FASO	X			X		X		X
CAMEROON	X			X		X		X
CHAD	X			X		X		X
CONGO	X			X		X		X
GUINEA	X	X	X	X	X	X		X
MADAGASCAR	X			X		X		X
MOROCCO	X	X	X	X				X
NIGER	X			X		X		X
RWANDA	X					X		
SENEGAL	X			X	X 1/	X		X
TUNISIA	X		X	X	X			X
ZAIRE	X			X		X 2/		
B. NON-FRENCH-SPEAKING COUNTRIES								
CAPE VERDE	X		X	X	X	X		X
EGYPT	X	X	X	X	X	X	X	
LIBERIA	X					X		
LIBYA	X	X	X	X	X	X		
MAURITIUS	X					X		
SEYCHELLES	X	X	X	X		X		
SOUTH AFRICA			X	X		X	X	
ZAMBIA						X		

1/ Partial treatment only. 2/ ......

Source : SERPD/ECA (1992) : Report on Social Security Systems and National Development in Africa, Socio-Economic Research and Planning Division (SERPD), Sixth Meeting of the Conference of African Ministers for Social Affairs; Addis Ababa.

Libyan Arab Jamahiriya and the Sudan extend coverage to agricultural workers. Zaire covers domestic workers, while Tunisia extends coverage to domestic and casual workers and those who have lost their jobs.

Very few African governments contribute to old age, invalidity and such other benefits. In Egypt, the Government pays out 1 per cent of the payroll as social security benefits and meets any accruing deficits. The Libyan Arab Jamahiriya pays annual subsidies plus the cost of other income-related benefits. Zaire provides an annual subsidy determined by decree. Many countries provide these benefits through employer liability schemes, but these have tended to be even less satisfactory than provident fund arrangements. Benin, Botswana, Zaire and Zambia cover medical services in this way, but in Burundi employers have to pay a flat rate for effective coverage of the worker's wife and children.[22] In 1990, 25 per cent of the Ghanaian labour force was insured but only 10 per cent paid contributions. The poor have had little coverage as basic services are not universally available. The Department of Social Welfare had programmes for poor women, children, the elderly and the disabled, but only about one-third of the targeted population was actually reached. [23]

Pensions are payable in some countries for orphans and dependent minors. Mauritius pays a universal orphan's pension which is not earnings related. Funeral grants are made in many African countries in the form of fixed amounts or on a reimbursement basis. Compensation during sickness, invalidity or injury is paid under employers' liability.

b. Sickness and maternity benefits

Sickness and maternity benefits are payable in many countries as part of social insurance to workers in industry and commerce, apprentices and self-employed people in enterprises with a work force above a certain

[22] ECA (1992), op. cit.

[23] UNCTAD (1994): op. cit.

Table II.3
Benefits Currently Provided by Employer Liability Schemes in Selected African Countries.

COUNTRY	BENEFIT PROVIDED		
	SICKNESS	MATERNITY	EMPLOYMENT INJURY
BENIN	X		
BOTSWANA	X	X	X
BURUNDI	X	X	
CONGO	X		
ETHIOPIA	X	X	X
GABON			X
GAMBIA			X
GHANA			X
KENYA	X	X	X
LIBERIA			X
MALAWI			X
MAURITIUS		X	
MOROCCO			
NIGER	X		
NIGERIA			X
RWANDA	X	X	
SIERRA LEONE			
SUDAN	X		
SWAZILAND			X
TANZANIA	X		X
TUNISIA			X
UGANDA			X
ZAIRE	X	X	
ZAMBIA	X		

Source : SERPD/ECA (1992) Op. cit

defined size, as in Ghana, Liberia, Swaziland, Tanzania and Uganda. Sickness and maternity benefits are regulated under different laws but most African countries use contributory employment-related social insurance schemes, with contribution rates for the insured ranging from 0.22 to 7 per cent, and for the employer from 0.2 to 15 per cent. Governments contribute by covering deficits and using subsidies from earmarked taxes. A specified period of employment is usually a criterion. In a number of countries, contributions to general schemes finance all such benefits, including old age, invalidity, survivors, unemployment and family allowances where these exist. In some cases there are laid-down prescriptions in the labour code for sickness and maternity benefits, and these include medical care for the employee and his family and maternity benefits, including paid leave, ranging from 50 to 100 per cent of the female's wages, and unpaid leave. Some countries include maternity benefits under family allowances.

Sick leave usually entitles the insured to full wages for a period of time ranging from days to months, with declining percentages beyond specified periods. Maternity benefits usually entitle the insured to leave-with-pay of varying durations during and after confinement. Again, such benefits do not usually extend to casual workers, agricultural workers, the self-employed, domestic workers, or family labour unless they are covered under special arrangements, for example, pensioners already receiving sickness benefits. Many countries have special schemes for miners, military personnel and sea men, besides those for public service employees. Some like Libyan Arab Jamahiriya, Algeria and the Sudan attempt coverage of workers in agricultural establishments while others, like Egypt, cover those of them in casual employment.

c. *Work injury benefits*

Work injury is covered under various social insurance schemes including employer liability, voluntary or compulsory insurance under the aegis of private firms, or within compulsory public schemes. Many countries have special schemes for miners, military personnel, maritime workers and seamen, public service employees, agricultural and domestic workers. Most African countries provide for payment of survivor's benefits to both widows and widowers, and dependent children.

The primary targets of work injury benefits are groups such as non-agricultural workers in industry and commerce, apprentices, members of cooperatives, trainees, technical students, maritime workers. The self-employed may participate on a voluntary basis or buy private policies from insurance companies.

d. *Unemployment benefits*

Very few African countries have well developed formal unemployment benefits in place, except in cases of redundancy and severance specifically provided for in the labour laws. Lack of provision for unemployment benefits is due partly to the inadequacies of social policy and political commitment, and the magnitude of the unemployment problem itself

Box III.14

WORK INJURY BENEFITS IN ZIMBABWE

Zimbabwe offers work injury benefits through its Workmen and War Victims Compensation programmes. Its Workmen Compensation covers all workers, except casual and domestic workers, injured or disabled through occupational duties. Dependents also receive survivor benefits, including funeral expenses up to a fixed amount. A dependent widow gets two-thirds of what the worker would have received for permanent disability, with 12 per cent going to the oldest child and 5 per cent to each of 5 younger children. Only employers pay for the scheme, and only workers earning less than $1,333 monthly may participate.

The War Victims Compensation Act (1980) provides for injured soldiers and for families which lost breadwinners in the pre-independence war. The State pays for the whole scheme. Benefits range from 50 to 90 per cent of pre-injury earnings for veterans unable to work, and from 30 to 45 per cent for those able to do some work. The pension benefits for those made widows or widowers by war is about 60 per cent of the spouse's wage level before death.

Contributions to the more general Occupational Pension Scheme (1980) is on an equal basis by employer and employees, with the latter committing 5 to 7 per cent of their monthly salaries, but with no supplementary contributions from Government. The non-transferability provision is generally disliked by workers, changing employment as this means they cannot carry their benefits to the new job, and are entitled to receive only a lump sum payment of their own contributions.

Source: Neil Smelser, **Sociology**, UNESCO, 1994.

in terms of high rates of joblessness and massive underemployment. The few African countries with any forms of unemployment social insurance differ greatly with regard to the contributions required before a first claim could be entertained, the size and duration of benefits offered and the occupational sectors covered. In Egypt, for example, unemployment benefits consist of 60 per cent of the last monthly salary, payable up to 16 weeks but extendable to 28 weeks if contributions were fully paid-up in the last 24 months. In Libyan Arab Jamahiriya, 50 per cent of monthly earnings are payable for up to 3 months, extendable in special cases. While in South Africa, 45 per cent of weekly earnings are payable for up to 26 weeks in any 52 weeks or 1/6 of all contributions, whichever is less.

e. Family allowances

Employment-related family allowances are provided mostly in French-speaking African countries for a limited number of children in certain age groups, which sometimes include maternal and child welfare services. In Mauritius, the government bears the full cost of family allowances, but only to needy families with three or more children. Countries such as Burkina Faso, Mali and Central African Republic make up deficits, but do not cover full costs. Subsidization

Box III.15

SEVERANCE PAY AND COMPENSATION IN ETHIOPIA

Where a contract of employment is terminated, wages and other payments related to wages due to the worker shall be paid within seven working days of the date of termination, except where the worker delays because of his own fault the return of any property or sum of money due to the employer. In the event of a dispute as to the amount claimed, the employer shall pay the worker the sum not in dispute within the specified time limit, or shall pay his wages for the period of delay, not exceeding one month's wages.

A worker who has completed the required period of probation before his contract of employment is legally terminated shall be entitled to receive severance pay from the employer. Where a worker dies before receiving a severance pay, it shall be payable to his dependents. Severance pay shall be thirty (30) times the average daily wages of the last week of service for the first year of service; for service of less than one year, severance pay shall be calculated in proportion to the period of service. In the case of the worker who has served for more than one year, payment shall be increased by one-third (1/3) for every additional year of service, provided that the total amount shall not exceed twelve months wages of the worker. Where the contract of employment is terminated under the lawful provisions laid down for reducing the number of workers or where a suspended worker cannot resume work during the maximum period extended, the worker shall be paid a sum equal to sixty multiplied by his average daily wage of the last week of service, in addition to severance pay.

A worker who terminates his contract of employment in accordance with the laws governing termination without notice, due to employer neglect of human dignity or health and safety, or employer abuses punishable under the Penal Code, shall be entitled to severance pay as well as compensation payment which shall be thirty times his daily wages of the last week of service. This provision also applies to a worker covered by the relevant Pension Law.

A worker who is unemployed due to unlawful termination can lay a claim for reinstatement or compensation before the Labour Dispute Settlement Tribunal. When compensation is payable for unlawful termination, it shall be one hundred eighty times the average daily wages and a sum equal to his remuneration for the appropriate notice period.

Source : Articles 34-45, **Labour Proclamation No. 42/1993**, Negarit Gazeta of the Transitional Government of Ethiopia, Addis Ababa.

from earmarked taxes are used in Senegal, Niger, Chad, Benin and Cote d'Ivoire. Employers also make contributions in many countries, ranging from 5 to 16 per cent of the payroll. In most cases, the insured does not contribute although in Cape Verde, employees pay 7 per cent of earnings. In many countries, prenatal and/or maternity benefits, birth grants and maternal and child health care are provided for public employees and other special categories. Limits are set to the number of children able to benefit, ranging up to 6, as well as on the age of the child, ranging from 12 to 16 years, and depending on whether or not the child is in school, or is an apprentice or an invalid.

In former British colonies, family benefits are minimal, and items such as birth grants and allowances to households do not feature to any great extent. Emphasis has continued to be placed on allowances for males as 'bread winners' or heads of households, and income tax allowances as opposed to cash allowances are used for relief. A man may thus have his tax load reduced by a personal allowance, a wife allowance, children allowances and dependent relatives' allowance. The spouse and child allowances are not usually granted to married women. Only single mothers (as opposed to those separated and divorced) are treated as being responsible for their children.

f. Voluntary and private insurance schemes

Voluntary and private insurance schemes are increasingly popular in many African countries, and likely to gather momentum in the wake of privatization and market liberalization. Forms of insurance are divided into life and non-life policies with the latter being significantly more popular and covering fire, accidents, motors, marine, workmen's compensation, educational needs, etc. The insurance business in Africa is, however, beset with many administrative and infrastructural problems. Poor statistical data, the difficulty of calculating ages, the usually small number of policy holders, and cumbersome methods of collecting contributions and accounting are frequently cited as major obstacles and sources of inefficiency.

3. Conversion of provident funds to social insurance pension schemes

In several English-speaking African countries, with encouragement from ILO and ISSA, conversion from provident funds to social insurance pension schemes linked to cost of living indicators has been under consideration for sometime. Although provident funds have accumulated sizeable reserves in many countries, there is difficulty in maintaining its real value as a result of inflation and devaluation of currencies.

A compulsory savings scheme in the form of a Provident Fund was introduced in Nigeria for public and private employees in 1961 through the National Provident Fund Act which allowed employers of more than 10 persons to deduct a fixed percentage from a workers pay, increase it by an identical amount and deposit the total in the fund on behalf of the worker. Initially at 55 years and later at 60 years, the worker could

Table II.4
Statistics on the National Provident Fund of Nigeria

YEAR	No. OF EMPLOYEES REGISTERED	No. OF WORKERS	CONTRIBUTION N'000"	PAYMENT/CLAIMS N'000"	No. OF CLAIMANTS
1983	460	90617	38436	7688	11359
1984	550	59414	37895	5964	16226
1985	566	80591	39842	7830	21686
1986	736	70777	44263	7833	22733
1990	-	-	55000	5600	11910

Source : 1. Quarterly Bulletin of Labour Statistics, 1987, Federal Ministry of Employment, Labour and Productivity. Lagos, 1990.
2. Sunday Times 16/12/91, p. 2.

withdraw the savings as a lump sum or in the form of an annual payment on retirement, with survivors' benefits payable, and withdrawals permitted only after the worker has contributed for at least 2 years. The core of the Act stands today even though several amendments have occurred. By the National Provident Fund (Amendment) 1976, the age ceiling (55 years) was removed to allow workers removed or dismissed at an earlier age as a result of retrenchment exercises to claim their entitlements.

Because of the high incidence of fraudulent claims in respect of reliefs and allowances, the procedures for such claims have been tightened over time. Documents indicating the birth, age and educational status of each child are now required with the submission of the tax forms each year. By a rather complicated formula, the amount to be paid can either be agreed upon jointly by the employer and employee or settled by the court. In sum, with regard to old age benefits, Nigeria has not fundamentally changed the schemes laid down over 30 years ago. Although retirement age has been prolongated and retirement payments increased, there is still no overall coverage for the unemployed population.

Before Ghana converted its Provident Fund into a Social Insurance Pension Scheme in 1991, the Provident Fund had been in existence since 1965, when the National Social Security Programme was established to expand coverage beyond the small group of government officials and the few employees of multinational companies. The rate of contribution was 5 per cent from worker salaries and 12.5 per cent from the employer, while two per cent of the total amount was set aside for life insurance and unemployment benefits. As the Provident Fund grew, successive Governments used it as a source of financing budget deficits. In 1972, further consolidation took place with the formation of the Social Security and National Insurance Trust (SSNIT) which took over management of the Fund. The Scheme covered all workers in the country employed in establishments with at least five workers, non-pensionable officers in the Civil Service, workers in parastatals, multinationals and other eligible companies, concerning payment of benefits for old age, death, emigration of foreign workers, invalidity, sickness and unemployment. Over a 25 year period, the Scheme had over 2 million contributors, but at the time of conversion, there were only 600,000 members, from 11,000 employer establishments and real benefits had been considerably eroded by high inflation. The sickness and unemployment benefits became very unpopular, with time, due to the stringent conditions and the small sums paid out. Between 1965 and 1991, the 8 sickness benefit claims paid were negligible and only 40 beneficiaries succeeded in getting unemployment benefits, again negligible in amount.[24]

The new Ghanaian social insurance scheme offers many lessons for other countries in Africa. It is national in scope and has a relatively wide coverage. By the early 1990s, the Trust had approximately 12,000 employers and 820,000 workers participating. Rates of contributions are the same as under the Provident Fund, and includes old age and retirement benefits, and invalidity and death/ survivors benefits. Restrictions on the qualifying size for enterprises have been abolished by law and all businesses with any number of employees can now participate. Its services have also been extended to informal sector workers such as farmers, transport owners, market women and other self-employed, although the Trust excludes the Ghana Armed Forces and other security personnel how are covered under special schemes. Of the 17.70 billion cedis collected annually, 3.6 million, or 20.2 per cent was used for administrative expenses, and 9.2 billion was paid out in benefits, with the average payment totalling 59,869.64 cedi. By 1990, the Trust had a reserve of 60.83 billion cedi available for investment.

[24] ISSA Workshop, Op. Cit.

Box III. 16

PENSION SCHEME ADMINISTRATION AND INVESTMENT IN FRENCH-SPEAKING AFRICA: THE CASE OF SENEGAL'S SOCIAL INSURANCE SCHEMES

French-speaking African countries established basic pension schemes in the 1960s, covering public servants, civilian and military employees and salaried employees in commerce and industry with respect to retirement and survivors' pensions and allowances. Financing is on a joint basis between employers (two-thirds) and employees (one-third). Legislation provides for adjustment to changing economic situations, but, in practice, these adjustments are never carried out regularly and the real value of the pensions are low. Coverage is also low, and is restricted in practice to salaried occupational categories in most countries.

For old age, invalidity and death, the first law appeared in 1975, converting a 1958 non-statutory public programme. Coverage was extended to all employed persons, including domestic, seasonal and day workers, with a special system for public employees. Government makes no contribution, but the insured contribute 3.2 per cent of earnings while the employer contributes 4.8 per cent of the payroll. About 1.05 per cent of base earnings times years of coverage is the formula used according to a point system. A means-tested allowance is payable at age 55 to persons with at least 10 years employment as a domestic worker or 5 years employment as a day or seasonal worker, if the person is not eligible for pension.

Sickness and Maternity benefits were legislated in 1952, and updated in 1973. Medical benefits are extended to employed persons including apprentices and their dependents, but casual workers are excluded. Cash maternity benefits are given to employed women. Benefits payable to the insured are determined by administrative councils of health insurance institutes, on a funds-available basis. The law requires the participation of companies with over 150 employees, but smaller firms may group together to form cooperative health institutes.

Work injury protection was legislated in 1932 and updated in 1973. It covers employed persons, apprentices, trainees and technical students. Employers pay between 1 and 5 per cent, depending on the degree of industrial risk. Family allowances were provided by law in 1955 and updated in 1973. Employees and social insurance beneficiaries with one or more children benefitted, with a special system for public employees. The insured makes no contributions, but employers contribute 6 per cent of the payroll. The Government earmarks a percentage of turnover tax to pay about one-third of the cost. The contributions also cover maternity benefits. To access child allowances, the parent must have at least 3 consecutive months of employment and be in employment at least 18 days per month, or be the widow of a beneficiary.

Due to the metropolitan policies of the French Government, Senegal, along with other former French colonies, have had a headstart on provision of maternity benefits even though the benefits remain far behind what are affordable in France. Improvements have continued and some benefits are better than in wealthier countries. Compensations have generally been on the increase. Although Senegal has tried to include some coverage of groups usually excluded from formal social security, such as domestic workers, overall coverage in the country is still limited to the small formal sector, mostly in urban areas.

With relaxation of investment restrictions in Ghana, the SSNIT which replaced the Provident Fund is having a significant impact through investment in housing finance, public transport, social services, and Student Loan Schemes. Corporate loans are granted to institutions at bank rate, while, investments are made also in equity holdings in viable institutions, government stocks, treasury bills and fixed deposits attracting higher interest rates. Ghana chose to use scaled premium systems to finance the Pension Scheme, thereby making large funds available for investment. Actuarial projections show the reserve growing from 91.46 cedi in 1991 to 495.5 billion cedi by 1996. These projections were made under assumptions that inflation rates would fall from 25 per cent to 15 per cent by 1996, that average earnings rate would increase due to reduced inflation and salary consolidation, larger numbers of contributors, stabilizing at a 2.5 per cent annual increase by 1996. The projections also assumed that the number of pensioners would increase about ten times between 1991 and 1996, and that administrative expenses would be about 23 billion cedi in 1996.[25] The problem with the SSNIT is that it accounts presently for nearly all pension fund assets in the formal sector in Ghana, given its dominant position as the institution into which all statutory contributions by employees and employers have to be made. This has effectively prevented the emergence of a competitive environment in which other private pension funds could spring up to mobilize savings. At the same time, the investment portfolio of the SSNIT has not been able to generate the positive real rates of return that would encourage an increasing number of contributing members, especially voluntary contributors.

The overall lesson of experience from the Ghanian experiment is that running pension schemes requires a high degree of actuarial skills and experience as well as effective public information campaigns and a more competitive environment. Buying annuity with credits from provident funds can raise costs to a pension scheme through modification of actuarial arrangements, but this also allows a start-up with a solid reserve base and the keeping of contribution rates from rising too fast. Most African countries do not yet have enough specialists in this area, so training will need to be intensified and the services of consulting actuaries employed in the interim. Errors can be costly and tedious to rectify, especially on claims and investment calculations, not to mention the possibilities of frustrating hostile relationships with participants. Overseeing investment, managing cash flows, and calculating payments require high accounting and reporting standards, as well as regular checks and safeguards to avoid embezzlement of funds. Administering such a social insurance scheme demands heavier work load and higher professional and operational competence and efficiency in order to safeguard the value of investments and real rates of return to pensioners.

Emerging Trends in African Social Security: Challenges and Prospects

1. The imperatives of an expanding coverage: implications for renewed interest in poverty alleviation

Nation-wide expansion of coverage is vital if social security is to reach a critical mass of the population and impact favourably on the economy. The current population coverage of 10 per cent in Africa for employment-related social insurance is hardly representative or viable, and none of the occupational sectors covered is adequately serviced. Because existing schemes

[25] ISSA (1994): **Conversion of Provident Fund to Pension Scheme**, Paper presented by Ghana at the ISSA Workshop for Chief Executives, Accra.

decidedly favour those in formal employment, expansion of existing schemes and establishment of additional programmes are needed to meet the social security needs of the majority of Africans.

In planning for expanded coverage of social security, African governments must take note of the threshold limitations of social security systems in industrialized countries and the long-term problems of management. Systemized provision of social welfare, aside, the provision of more formal public and private sector jobs must be seen as one major handle in the drive to expand social security systems. More efficient management and easier access to benefits are also needed for a successful drive to expand formal coverage. In government-funded social assistance, free or subsidized universal coverage for health and education have to be clear aims, because as forms of social security, they function as income support as well as basic services. Some countries already offer free medical care and education in government institutions, but many of these are inadequately staffed and ill-equipped and need to improve what services are provided as well as take on new tasks for the expansion of services to additional population segments, especially in the rural areas. Adequate child benefits and care for the elderly are also areas in which people-centred development should strive for universal benefits. Where social assistance budgets are too small to attempt a universal coverage of basic benefits, then selective coverage has to be targeted. In the selection of targets, a balance must be maintained between social assistance and social insurance, as countries try to assist vulnerable social groups and extend some degree of coverage to agricultural labour and informal, domestic, casual and seasonal workers.

The role of the State in African social security includes direct provision as well as responsibility for appropriate legislation, including labour regulations, which delineate and safeguard employee and employer rights and benefits. Since privatization based solely on the profit motive will not necessarily provide adequate social security coverage to rural workers or the urban informal sector, there is still a large role for government in extending social security and basic services to the population not covered by public and private employment-related schemes. Thus, the African State will in the future find itself not only directly providing non-contributory social assistance schemes, but may also have to initiate programmes with inherent capacity to recover costs and be self-sufficient, which private sector companies will eventually administer. This approach may be suitable in the provision of basic services, where beneficiaries can ultimately afford to meet the cost recovery requirements. As the World Bank has pointed out, "the redefinition of the role of the State makes it all the more important that governments be effective in those areas where they do not stay involved".[26]

In addition to investment in rural development, agricultural policy must be properly targeted and implemented accordingly, using as appropriate, community groups, NGOs and cooperative institutions in African countries to expand social security. Given the high rates of rural/urban migration, rural development has to ensure productive employment and improved delivery of basic services such as health, education, transport, water and electricity systems. It must also deal with the problems of fluctuations in crop production, prices and incomes, and low agricultural productivity, instability of rainfall, pest infestation and other natural disasters. Some form of insurance against crop failure is crucial in Africa if wider income security is to be extended to the rural populations. Such security need not, however, be only cash-based. Rural schemes have been tested in several countries, whereby loans and benefits become payable in livestock units. The risks of agricultural

[26] **Workers in an Integrating World**, World Development Report 1995, World Bank, Washington D.C. p. 6.

production in Africa have to be underwritten, minimized and subsidized if agriculture and agro-industry are to provide food security and play their pertinent role in economic development. [27] In the African situation, famine prevention and assistance, and food security have to be top priorities. Where two crop-seasons prevail, for example, agricultural insurance may be less important. And where there is a concentrated rural wage labour population, with already existing community labour obligations, locally sponsored, nationally-inspired public works may be the most suitable way to provide income support.

Discussion of "best practices" in social security provision under African social and economic conditions is particularly appropriate in light of the 1996 United Nations System-Wide Special Initiative for Africa. The 20/20 partnership approach to sustainable social development, which UNICEF and other Specialized Agencies are supporting, is that an allocation of 20 per cent of budgets be made to the social sector by governments and by development partners. Social policy at the national level is also expected to be inspired by the sustainable human development (SHD) paradigm that is being advocated by United Nations Specialized Agencies, and which stresses provision of basic social and physical infrastructure to further human-centred development. The need to expand both earnings related and non-earnings related social security is acknowledged in these initiatives for helping people to help themselves.

Implementation of the Programme of Action of the International Conference on Population and Development (ICPSD), held in Cairo in 1995, should also encourage greater attention to social security in African countries. As a follow-up to the Conference, the Administrative Committee on Coordination (ACC) of the United Nations has set up three inter-agency task forces on Employment and Sustainable Livelihoods, the Enabling Environment for People-Centred Development, and Basic Social Services for All (BSSA). The major objective of all three Task Forces is poverty alleviation and eventual eradication, through country-driven social security "safety nets", both wage-related and non-earnings related. Provision of basic social services is essential to this concept. The BSSA Task Force is particularly relevant in that it tackles reproductive health and family planning services, basic education, primary health care, drinking water and sanitation, shelter and social services in crisis situations. [28]

2. Integration of social security into development planning and community development

In Africa, social security programmes must be seen as an essential part of broader social policy, and thus integrated into all aspects of development planning, including the expansion of basic social services. African countries need to devise affordable non-earnings related safety nets and social funds, besides encouraging a policy of modernizing and using community and family-based mechanisms to maximize population welfare. In addition, greatly enhanced schemes to complement earnings-related schemes of pension in both public and private sectors, and for employment creation and promotion for wage labour and the self-employed will have to be pursued.

In Africa, as already indicated, sustained contributions to formal social security systems are not common or significant; traditional mechanisms are more the norm. The current reality is that formal social security systems do no more than supplement the traditional and informal sources of social security. In fact,

[27] P.K.Ray (1981): **Agricultural Insurance**, Pergamon Press, Oxford.

[28] Report of the Meeting of the ACC Task Force on Basic Social Services for All, UNFPA Headquarters, New York, February 1996.

where formal benefits do exist, they are frequently too low and have to be supplemented by own or extended family resources. In this connection, the values of the African family and family life should be nurtured, fostered and clearly endorsed as the foundation stone of security and social stability in African societies.

Community development through labour-based mechanisms, involving the use of contributions in cash or kind in the implementation of local projects, can be a vital means of providing social security. By using local unemployed and underemployed labour to promote infrastructural activities such as road works, construction of public facilities, water reservoirs, boreholes, irrigation, erosion control, tree-planting, improved stoves and toilets, and so on, it can contribute simultaneously to employment promotion, sustainable development and social security. In the French-speaking countries of West and Central Africa, community self-help activities have found a degree of success in community programmes called "animation rurale" or rural development extension work, which fits into broader Government strategy for rural development[29]. Small schemes for rural areas have been particularly targeted for the building of access roads, markets, nurseries, health centres, and income generation activities for women. Generally, women's clubs and mothers' clubs are active in various educational, commercial and cultural areas, for example, improvement of houses, child protection, poultry farming, water supply, and dissemination of information about food and nutrition, cooking skills, and sewing, to name a few. Community-based support and self-financing mechanisms for social insurance and assistance have to be attempted, in line with Africa's demographic patterns and welfare needs.

3. The role of social funds and safety nets

The use of "safety nets"[30], in the form of social protection programmes under SAPs, emergency social funds and social investment funds, is being presently encouraged and financed in Africa largely from external bilateral and multilateral resources. Given the current economic crisis in Africa, the number of emergency situations caused by war, political unrest, drought and famine, such special safety nets have been of great assistance in targeting and channelling social security to the most vulnerable groups in the population. African governments that have used such safety nets to target groups include Cameroon, Chad, Egypt, Ghana, Guinea, Guinea Bissau, Madagascar, Sao Tome and Principe, Senegal, Somalia, Uganda, and Zambia, and the targeting involved has essentially been mainly geographical and according to vulnerability of socio-economic groups, while the focus has been on employment creation and income generation, development of socio-economic infrastructure, social services delivery and institutional capacity building. Assistance under such programmes has created short and long-term jobs, helped retrenched public workers and unemployed university graduates, as well as supporting self-employed micro-entrepreneurs. Some assistance has also reached small farmers, miners, fishermen, farmer cooperatives and productive associations. The lessons to be drawn from their experience can do a great deal to improve the modalities and

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[29] UNICEF (1992), op. cit.

[30] These are pioneering experiments being tested in Latin America and in Africa, particularly sub-Saharan Africa, as social assistance programmes for poverty alleviation, in the context of the social dimensions of structural adjustment. See UNCTAD (1994), op. cit., where it is pointed out that safety nets in Africa confront a much more difficult task in alleviating poverty than they do in Latin America. Although African countries have more highly developed systems of traditional solidarity than the countries of Latin America, they usually have lower GDPs per capita, are more rural, have a relatively larger informal sector, are more frequently afflicted by famines and drought, have less developed NGOs and local governments and existing social welfare systems cover only small percentages of their populations.

Box III.17

SOCIAL SECURITY IN SITUATIONS OF EMERGENCY AND POST-EMERGENCY: THE CASE OF MOZAMBIQUE

Emergency situations, which abound in Africa, retard development efforts, stunt food production and food security, destroy infrastructure, and create millions of refugees, displaced persons, orphans, widows, disabled cripples, street children and beggars. In addition, rehabilitation of ravaged areas is made more difficult by continued instability, and such post-war requirements as removal of land mines.

Since the end of the Civil War, Mozambique has had to pick up socio-economic trends abandoned since the independence era. Social assistance programmes have had to be set up even before large-scale expansion of formal sector employment. Medical care is free in the nationalized health care system. Education is free at all ages and is compulsory from age 6 to 14. As in Namibia and Zambia, Mozambique has instituted the pension scheme approach to formal social security.

Some of the first groups targeted for welfare were war veterans and victims, their families and dependents, and returning refugees and the displaced, all in need of national and international assistance, jobs, housing and freedom from political retaliations. Social policy for many years has had to focus on resettlement, rehabilitation and reconstruction. The United Nations System assisted with peace-building. UNDP for example, assisted the Ministry of Defense to demobilize thousands of soldiers and reintegrate them into civilian life under veteran assistance programmes. In collaboration with the United Nations, the African Development Bank and the World Bank helped to build and improve educational facilities and to train teachers.

Job creation has been limited and the formal sector is small. Only a small percentage of workers enjoy public or private social security, with the most secure being the expatriate workers. The wars meant forced conscription of soldiers, hundreds of thousands dead, both military and civilian, leaving a high number of widows, widowers, orphans and former child soldiers. Given the long years of independence and civil wars, Mozambique has a long way to go with establishing and delivering social security benefits to its population, despite potentially rich resources.

Source : UNDP Annual Report, 1992; UNDP Human Development Report, 1995; UNHCR (1995): State of the World's Refugees.

financing mechanisms for non-earnings related social security schemes elsewhere in Africa.

The involvement of NGOs and grassroots, religious and other community organizations in the programmes can ensure that safety nets and social funds reach the poorest groups. Such organizations are better able to detect needs, adapt to local conditions, mobilize local resources and participation, bring down costs and strengthen decentralization. Their management skills are improving regionally and locally, although frictions with governmental authorities are inevitable, and there is shortage of skilled personnel. Overall, participation of the non-government sector in African safety net programmes is low and less than in Latin America, although Guinea Bissau and Senegal have good records, as does Ghana's food-for-work project. Weak financial and administrative capacities affect adversely the revenue base of social protection programmes in Africa, and the ability of countries to target the truly needy and vulnerable households for the channelling of social benefits.

4. Promotion of social security through the expansion of basic services

In the expansion of basic services to provide social security, particularly in the rural areas, the following modalities and approaches could, we believe, provide guidance in the structuring and operationalization in the four critical areas of food security, health, education and employment.

a. Food security and agricultural policy

In the promotion of food security in areas prone to frequent food shortages (and given the prominent role of women in the cultivation, processing, storage and marketing of food) social security strategies would need to target women in particular. Programmes for increasing and stabilizing the income of small farmers especially women farmers, would not only enable them to participate in social security and agricultural insurance schemes, but enhance the food security of the nation as a whole which, in itself, is an important goal. In many areas in Africa, agriculture is not just a business enterprise, it is also a way of life. It involves special physical and economic risks for the farmer and the agricultural worker, in addition to the problem of security in old age. Few sectors in the economy present as much risks.[31] The majority of African farmers need social protection assistance and low-cost, effective agricultural insurance to support them on their way to a more self-reliant and secure future.

Even the most minimal of agricultural insurance may provide better security than occasional reliefs and concessions: the insured farmer can claim indemnity by right, and in some cases, can use insurance policies as collateral for loans; availability of insurance tends to encourage farmers to try new and improved methods, and to make new investment for expanding production. In addition to public insurance schemes, private insurance companies, NGOs and cooperatives should be encouraged to participate in the provision of effective insurance of farmers. In the case of Africa, it may be said, personal insurance for farmers against sickness, accident, death or disability, though important, is likely to have a less direct impact compared to insurance for crops and livestock. In addition to social security insurance, the high risks in agriculture in areas prone to natural disasters, such as floods, will need to be tackled by special preventive measures, such as the construction of dams, drainage, and related facilities.

b. Health for all ?

The main sources of health care provision in African countries are the government, non-governmental organizations (NGOs) and the modern and traditional private sectors. Financing basic health services in Africa is overwhelmed by the enormity of needs and capacity constraints. In 1985, only about 45 per cent of Ghanaians could reach a health facility in less than one hour. In Gabon, despite higher per capita income, less than 50 per cent of the population have access to safe water. Only about 17 per cent of the total economically active population in Cameroon

Table II.5
Role of Social Insurance in Financing Health Care Expenditure in Selected Countries

COUNTRIES	PERCENTAGE OF POPULATION COVERED BY SOCIAL INSURANCE	SOCIAL INSURANCES BY PERCENTAGE OF HEALTH EXPENDITURE		HEALTH EXPENDITURE BY PERCENTAGE OF GDP
		PUBLIC	TOTAL	
COSTA RICA	82	85	62	6.5
FRANCE	100	95	71	8.9
INDIA	5	9	2	6.0
KENYA	10	7	4	4.3
REPUBLIC OF KOREA	90	50	25	6.6

Source : ILO (1994)

[31] P. K. Ray: **Agricultural Insurance**, Pergamon Press, 1981.

Box III.18

THE BAMAKO INITIATIVE: HEALTH CARE FINANCING

Benin and Guinea have pioneered implementation of this 1987 Initiative of African Health Ministers which aims at improvement of efficiency, control of costs, continuity of services, community participation and management, and which has been key to reorganization of the health system to reinforce Maternal and Child Health (MCH). Benin, in particular, has acquired a wide experience in financing and managing primary health care (PHC) by community-funded initiatives, with the support of UNICEF, Ford Foundation and WHO. The Bamako Initiative was launched when Benin's economy was in crisis and it was increasingly difficult to provide the free health care promised A series of activities was aimed at protecting vulnerable groups from most targeted diseases of the Expanded Programme of Immunization (EPI,) with emphasis also given to MCH, family planning and nutrition.

The new health strategy was based on user financing through cost recovery, supported by decentralization, and emerged from the data gathered by operational research through a pilot project. District and country health centre workers were authorized to manage income and expenditure and the Initiative provided the initial supply of medicaments to every participant district for a maximum period of three years. The community was supposed to be able to replenish the stock needed by the second year, by using funds generated from the sales of drugs. Prices were set centrally and a profit margin of 50-75 per cent below the initial cost was allowed for medicine sales at lower prices, care for indigents and funding of running costs. The capital accumulated is a community fund and is not from public taxes. It can also be used to finance allowances for community workers, basic supplies, and fuel. Thus, a self-replenishing fund is established from the first year of implementation, with a community health committee responsible for the poorest in the community who cannot pay for health care.

Source: UNICEF (1992): **Community Participation: An Alternative Way for Development Financing of basic services: The case of the health sector**

can obtain the small benefits available through social security financing of health care[32] Although, virtually all African Governments operate publicly financed health care delivery system, with varying degrees of success, they tend to focus on curative treatment rather than preventive and promotional services. However, public budgetary funding of health care in Africa, especially under the influence of structural adjustment, is on the decline or is stagnating. Government budgets for social services can achieve some degree of reallocation but, on the whole, competition for funds for basic services is stiff, while service delivery is generally on the decline as a result of the economic crisis that many countries are going through. This is compounded by the high rates of population increase and growing urban/rural migration.

Private sources of health care are unevenly spread and are accessible only to those able to pay substantial fees. Cost recovery mechanisms at public points of health delivery are difficult to administer, besides arousing user resistance and decreasing access of the low-income and the poor to basic health facilities. Private insurance companies offer health insurance, work accident and life insurance policies, but have a bias towards the urban and the affluent, as is markedly the case in Kenya, Zambia, Nigeria and Ghana.[33] Private medical practitioners, nurses, midwives and pharmacists usually operate mainly in urban areas, with the result that the NGOs have a significantly greater impact on health care delivery in many African countries.

It is clear that social security benefits alone cannot make up for the high costs of health care,

[32] ILO: **Health Care Under Social Security in Africa: Taking Stock of Experience and Potential**, Social Security Department, International labour Office, Geneva, 1992.

[33] Ibid.

still less contribute to programmes on health promotion and information. They cannot substitute for well- organized public health systems with effective universal coverage, which admittedly are difficult to achieve. Employment-based, earnings-related social security remains a major financing mechanism for health care services and facilities, and a viable supplement to the public health system, in the immediate future. Nigeria, Ghana and Zambia are establishing pilot schemes of this nature. Grand designs for financing health care in developing countries, based on social need, have not materialized and the general consensus at present is that multiple sources have to be used by individual countries to achieve this objective. The 1987 Bamako Initiative reflects an emerging trend in financing health sector needs.

In many countries, an overwhelming majority of health workers, sometimes as many as 90 per cent of doctors, nurses and other essential health workers, are concentrated in a few urban areas. Rural communities are also disadvantaged vis-à-vis institutional and infrastractural facilities. For example, more than 50 per cent of the African population do not have access to modern health facilities and 30 per cent have no access to safe drinking water and sanitation. In many cases, over 60 per cent of people in the rural areas have no access to these facilities. High levels of maternal, child and infant mortality and low rates of immunization are symptomatic of the gross neglect of Africa's rural communities. The rural sector is seriously disadvantaged in Africa in the provision of health and health-related services. There are significant variations also in the provision of these services as between subregions and countries within the same subregion. Studies indicate that the few modern health centres that do exist are located at considerable distance and are poorly equipped to justify the enormous costs to both patients and the general public. Policies are urgently needed to address the major obstacles to the provision of basic health services in Africa, in particular the predilection towards curative rather than preventive health care. To do so, integrated and coherent health policies must be grounded in the principles of primary health care and WHO/AFRO's African Health Development Framework which underlines the goals of health for all by the year 2000.

In consonance with the Bamako Initiative and Saitama Declaration, African countries must intensify efforts to develop strategies for health care financing, community participation and mobilization for health care provision and extensive training for community health workers. Government expenditure in the health sector must be restructured in favour of preventive and community health care, paying particular attention to the rural and urban poor. Some of the areas needing urgent attention are maternal and child health services, especially immunization and family planning programmes, public health education, nutrition, sanitation and provision of safe drinking water, the containment of HIV/AIDS, sexually transmitted diseases and tuberculosis, promotion of healthy lifestyles and stable and safe environment.

d. *Employment promotion*

The commitment to social security, and the urge to mobilize entrepreneurial potentials of their populations have already encouraged several African countries to initiate special programmes for employment promotion. In fact, it is now generally agreed that employment creation on a massive scale has to be a primary strategy, targeted at both formal and informal sectors.

Priority attention is also being urged towards enhancing working conditions and benefits, and dealing with long-term structural unemployment and underemployment, among others, through education, training and retraining policies for matching labour demand and supply. Employment opportunities, even on a short-term basis, function as effective income support to workers in depressed areas or with special needs.[34] Decentralized labour-intensive public work projects, involving men, women and youth, can alleviate poverty, stimulate community self-help, inject incomes into the community and develop rural infrastructure.

Furthermore, firms can be encouraged to employ disabled persons, youth trainees, the still active elderly and so forth. Apprenticeship systems and job training programmes can also be instituted for the youth. Female employment in formal and informal sectors should also be maximized, as the labour pool they represent, if rationally utilized without gender bias, can greatly expand production, household income and expenditure.

d. Education for all ?

Education contributes to social security in many ways. First, education is a driving force, a linchpin, a catalyst for human and economic development, and one of the best investments for self-propelled social security. It raises literacy and numeracy, and self-confidence; induces productivity and innovations and, promotes civilizing behaviour such as tolerance for other ethnic and religious groups. Second, by giving children the best possible education, parents assure themselves of better security in old age not only in terms of what their children could do to make their old age more contented, but also, and more particularly so, in terms of the peace of mind and happiness that they enjoy in seeing their children hold out on their own in society and, quite often, doing much better than themselves.

However, only a few African countries with per capita incomes below $US 1,000, are close to providing 80 per cent of children with at least 4 years of schooling. Without special and additional resources and activities in the sector, it estimated that close to 52 million African children of primary school age will miss out on basic education by the year 2000. This reduces the chances of youths playing a constructive role in societies and of parents enjoying a decent level of social security in old age.

Because millions of children have already missed out on basic education, millions of them now need basic or further education to enhance their level of contribution in society as adults, and to improve their prospects of enjoying better security in old age. Hence, the general acceptance that non-formal approaches are needed to supplement the formal education system in Africa. Indeed, if the region is to achieve the United Nations goal of basic education for all by the year 2000, such approaches should include opportunities for older youths, adults, special categories such as the physically handicapped, and those who for various reasons drop out from school. The 1990 World Conference on Education for All, held in Jomtien, Thailand, in its World Declaration and in the Framework for Action to Meet Basic Learning Needs, declared that education for all in the global family constitutes "a common and universal responsibility". It should also be added that education is a fundamental basis on which to build other ingredients of social security.

5. Harmonization of national and regional social security systems needed

Harmonization of the provisions of different social security schemes within a national territory will be important in the future, especially in the context of reducing overlapping coverage, increasing complementary effects and effective combinations of State-based and community-based systems. Training of personnel, especially in light of the trend towards conversion of provident funds to pension schemes, privatization and harmonization, is also an area requiring increased activity.

Regional harmonization of social security systems should be pursued within the standards of ILO Convention 102, and others relevant to

[34] The Copenhagen Declaration and Programme of Action, World Summit for Social Development, March 1995.

employment and work environment. The drafting and signing of an African Social Security Convention or a similar instrument could be pursued under the sponsorship of OAU to provide a regional framework for guiding further development of social security coverage in the region, and as a foundation for further action on labour benefits within the African Economic Community. Coordination and harmonization between national social security systems is certainly one prospect for the future, especially within subregions. This will in future facilitate and support capacity-building through the sharing of know-how, qualified administrative staff, training facilities, cross-border economic activity and labour mobility, and the treatment of non-national workers, as well as refugees and the displaced. Important too are arrangements for transferability of benefits with change of employment location, so that labour mobility does not cause disruption of length of service credits or "double taxation" across borders.

Currently, the informal sector provides employment and income but no job security and benefits beyond personal ties and the goodwill of the employer/owner, and no health and safety standards. Legal and desirable activities of the informal sector have to be recognized and assisted, not only for tax purposes. Informal sector workers and self-employed could be made to participate in schemes where government's social assistance contributions replace or significantly supplement those of the employer. The concept of nation building can be expanded to include informal sector activities and, as such, there would be expansion of the idea of what constitutes State employment. Particularly, countries with strong ideologies about land belonging to the State or the ethnic group could design schemes which require employer and/or local or central government contributions for matching or topping up the levels of contributions from casual and agricultural workers. Schemes could also include coverage for smaller firms and agricultural establishments. In addition, and with the aid of standards established by the ILO, it may be possible to reduce the exploitation of workers, particularly female workers, in export processing zones, so that they get longer and more secure employment contracts which facilitate social security benefits.

6. Essentials of a viable formal social security system in Africa

Recent recommendations by the IMF for the restructuring of the social security systems in the transitional economies are instructive and useful in any consideration of the essentials of a reformed and strengthened formal social security system in Africa. The IMF recommendations urge, in the main, the restructuring of existing systems of benefits and the establishment of minimum benefits packages to be targeted at the level of the poorest households, and emphasize as well the adoption of innovative policies specially targeted at the unemployed and the pensioners through public construction projects and provision of housing and other subsidies [35]. Details of the recommendations are as follows: (i) Reforming eligibility and benefits standards and structures for distribution of social benefits. Possible reforms in this area include raising statutory retirement ages, abolishing special pensions, reducing pensions for working retirees and availing targeted contributory programmes to informal sector workers, despite the difficulties in tracking incomes; (ii) Mobilizing financial resources through the improved reach of payroll tax collection, through broadening of the tax base to include presently untaxed labour compensation, including registration of new companies in unregistered sectors; (iii) Strengthening budgetary expenditure discipline for increased efficiency in public expenditure, and reducing administrative burdens; and, (iv)

[35] IMF: Survey, August 12, 1996.

Selective prioritization in outlays for social protection and use of effective targeting mechanisms for the provision of benefits, especially to the elderly, young children and the unemployed, all particularly affected by quite high rates of inflation and rapid devaluation.

Viewed against the background of the analysis in this chapter, the essentials of a viable formal social security in Africa would seem to hinge on the provision of adequate social security legislation for efficient administration of the system; efficient management and sound investment of social security funds ; and, the development of social security management data and information systems in aid of efficient policy formulation and implementation.

a. Adequate social security legislation

The objective here is to avoid any gap between legislation and their effective implementation, as is currently common in Africa. New social security legislation is important in guiding the whole process of reform, expansion and conversions. However, in this case, African social policy has to set certain standards and objectives so that legislation can guide its establishment and efficient administration. Existing legislation should be updated and expanded to reflect new national priorities for human-centred development, and to guide social security programmes in adjusting to changing national demographic and employment trends, and all traces of gender bias will have to be removed. With changing gender roles and labour market conditions, it can no longer be assumed, for example, that the insured worker is the male. New and amended pension provisions and tax laws should aim also at establishing a more direct link between contributions and benefits, and increased sharing of contributions between employers and employees.

b. Efficient management and sound investment of social security funds

Finding the necessary resources for social security, whether through increased employment contributions, budgetary reallocations or improved management of investment funds, is a key challenge for financial administrators and government officials,. The new emphasis on social partnership favours increasing employee and employer contributions to social security, and raising the market share controlled by the private-sector.[36] The extent to which external assistance will always be available through safety nets and loans and grants for the development of infrastructure and basic services is difficult to predict and is therefore a source of anxiety for the system.

However, to minimize the costs of pension schemes to employers and the State, some countries may need to raise the retirement age. Some African countries have already done so or are considering doing so, given longer life expectancies, the increased numbers of the elderly in the population structure, and the need for highly experienced personnel in the development effort.

Social security benefits can also contribute more to the welfare of the labour force and to nation building if contributory coverage is expanded to large numbers of people presently excluded, and the benefits paid out are indexed to the cost of living. Social and basic services must be seen as aids to social security, and African governments in particular should as much as possible move in the direction of funding basic health and education either as free or subsidized services to their populations within the context of cost-sharing arrangements. Various forms of partnership financing for the delivery of social security will need to be exploited. Since shrinking formal sectors make it difficult for governments in Africa to mobilize resources and the expanding

[36] UNCTAD: Comparative Experiences with Privatization :Policy Insights and Lessons Learned, United Nations, New York and Geneva, 1995.

informal sectors are difficult to tap, balanced reforms must be put in place.

7. <u>Global trends towards privatization of formal social security need to be followed cautiously in Africa</u>

There is a current policy shift in the industrialized countries towards social security programmes based on privatized services and community care. The shift to market systems and the transition periods involved can cause increased unemployment and loss of benefits in some sectors, and hardships for the poor and vulnerable, especially women and youth. However, well-regulated and well-managed private firms can also do a great deal to expand contributory social security that is flexible enough to embrace different categories of workers.

The trend towards privatization of social security schemes is also evident in Africa, as the number and profitability of private insurance firms increase. Since universal coverage under public schemes is rare on any count, and the higher income groups are for the most excluded from many public schemes, private commercial insurance firms have an expanding market. However, they need greater government supervision to prevent their exploitation of the citizenry, as well as government incentives so that they would channel their investments to strategic areas of the economy and social infrastructure.

8. <u>It is necessary to redress past gender imbalance</u>

The ILO has contributed significantly to promoting the awareness of equal rights for men and women, the right of everyone to work and enjoy equal pay for equal work. International standards for gender equity and equality have been established by various Conventions, and national legislation is also fast developing in this area. On the whole, member States of the United Nations have become more committed to gender equality and equity in state-sponsored education, and are including women's issues and the gender dimension into development planning and aid projects. Most African countries already have a small but growing number of politically and economically active women and female professionals, and the prospects are that their number will expand with the growing educational and other facilities now available specially for women.

Although more women than before, have now joined the labour force in most parts of the world, i.e., in garments and textile production, electronics and pharmaceuticals, the tendency still is for employers to get away with low wages, temporary hiring, reduced membership in unions and little regulation under labour legislation when it comes to female employment. For example, as multinationals relocate and expand labour-intensive industries to developing countries, cheap labour tends to proliferate in the informal service sector and among the young and inexperienced, and unmarried women. The Newly Industrialized Countries (NICs) of South East and East Asia, and the former Socialist countries in Eastern Europe have been successful in using female labour in large numbers to accelerate industrial production at low wage rates and with little or no social security costs. And this has sometimes led to the suggestion that industrialization in developing countries will have to be both export and female-led, and that market restructuring and production expansion and diversification in many parts of the world have over-exploited part-time female labour which is flexible and accepts lower pay and insecure working conditions and can be more easily laid off than male workers. Under these conditions, and in situations of sub-contracting, African women can be expected to continue to lose out on maternity leave, child care facilities and family benefits, without adequate legislative and regulatory action of these aspects of the labour market. Hence, there is need for vigilance in Africa in the context of globalization and deepening policy reforms if the fragile gender equity and equality on the continent is not to be further negated.

Community-centred Mutual Assistance: An Example of a Viable Social Insurance Scheme for Africa

It needs to be reiterated perhaps that in any attempts at revamping their social security systems, African countries must learn from the diverse experience in other countries and revisit also the individually driven community-based traditional mechanisms already at their disposal. They need not confine their attention to the models of social security provision in industrialized countries, where supplementary cash benefits and a wide range of social services are taken for granted. For while those arrangements have undoubtedly served to minimize the risks and costs of loss of income to the individual, they are nonetheless proving unsustainable even in the countries concerned, as the escalating cost of providing public social insurance increases the pressure on fiscal balance. In addition, an increasingly aging population is expected to aggravate financial unsustainability of social security systems in the developed world, in consequence of which individual countries have embarked on measures to reduce benefits and pre-empt bankruptcy of state-based funds. This is why it is imperative that in facing up to the challenges of evolving a viable social security system, African countries must take cognizance of the inherent limitations of the classical state-sponsored social security and welfare system, and the underdeveloped nature of and limited scope for private sector based modern initiatives on the continent. They need to be fully aware of the advantages of modernizing existing traditional arrangements as viable alternatives, the most viable elements of which are the extended family system and community-based self-support schemes.

That the traditional social security system that is deeply rooted in the family has been under the threat and in danger of decay has already been discussed in the preceding pages. The aged and old, who often have exhausted the capacity to provide for themselves, have been the most conspicuous victims of the disintegrating extended family system, as grown-up children abandon their presumed moral and financial obligations to their parents and other relations in violation of the age old tradition and logic of having and rearing children in Africa.

The incipient disintegration of extended family support is not specific to Africa however, it is an international phenomenon, going by the latest indications of official concern and efforts at reinforcing traditional social security systems in China [37]. In October 1996, the government of the People's Republic of China decreed a legislation obligating the young to live up to their responsibility of supporting aging parents. How realistic is this and similar statutory approaches to the revitalization of social security in societies in transition is debatable. But its underlying message is nevertheless clear: moral suasion is an indispensable ingredient of any to revitalization and revamping of social security in traditional societies. Also critical to the strengthening of the social security system in Africa is the renovation and modernization of certain basic essentials of the traditional schema.

In many African countries there is a plethora of mutual benefit societies , the most common of which cover expenses related to death and burial. These societies require regular contributions from members in return for a guaranteed sum of money on the death of a family member. It is possible for these same arrangements to be nurtured, developed and widened further in scope into full-fledged

[37] "Peking Orders **Children** to Take Care of Aged Parents", The Independent (London), October 3, 1996. p. 1.

insurance institutions with the periodic membership contributions converted to premiums. Already in many developing countries, traditional mutual benefit societies have been modernized, and have grown into huge insurance corporations.The advantages of such a streamlined system are many. First, membership would remain broad-based by retaining the very simple underlying formalities. Second, the premium will remain sufficiently low so as not to deter or discourage membership. Third, such an arrangement will continue to entail no cost or burden to the government budget. Finally, the range of coverage could be made to vary with the needs of individual members.

One such example of the model of the development of mutual assistance schemes into modern insurance corporation is the *Bumiputera* 12 of Indonesia, an institution that had its beginning in a mutual benefit society of teachers and is currently a major player in the country insurance industry.[38] The *Bumiputera* 12 was initially initiated as a simple mutual assistance society of teachers in Indonesia in 1912, with the objectives of providing support to families of deceased of members, and membership limited to the Indonesian Teachers Association. The *Bumiputers* has since gone a long way from its humble beginning and currently accounts for more than 50 per cent of the insurance business in Indonesia. But this phenomenal transformation was not achieved overnight; it was one of gradual and prudent transition which could be summarized as follows: a) Between 1912 and 1915 its membership was limited to teachers, with mobilization of members achieved largely through the teachers associations, and premiums collected by teachers themselves acting as agents; b) Because of its success and as a condition for assistance and support from the colonial government, membership was opened to all government employees in 1915 and extended gradually thereafter to cover the whole economy; c) Its funds were invested and reinvested in different activities for the benefit of its members, with no dividends paid to the parent body, the Indonesian Teachers Union; d) From the 1920s, management of the society was professionalised, with the employment of people with actuarial and managerial skills. Nevertheless the board of directors, the top policy making body, remained the teachers themselves and other people appointed by the Teachers Union.

The successful transformation of mutual benefit associations into modern business enterprises in Indonesia and other developing countries are instructive and worthy of emulation in the African countries. Although the mutual benefit societies had their origin in other countries in the labour union movements and were largely instrumental in their own popularization and membership mobilization, the community based associations could be the hub of such on experiment in the African countries, aimed specifically at targeting people excluded from formal social security schemes.

Membership of existing traditional mutual benefit societies in Africa includes the poor in the urban and rural areas with limited incomes and savings, who could for the most make only ad hoc contributions as affordable, even though all residents of the community are supposed to have equal access. These need-based community driven societies could be sensitized in various ways about their enormous potentials and far-reaching possibilities once they are reformed. And the first thing in this respect is for them to expand the range of benefits provided. Rather than limiting themselves to benefits related to death of family members, they could, depending on their capacity to provide coverage for other needs, gradually widen benefits to members by addressing contingencies such as sickness, unemployment, old age etc. Second, and most

[38] John Ingleson, "A Mutual Benefit Societies in Indonesia", International Social Security Review, Volume 46, No. 3, 1993, pp.69-78.

importantly, there must be efficient management and investment of their surplus resources. This is indeed crucial to their very survival as well as the limits of the range of assistance and services they could sustainable provide to their members. As currently managed, many of these societies suffer from theft, embezzlement and lack of accountability, which often threaten their long-term survival. By graduating and developing mutual societies into modern insurance companies endowed with more rational management and allocation investment of resources, it is possible to turn them into a dynamic mechanism for the mobilization and optimum utilization of the financial resources emanating from the small savers.

Care must be taken however with regard to the approaches employed, and speed of transformation of mutual societies; as an overly ambitious and hasty drive could prove disastrous. For one thing, basic decisions, such as those concerning the main elements of structural transformation, must be made by the entire membership, and not dictated from the outside. For another, the pace of the transformation must be gradual and sequential, if the experience of other countries is anything to go by. For instance, it is possible to conceive of a mutual assistance society growing first into a cooperative, and then into a saving society and a sickness and accident society before moving on to other levels of operations prior to its being launched as a full-fledged insurance scheme. Last but not the least, a conservative and cautious approach to the investment of the surplus funds generated is called for, particularly at the early stages of revitalization of such a society.

In all therefore, there is need for urgent assistance from African governments in support of the process of graduating the many mutual assistance schemes in existence on the continent into full-fledged business enterprises and broad-based insurance schemes. Such assistance can specifically take the form of publicizing and educating the people as to the short-term reality and benefits of such an institutional innovation, providing necessary legislative frameworks, and granting tax holidays and other financial concessions. Because the mobilization of resources is a significant aspect of the business of mutual assistance societies, the central banks would seem to be the more appropriate government institutions to oversee and supervise such a transition, and to assist their management and operations with appropriate capacity building efforts and measures.

Statistical Annexes

Table 1
Basic Indicators

	GDP 1994 IN MILLION US $	POP 1994 IN THOUSANDS	GDP PER HEAD ($)	CONSUMER PRICE INDEX (1994) 1990=100 % CHANGE
CENTRAL AFRICA	**40878**	**94164**	**434**	**17366.2**
CENTRAL AFRICA W/O ZAIRE	34046	51688	434	27.1
ANGOLA	8529	10674	799	..
BURUNDI	1402	6168	227	14.8
CAMEROON	10690	12905	828	..
CENTRAL AFRICAN REPUBLIC	1562	3344	467	24.6
CHAD	1455	6183	235	40.8
CONGO	2872	2515	1142	..
EQUATORIAL GUINEA	168	389	432	..
GABON	5953	1323	4500	..
RWANDA	1359	8057	169	..
SAO TOME AND PRINCIPE	56	130	431	..
ZAIRE	6832	42476	161	23773
EAST AFRICA	**29932**	**158735**	**189**	**20.0**
COMOROS	269	630	427	..
DJIBOUTI	479	496	966	..
ERITREA				..
ETHIOPIA	5681	56316	101	7.6
KENYA	9163	26975	340	29
MADAGASCAR	3119	13702	228	38.9
MAURITIUS	3107	1120	2774	7.3
SEYCHELLES	394	73	5397	1.8
SOMALIA	425	9845	43	..
TANZANIA	2723	29755	92	34.1
UGANDA	4572	19823	231	9.7
NORTH AFRICA	**193388**	**154858**	**1249**	**12.0**
ALGERIA	56542	27815	2033	29
EGYPT	52002	57285	908	8.2
LIBYA	29715	5225	5687	..
MOROCCO	28983	27601	1050	5.1
SUDAN	10459	28175	371	..
TUNISIA	15687	8757	1791	4.7
SOUTHERN AFRICA	**129820**	**94719**	**1371**	**20.0**
BOTSWANA	4043	1392	2904	10.5
LESOTHO	651	1929	337	..
MALAWI	1851	11008	168	34.7
MOZAMBIQUE	1491	15823	94	..
NAMIBIA	2386	1635	1459	10.8
SOUTH AFRICA	107234	41749	2569	9
SWAZILAND	982	836	1175	14.3
ZAMBIA	4011	9132	439	53.7
ZIMBABWE	7171	11215	639	22.3
WEST AFRICA	**80646**	**219415**	**368**	**45.3**
BENIN	2183	5235	417	38.5
BURKINA FASO	3174	10069	315	25.2
CAPE VERDE	433	407	1064	..
COTE D'IVOIRE	9913	13895	713	26.1
GAMBIA	333	956	348	1.7
GHANA	7568	16944	447	24.9
GUINEA	3307	6501	509	..
GUINEA BISSAU	289	1050	275	15.2
LIBERIA	1184	2941	403	..
MALI	2668	10464	255	23.2
MAURITANIA	1202	2270	530	..
NIGER	2468	8813	280	36
NIGERIA	37802	123079	307	57
SENEGAL	5900	8165	723	32.3
SIERRA LEONE	814	4616	176	24.2
TOGO	1408	4010	351	..
TOTAL AFRICA	**474664**	**721891**	**658**	**1687.5**
TOTAL AFRICA W/O ZAIRE	**467832**	**679415**	**497**	**27.6**

Table 2
Gross Domestic Product in US Dollars

	AT 1990 PRICES					GROWTH RATES		
	1980	1985	1990	1994	1995	1980-95	1985-95	1995
CENTRAL AFRICA	**37307**	**48710**	**46490**	**41196**	**41700**	**0.7**	**-1.5**	**1.2**
ANGOLA	9708	10607	10303	8847	9204	-0.4	-1.4	4.0
BURUNDI	671	903	1107	1402	1445	5.2	4.8	3.1
CAMEROON	7828	14385	12565	10690	10797	2.2	-2.8	1.0
CENTRAL AFRICAN REPUBLIC	1329	1479	1521	1562	1587	1.2	0.7	1.6
CHAD	826	1078	1230	1455	1506	4.1	3.4	3.5
CONGO	1717	2878	2851	2872	2883	3.5	0.0	0.4
EQUATORIAL GUINEA	142	143	161	168	170	1.2	1.7	1.2
GABON	5096	6294	5490	5953	6015	1.1	-0.5	1.0
RWANDA	2072	2389	2530	1359	1359	-2.8	-5.5	0.0
SAO TOME AND PRINCIPE	84	77	55	56	56	-2.7	-3.1	0.0
ZAIRE	7834	8477	8677	6832	6678	-1.1	-2.4	-2.3
EAST AFRICA	**20975**	**22831**	**28323**	**29932**	**31280**	**2.7**	**3.2**	**4.5**
COMOROS	193	229	244	269	276	2.4	1.9	2.6
DJIBOUTI	421	445	471	479	491	1.0	1.0	2.5
ERITREA	..	..	..	..	..	..	..	..
ETHIOPIA	5068	5043	6005	5681	5863	1.0	1.5	3.2
KENYA	5759	6829	8676	9163	9721	3.6	3.6	6.1
MADAGASCAR	2722	2591	3081	3119	3244	1.2	2.3	4.0
MAURITIUS	1462	1823	2555	3107	3262	5.5	6.0	5.0
SEYCHELLES	272	291	373	394	403	2.7	3.3	2.3
SOMALIA	555	632	669	425	425	-1.8	-3.9	0.0
TANZANIA	1961	2076	2542	2723	2818	2.4	3.1	3.5
UGANDA	2562	2872	3707	4572	4777	4.2	5.2	4.5
NORTH AFRICA	**139804**	**170136**	**178672**	**193388**	**195265**	**2.3**	**1.4**	**1.0**
ALGERIA	44913	56396	55492	56542	57194	1.6	0.1	1.2
EGYPT	33511	47029	48468	52002	53302	3.1	1.3	2.5
LIBYA	27834	27346	28152	29715	30330	0.6	1.0	2.1
MOROCCO	17336	20434	25222	28983	27534	3.1	3.0	-5.0
SUDAN	8175	8356	9025	10459	10165	1.5	2.0	-2.8
TUNISIA	8035	10575	12313	15687	16740	5.0	4.7	6.7
SOUTHERN AFRICA	**102044**	**112607**	**127540**	**129820**	**133624**	**1.8**	**1.7**	**2.9**
BOTSWANA	1224	2105	3296	4043	4249	8.7	7.3	5.1
LESOTHO	384	413	582	651	681	3.9	5.1	4.6
MALAWI	1382	1612	1858	1851	1965	2.4	2.0	6.2
MOZAMBIQUE	1363	1064	1272	1491	1521	0.7	3.6	2.0
NAMIBIA	1986	1942	2184	2386	2446	1.4	2.3	2.5
SOUTH AFRICA	86484	95061	106739	107234	110322	1.6	1.5	2.9
SWAZILAND	365	491	862	982	1029	7.2	7.7	4.8
ZAMBIA	3807	3970	3947	4011	4049	0.4	0.2	0.9
ZIMBABWE	5049	5949	6800	7171	7362	2.5	2.2	2.7
WEST AFRICA	**70941**	**66404**	**73918**	**80430**	**83685**	**1.1**	**2.3**	**4.0**
BENIN	1483	1717	1846	2183	2307	3.0	3.0	5.7
BURKINA FASO	1553	1978	2590	3174	3366	5.3	5.5	6.0
CAPE VERDE	242	287	373	433	448	4.2	4.6	3.5
COTE D'IVOIRE	10548	10130	9899	9913	10567	0.0	0.4	6.6
GAMBIA	242	215	309	333	343	2.4	4.8	3.0
GHANA	5070	4983	6221	7568	8092	3.2	5.0	6.9
GUINEA	2111	2306	2815	3307	3453	3.3	4.1	4.4
GUINEA-BISSAU	140	155	253	289	292	5.0	6.5	1.0
LIBERIA	2416	2305	2000	1184	1184	-4.6	-6.4	0.0
MALI	1981	1994	2447	2550	2703	2.1	3.1	6.0
MAURITANIA	970	927	1024	1182	1237	1.6	2.9	4.7
NIGER	2499	2343	2481	2468	2561	0.2	0.9	3.8
NIGERIA	35053	30013	33563	37802	38709	0.7	2.6	2.4
SENEGAL	4470	4944	5703	5822	6087	2.1	2.1	4.6
SIERRA LEONE	798	783	857	814	834	0.3	0.6	2.5
TOGO	1365	1324	1537	1408	1502	0.6	1.3	6.7
TOTAL AFRICA	**371071**	**420688**	**454943**	**474766**	**485554**	**1.8**	**1.4**	**2.3**

Table 3
Agricultural Indicators

	ARABLE LAND HA PER HEAD	AGRICULTURE * IN MILLION $ AT 1990 PRICES	FOOD PRODUCTION PER HEAD INDEX (1979-81=100)		PRODUCTION OF CEREALS (Kg PER HEAD)	CEREALS IMPORTS (Kg PER HEAD)
	1991	1995	1985	1995	1995	1991
CENTRAL AFRICA	**0.30**	**10980**	..	**80.1**	..	**15.8**
ANGOLA	0.35	1634	88.3	69.1	25.9	33.6
BURUNDI	0.23	639	100.7	81.2	44.5	5.6
CAMEROON	0.57	3235	95.6	75.8	74.2	46.2
CENTRAL AFRICAN REPUBLIC	0.63	766	89.5	100	26.8	8.8
CHAD	0.55	578	97.8	91.8	151.4	13.1
CONGO	0.07	343	97.9	75.9	10.5	43.0
EQUATORIAL GUINEA	0.62	79	..	..	..	26.1
GABON	0.37	546	83.5	75	20.3	60.1
RWANDA	0.15	864	98.3	63.2	18.2	2.7
SAO TOME AND PRINCIPE	0.29	11	75.2	69.1	32.3	67.2
ZAIRE	0.20	2285	100.5	85.2	40.3	8.1
EAST AFRICA		**10015**	..	**53.5**	**119.8**	..
COMOROS	0.17	111	87.1	80.5	28.3	83.4
DJIBOUTI	4.96	13	..	..	0.0	171.1
ERITREA	..	..		..	..	..
ETHIOPIA	0.26	2321	88.1	..	120.8	16.1
KENYA	0.10	2245	100.5	80.5	97.9	14.0
MADAGASCAR	0.24	1010	96.5	79.9	184.1	9.5
MAURITIUS	0.10	285	104.4	102.8	1.6	170.2
SEYCHELLES	0.09	17	..	..	..	214.1
SOMALIA	0.11	362	..	76.7	39.5	22.2
TANZANIA	0.12	1325	94.0	76.7	150.2	5.0
UGANDA	0.36	2326	95.4	101.5	101.9	1.5
NORTH AFRICA	**0.27**	**27437**	..	**116.6**	**172.7**	**138.1**
ALGERIA	0.29	6547	114.3	125.1	75.3	217.8
EGYPT	0.05	8915	105.4	124.5	294.9	148.9
LIBYA	0.44	1209	95.4	53.9	47.9	453.9
MOROCCO	0.36	4636	111.4	105	74.1	78.1
SUDAN	0.48	4076	92.8	121.2	173.4	47.1
TUNISIA	0.58	2054	121.7	97.9	69.5	114.2
SOUTHERN AFRICA	..	**8382**	..	**67.3**	**126.9**	..
BOTSWANA	1.07	211	78.5	62.6	15.3	79.8
LESOTHO	0.18	69	83.9	46	22.7	57.1
MALAWI	0.17	592	84.1	59.6	133.6	12.5
MOZAMBIQUE	0.22	474	91.2	84.9	68.9	33.7
NAMIBIA	0.43	298	72.3	70.1	..	..
SOUTH AFRICA	..	4759	..	64.5	180.3	
SWAZILAND	0.26	112	96.9	80.2	83.1	71.1
ZAMBIA	0.61	716	93.5	79.4	93.9	12.8
ZIMBABWE	0.27	1151	113.6	52.9	85.5	13.2
WEST AFRICA	**0.27**	**29318**		**130.2**	**52.4**	**24.6**
BENIN	0.38	906	114.2	112.8	119.6	46.7
BURKINA FASO	0.37	1415	111.7	125.6	240.7	19.7
CAPE VERDE	0.10	200	84.6	89.8	20.3	202.8
COTE D'IVOIRE	0.29	3919	99.0	89.4	93.1	53.8
GAMBIA	0.20	91	100.6	68.6	110.7	115.6
GHANA	0.17	3503	104.9	130.3	91.3	22.9
GUINEA	0.12	657	95.7	107.2	176.4	51.5
GUINEA-BISSAU	0.34	131	108.3	112	..	66.2
LIBERIA	0.14	569	98.9	52.7	16.5	66.8
MALI	0.21	1237	94.1	89.1	225.0	24.5
MAURITANIA	0.10	358	86.5	87.4	107.1	168.8
NIGER	0.44	1012	67.9	77.9	0.0	18.5
NIGERIA	0.28	13173	100.7	152.7	0.0	7.0
SENEGAL	0.30	1199	109.5	110.3	113.6	107.0
SIERRA LEONE	0.15	245	94.0	75.6	71.3	44.0
TOGO	0.18	703	91.1	84.1	112.6	67.5
TOTAL AFRICA	..	**79747**	..	..	**102.0**	..

Source: F. A. O.; ECA secretariat
*** Value Added**

Table 4
Production and consumption of selected sources of energy, 1994.

SUB-REGION/COUNTRY	ELECTRICITY PRODUCTION BY TYPE (IN MILLION KW/H) THERMAL	HYDRO	TOTAL	COMMERCIAL ENERGY CONSUMPTION PER CAPITA KILOGRAMME	TOTAL ('000 TCE)	TOTAL ENERGY REQUIREMENT ('000 TERAJOULES)
CENTRAL AFRICA	1075	11617	12692	..	7185	1013
ANGOLA	480	1375	1855	88	902	84
BURUNDI	2	115	117	20	118	48
CAMEROON	78	2648	2726	97	1220	153
CENTRAL AFRICAN REPUBLIC	19	78	97	37	117	35
CHAD	87	0	87	7	44	38
CONGO	3	428	431	337	824	47
EQUATORIAL GUINEA	17	2	19	158	60	6
GABON	212	710	922	888	1108	62
RWANDA	4	230	234	34	256	60
SAO TOME AND PRINCIPE	7	8	15	283	36	1
ZAIRE	166	6023	6189	61	2500	479
EAST AFRICA	2210	5987	8197	..	8109	1713
COMOROS	14	2	16	51	31	1
DJIBOUTI	182	0	182	1097	611	18
ERITREA	...	...	...	...	...	...
ETHIOPIA	90	1135	1225	30	1545	492
KENYA	131	2993	3124	116	3068	463
MADAGASCAR	252	347	599	37	506	96
MAURITIUS	884	104	988	652	711	37
SEYCHELLES	110	0	110	1028	74	2
SOMALIA	258	0	258	...	...	88
UGANDA	7	781	788	27	540	151
UNITED REPUBLIC OF TANZANIA	282	625	907	37	1023	365
NORTH AFRICA	91227	10319	101546	..	117039	3889
ALGERIA	19062	353	19415	1511	40380	1209
EGYPT	38950	8520	47470	694	41839	1357
LIBYAN ARAB JAMAHIRIYA	17000	0	17000	3090	15600	480
MOROCCO	9474	443	9917	391	10150	312
SUDAN	389	939	1328	61	1629	281
TUNISIA	6352	64	6416	868	7441	250
SOUTHERN AFRICA	7755	10483	18238	..	9712	722
BOTSWANA	1109	...	1109	...	...	...
LESOTHO	...	...	...	...	...	...
MALAWI	16	779	795	37	389	108
MOZAMBIQUE	440	50	490	33	492	162
NAMIBIA	...	...	...	...	...	...
SOUTH AFRICA	...	...	...	...	...	...
SWAZILAND	200	216	416	...	...	...
ZAMBIA	40	7745	7785	195	1746	182
ZIMBABWE	5950	1693	7643	660	7085	270
WESTERN AFRICA	11952	11019	22971	..	35394	2814
BENIN	5	0	5	45	230	58
BURKINA FASO	196	0	196	28	275	97
CAPE VERDE	37	0	37	138	51	2
COTE D'IVOIRE	812	1098	1910	280	3726	222
GAMBIA	73	0	73	96	100	12
GHANA	39	6115	6154	140	2301	219
GUINEA	348	188	536	83	521	54
GUINEA-BISSAU	42	0	42	104	107	7
LIBERIA	305	175	480	59	169	55
MALI	118	212	330	24	241	64
MAURITANIA	120	26	146	617	1334	39
NIGER	173	0	173	58	495	65
NIGERIA	8600	3200	11800	228	24047	1779
SENEGAL	765	0	765	166	1309	84
SIERRA LEONE	233	0	233	45	193	37
TOGO	86	5	91	76	295	20
TOTAL AFRICA	**114219**	**49425**	**163644**	..	**177439**	**10151**

Sources: UN, Energy Statistics Yearbook, 1993 Sales No. E/F.95.XVII.9 and Country sources.
... = Not available.
TCE = Tons coal equivalent.

Table 5
Merchandise Trade : Value and Average Growth Rate (million US dollars)

SUB-REGION/ COUNTRY	EXPORTS 1989	EXPORTS 1993	EXPORTS 1994	IMPORTS 1989	IMPORTS 1993	IMPORTS 1994	BALANCE OF TRADE 1989	BALANCE OF TRADE 1993	BALANCE OF TRADE 1994	GROWTH RATE (%) EXPORT 1994/89	GROWTH RATE (%) EXPORT 1994/93	GROWTH RATE (%) IMPORT 1994/89	GROWTH RATE (%) IMPORT 1994/93
CENTRAL AFRICA	9535.0	8117.30	8733.60	5714.70	4853.00	4909.10	3821.20	2222.10	2438.10	-1.74	7 59	-2.99	1.16
ANGOLA	2824.0	2854.0	2995.0	1183.0	1337.0	1450 0	1641.0	1517 0	1545 0	1.2	4.9	4.2	8.5
BURUNDI	93.2	75.0	104.9	151.4	172.8	194.3	-58.2	-97.8	-89.4	2.4	39.9	5.1	12.4
CENTRAL AFR. REP.	148 1	132.5	145.9	186.0	158.1	130.6	-37.9	-25.6	15.3	-0.3	10 1	-6.8	-17.4
CAMEROON	1853.8	1144.2	1507.7	1136.8	927.5	1005.3	717.0	216.7	502.4	-4.0	31.8	-2.4	8.4
CHAD	155.4	151.8	151.8	240.3	215.2	215.2	-84.9	-63.4	-63.4	-0.5	0.0	-2.2	0.0
CONGO	1160.5	1107.5	963.0	532.0	490 9	472.0	628.5	616.6	491.0	-3 7	-13 0	-2.4	-3.9
EQUATORIAL GUINEA	43 9	56.9	59.3	36.5	60.0	39.4	7.4	1047.5	923.6	6.2	4.2	1 5	-34.3
GABON	1626 0	2149.7	2349.4	751.7	845.1	756.4	874.3	-788.2	-697.1	7.6	9.3	0.1	-10.5
RWANDA	88.0	67.5	67.5	333.0	294.5	294 5	-245.0	-227.0	-227.0	-5.2	0.0	-2.4	0.0
SAO TOME & PRINCIPE	4.0	6.2	7.1	16.0	30 9	22 4	-12.0	-24.7	-15.3	12.2	14.5	7.0	-27 5
ZAIRE	1539.0	372.0	382.0	1148.0	321.0	329.0	391.0	51.0	53.0	-24.3	2.7	-22.1	2.5
EAST AFRICA	3591.8	3969.5	4803.1	6577.3	6473	7792.9	-2985.5	-2503.5	-2989.8	6.0	21.0	3.4	20 4
COMOROS	25 0	21.2	24.0	78.0	80.9	52.6	-53 0	-59.7	-28.6	-0.8	13.2	-7.6	-35.0
DJIBOUTI	144.0	167.0	167.0	300.0	340.0	340.0	-156.0	-173.0	-173.0	3.0	0.0	2.5	0.0
ETHIOPIA	443.8	198.8	327.0	817.9	663.9	898.0	-374.1	-465.1	-571.0	-5.9	64.5	1.9	35.3
KENYA	970.0	1343.3	1554.7	2148.0	1445.7	1855.1	-1178.0	-102.4	-300.4	9.9	15.7	-2.9	28.3
MADAGASCAR	321.0	240.0	277.1	320.0	459.0	375.2	1.0	-219.0	-98.1	-2.9	15.5	3.2	-18 3
MAURITIUS	986.0	1302.8	1376.9	1324.0	1546.2	1769.7	-338 0	-243.4	-392.8	6.9	5.7	6.0	14.5
SEYCHELLES	14.5	51.0	51.9	139 6	164.6	179.3	-125.1	-113.6	-127.4	29.1	1.8	5.1	8.9
SOMALIA	120.0	103.0	102.0	404.0	217.0	263.0	-284.0	-114.0	-161.0	-3.2	-1.0	-8.2	21.2
TANZANIA	318.0	345.7	520.3	691.0	1102.3	1277.7	-373.0	-756.6	-757.4	10.3	50.5	13.1	15.9
UGANDA		196.7	402.2	354.8	453.4	782.3	-105.3	-256.7	-380.1	10.0	104.5	17.1	72.5
NORTH AFRICA	25818.0	27665.6	29954.0	33205.0	36238.9	38674.6	-7387 0	-8573.3	-8720.6	3.0	8.3	3.1	6.7
ALGERIA	9221.0	10330 0	9670.0	8913.0	7770.0	8890.0	308.0	2560.0	780 0	1.0	-6.4	-0.1	14.4
EGYPT	2648.0	2242 7	4044.0	7448.0	7358.4	9997.0	-4800.0	-5115.7	-5953.0	8.8	80.3	6.1	35.9
LIBYAN ARAB J.	7017.0	7680.0	7340.0	5620.0	8200.0	6280.0	1397.0	-520.0	1060.0	0.9	-4 4	2.2	-23.4
MOROCCO	3312.0	3423.9	4000.3	5489.0	6514.6	6537 9	-2177.0	-3090.7	-2537.6	3 8	16.8	3.6	0.4
SUDAN	585.0	185.0	257.0	1301.0	600 0	840.0	-716.0	-415.0	-583.0	-15.2	38.9	-8 4	40.0
TUNISIA	3035.0	3804.0	4642.7	4434.0	5795.9	6129.7	-1399.0	-1991.9	-1487.0	8.9	22.0	6.7	5.8
SOUTHERN AFRICA	29437	30670.2	32454 1	23353.7	25723.7	29879.6	6083.3	4946.5	2574.5	2.0	5.8	5.1	16.2
BOTSWANA	1859.7	1584.0	1878.4	1275.9	1438.0	1350.0	583.8	146.0	528.4	0.2	18.6	1.1	-6.1
LESOTHO	66.4	134.0	143.5	592.6	911.6	810.2	-526.2	-777.6	-666 7	16.7	7.1	6.5	-11 1
MALAWI	268.8	317.5	362.6	204.8	340.2	639.0	64.0	-22.7	-276.4	6.2	14.2	25.6	87.8
MOZAMBIQUE	105.0	132 0	150.0	727.2	859.5	1019.0	-622.2	-727.5	-869.0	7.4	13 6	7.0	18.6
NAMIBIA	1122.2	1304.6	1321.4	933.0	1130.4	1156.4	189.2	174.2	165.0	3 3	1.3	4.4	2.3
SOUTH AFRICA	22399.0	23925.0	25000.0	16810.0	17980 0	21521.0	5589.0	5945.0	3479.0	2 2	4.5	5.1	19.7
SWAZILAND	493.8	651.0	658.2	515.4	775 0	924.0	-21.6	-124 0	-265.8	5.9	1 1	12.4	19.2
ZAMBIA	1428.6	1013.0	1075.0	976.5	802.0	845 0	452.1	211.0	230.0	-5.5	6 1	-2.9	5.4
ZIMBABWE	1693.5	1609.1	1865.0	1318.3	1487.0	1615.0	375.2	122.1	250.0	1.9	15.9	4.1	8.6
WEST AFRICA	17596.6	18204.1	16983.4	11947 3	15441.0	13971.2	5649.3	2763.1	3012.2	-0.7	-6.7	3.2	-9.5
BENIN	178.4	332.7	301.0	387.0	571.4	365.8	-208 6	-238.7	-64.8	11.0	-9.5	-1.1	-36 0
BURKINA FASO	215.7	276.5	225.9	501.6	643.4	365.1	-285.9	-366.9	-139.2	0.9	-18.3	-6.2	-43.3
CAPE VERDE	6.7	4.4	4.4	106.9	173.3	173.3	-100.2	-168.9	-168.9	-8.2	0 0	10.1	0.0
COTE D'IVOIRE	2696.8	2734.1	2874.6	1777.1	1662.3	1566.1	919.7	1071.8	1308.5	1.3	5.1	-2.5	-5.8
GAMBIA	100.2	157.0	125.0	125.4	214.5	181.6	-25.2	-57.5	-56.6	4.5	-20.4	7.7	-15.3
GHANA	807.2	1020.0	1226.8	1002.2	1661.0	1579.9	-195.0	-641.0	-353.1	8.7	20.3	9.5	-4.9
GUINEA	595.6	561.1	488.1	531.6	582.7	528 9	64.0	-21.6	-40.8	-3.9	-13.0	-0.1	-9.2
GUINEA-BISSAU	14 2	16.0	32.3	67.4	53.5	55.0	-53.2	-37 5	-22.7	17.9	101.9	-4.0	2.8
LIBERIA	410.0	160.0	127.6	323.0	187.5	173.5	87.0	-27.5	-45.9	-20.8	-20.3	-11.7	-7 5
MALI	269.3	343.6	319.7	338.8	463.5	421.6	-69.5	-119.9	-101.9	3.5	-7.0	4.5	-9.0
MAURITANIA	447.9	403.0	403.0	349.3	400.4	400.4	98.6	2.6	2.6	-2.1	0.0	2.8	0.0
NIGER	311.0	238.4	226.4	368.6	244.0	245.4	-57.6	-5.6	-19.0	-6.2	-5.0	-7.8	0.6
NIGERIA	10311.0	10900.0	9459.0	4417.0	7100.0	6511.0	5894.0	3800.0	2948.0	-1.7	-13.2	8.1	-8.3
SENEGAL	758.6	722.6	793.8	998.4	1105.4	1029.6	-239.8	-382.8	-235.8	0.9	9.9	0.6	-6.9
SIERRA LEONE	138.0	120.0	115.8	183.0	129.5	132 0	-45.0	-9 5	-16.2	-3.4	-3.5	-6.3	1.9
TOGO	336.0	214.7	260.0	470.0	248.6	242.0	-134.0	-33.9	18.0	-5.0	21.1	-12.4	-2.7
TOTAL AFRICA	85979.3	88626.7	92928.2	80798 0	88729.6	95227.4	5181 3	-1145.1	-3685.6	1.6	4.9	3.3	7.3

Table 6
External Public Debt and Debt service ratios, 1995.

	DEBT STOCK ($US MILLION)			DEBT STOCK AS	DEBT SERVICE AS	AMOUNT ($US MILLION)	
SUB-REGION/COUNTRY	LONG-TERM	SHORT-TERM	TOTAL	PER CENT OF GDP	PER CENT OF XGS	GDP	XGS
CENTRAL AFRICA	**36069**	**7725**	**43794**	**162**	**1337**	**4.9**	**12.3**
ANGOLA	8450	2158	10608	204.0	74	1.4	2.5
BURUNDI	1064	62	1126	103.1	41	3.8	25.2
CAMEROON	6217	1058	7275	112.1	374	5.8	16.5
CENTRAL AFRICAN REPUBLIC	807	84	891	99.2	23	2.6	12.4
CHAD	744	73	817	102.6	15	1.9	8.3
CONGO	4667	608	5275	306.5	555	32.2	51.5
EQUATORIAL GUINEA	222	69	291	136.0	2	0.9	3.0
GABON	3483	485	3968	92.4	252	5.9	10.4
RWANDA	905	49	954	95.4	6	0.6	11.8
SAO TOME & PRINCIPE	229	23	252	763.6	3	9.1	25.0
ZAIRE	9281	3056	12337	232.8	66	1 2	4.5
EAST AFRICA	**27289**	**4668**	**31957**	**128.2**	**1541**	**6.2**	**18.6**
COMOROS	176	10	186	97.9	3	1.6	5.1
DJIBOUTI	207	40	247	52.6	9	1.9	2.2
ERITREA	..	..	..	..	..	..	..
ETHIOPIA	4816	243	5059	109.7	92	2.0	11.7
KENYA	6181	1093	7274	126.5	888	15.4	33.3
MADAGASCAR	3565	569	4134	175.2	60	2.5	7.6
MAURITIUS	1063	292	1355	39.3	145	4.2	6.9
SEYCHELLES	147	23	170	34.0	18	3.6	6.2
SOMALIA	1935	682	2617	...	0	...	...
TANZANIA	6244	1198	7442	303.9	174	7.1	20.4
UGANDA	2955	518	3473	67.4	152	2.9	44.2
NORTH AFRICA	**101614**	**15215**	**116829**	**73.8**	**12752**	**8.0**	**25.5**
ALGERIA	28103	1796	29899	70.7	5364	12.7	55.3
EGYPT	30913	2445	33358	64.6	2279	4.4	14.6
LIBYA ARAB JAMAHIRIYA	2800	2044	4844	33.0	765	5.2	10.4
MOROCCO	21818	695	22513	70.2	2920	9.1	32.1
SUDAN	9868	7093	16961	977.6	1	0.1	0.2
TUNISIA	8112	1142	9254	57.8	1423	8.9	18.4
SOUTHERN AFRICA	**16728**	**3247**	**36575**	**26.0**	**2848**	**2.0**	**7.6**
BOTSWANA	681	10	691	20.0	92	2.7	3.9
LESOTHO	516	84	600	74.7	30	3.7	4.5
MALAWI	1889	125	2014	274.8	67	9.1	17.5
MOZAMBIQUE	5047	444	5491	422.1	91	7.0	23.0
NAMIBIA	...	...	...	0.0	...	..	...
SOUTH AFRICA	...	...	16600	13.6	1565	1.3	5.4
SWAZILAND	227	10	237	24.0	25	2.5	2.5
ZAMBIA	4872	1702	6574	176.3	369	9.9	31.2
ZIMBABWE	3496	872	4368	89.5	609	12.5	26.9
WEST AFRICA	**66621**	**14294**	**80915**	**112.4**	**4442**	**6.2**	**22.7**
BENIN	1508	111	1619	68.7	41	1.7	8.2
BURKINA FASO	1037	89	1126	63.3	44	2.5	20.7
CAPE VERDE	159	11	170	...	6	...	12.0
COTE D'IVOIRE	13882	4569	18451	237.6	1274	16.4	37.4
GAMBIA	364	55	419	139.7	31	10.3	19.0
GHANA	4107	1282	5389	100.7	343	6.4	24.6
GUINEA	2881	223	3104	90.8	97	2.8	16.3
GUINEA-BISSAU	736	81	817	408.5	7	3.5	12.7
LIBERIA	2056	919	2975	...	15	...	...
MALI	2781	158	2939	161.4	130	7.1	27.3
MAURITANIA	2081	245	2326	229.2	105	10.3	23.3
NIGER	1468	102	1570	100.4	66	4.2	26.0
NIGERIA	28479	5006	33485	80.6	1916	4.6	19.6
SENEGAL	3117	561	3678	94.8	197	5.1	11.3
SIERRA LEONE	737	655	1392	...	146	...	100.0
TOGO	1228	227	1455	145.5	24	2.4	7.6
TOTAL AFRICA	**248321**	**45149**	**310070**	**73.2**	**22920**	**5.4**	**18.2**

Table 7
Social Indicators - Education

	SCHOOL ENROLMENT RATIO 1990	PRIMARY EDUCATION ENROLMENT RATIO 1993	ADULT FEMALE LITERACY RATE 1990	ADULT LITERACY RATE 1990	SCIENTISTS/ TECHNICIANS 1992
CENTRAL AFRICA	**38**	**83**	**48**	**59**	**0.3**
ANGOLA	32	91	29	43	..
BURUNDI	30		19	32	0.1
CAMEROON	52	101	44	57	..
CENTRAL AFRICAN REP.	35	69	41	51	0.1
CHAD	29	65	29	43	..
CONGO	..	..	59	69	1.0
EQ. GUINEA	64	..	..	..	..
GABON	..	..	45	57	0.2
RWANDA	39	77	44	55	..
SAO TOME & PRINCIPE	..	..	..	..	..
ZAIRE	38	..	61	72	..
EAST AFRICA	**33**	**54**	**41**	**51**	**0.1**
COMOROS	34	..	..	..	..
DJIBOUTI	24	..	..	..	..
ERITREA	..	..	..	..	..
ETHIOPIA	17	22	21	31	..
KENYA	58	95	62	72	..
MADAGASCAR	40	79	73	81	0.1
MAURITIUS	57	..	75	80	0.5
SEYCHELLES	..	..	..	..	0.3
SOMALIA	..	12	14	25	..
TANZANIA	32	68	50	63	..
UGANDA	41	71	44	57	..
NORTH AFRICA	**58**	**87**	**34**	**47**	**0.8**
ALGERIA	60	99	41	55	..
EGYPT	66	102	34	48	0.8
LIBYA	..	..	54	69	0.6
MOROCCO	37	69	26	39	..
SUDAN	..	52	28	41	..
TUNISIA	62	120	47	60	..
SOUTHERN AFRICA	**43**	**96**	**79**	**88**	**0.4**
BOTSWANA	64	116	55	67	..
LESOTHO	58	106	57	68	..
MALAWI	38	66	37	53	..
MOZAMBIQUE	24	60	19	36	..
NAMIBIA	..	124	..	..	..
SOUTH AFRICA	..	109	79	80	0.4
SWAZILAND	64	..	..	..	..
ZAMBIA	47	97	65	74	..
ZIMBABWE	66	119	77	83	..
WEST AFRICA	**35**	**63**	**22**	**33**	**0.1**
BENIN	30	59	19	31	0.2
BURKINA FASO	17	38	7	17	..
CAPE VERDE	49	..	..	..	..
COTE D'IVOIRE	37	70	24	34	..
GAMBIA	29	69	20	34	..
GHANA	46	74	46	59	..
GUINEA	19	42	18	32	0.3
GUINEA-BISSAU	25	60	37	50	..
LIBERIA	..	40	18	34	..
MALI	..	26	17	25	..
MAURITANIA	25	63	24	36	..
NIGER	14	29	5	12	..
NIGERIA	37	70	..	..	0.1
SENEGAL	30	59	19	29	0.6
SIERRA LEONE	29	48	14	27	..
TOGO	54	111	30	46	..
TOTAL AFRICA	**34**	**61**	**77**	**37**	**0.3**

SOURCE : UNICEF, THE STATE OF THE WORLD'S CHILDREN, 1996; AND UNDP, HUMAN DEVELOPMENT REPORT, 1995

Table 8
Health Indicators

	LIFE EXPECTANCY AT BIRTH (YEARS) 1994	INFANT MORTALITY RATE 1994 (per '000)	UNDER 5 MORTALITY RATE 1994 (per '000)	% OF POPULATION WITH ACCESS TO SAFE WATER 1990-1995	% OF POPULATION WITH ACCESS TO HEALTH SERVICES 1985-95
CENTRAL AFRICA	**51**	**112**	**180**	**37**	**44**
ANGOLA	46	170	292	32	30
BURUNDI	50	106	176	70	80
CAMEROON	56	69	109	50	70
CENTRAL AFRICAN REP	49	103	175	18	45
CHAD	47	119	202	24	30
CONGO	51	82	109	38	83
EQUATORIAL GUINEA	...	...	...	...	..
GABON	53	91	151	68	90
RWANDA	47	80	139	66	80
SAO TOME & PRINCIPE	..	..	...	..	.
ZAIRE	52	120	186	27	26
EAST AFRICA	**29**	**104**	**173**	**22**	**30**
COMOROS	..	...	..	...	.
DJIBOUTI	..	..	...	...	.
ERITREA	50	117	200	...	.
ETHIOPIA	47	117	200	25	46
KENYA	56	61	90	53	77
MADAGASCAR	56	100	164	29	65
MAURITIUS	70	19	23	99	100
SEYCHELLES	..	...	...	..	.
SOMALIA	47	125	211	37	27
TANZANIA	52	105	159	50	80
UGANDA	45	111	185	34	49
NORTH AFRICA	**62**	**50**	**68**	**73**	**85**
ALGERIA	67	54	65	79	98
EGYPT	63	41	52	80	99
LIBYA	63	64	95	97	.
MOROCCO	63	46	56	55	70
SUDAN	53	74	122	60	70
TUNISIA	68	28	34	99	90
SOUTHERN AFRICA	**55**	**88**	**136**	**59**	**37**
BOTSWANA	65	42	54	93	89
LESOTHO	60	106	156	52	80
MALAWI	46	140	221	47	80
MOZAMBIQUE	46	161	277	33	39
NAMIBIA	59	62	78	57	62
SOUTH AFRICA	63	52	68	70	.
SWAZILAND	..	..	..	...	.
ZAMBIA	49	114	203	50	75
ZIMBABWE	54	57	81	77	85
WEST AFRICA	**50**	**110**	**187**	**47**	**58**
BENIN	47	85	142	50	18
BURKINA FASO	47	89	169	78	90
CADE VERDE	..	...	..	...	.
COTE D'IVOIRE	51	90	150	72	30
GAMBIA	45	129	213	48	93
GHANA	56	76	131	56	60
GUINEA	44	131	223	55	80
GUINEA-BISSAU	43	137	231	53	40
LIBERIA	55	144	217	46	39
MALI	46	119	214	37	30
MAURITANIA	51	114	199	66	63
NIGER	46	191	320	54	32
NIGERIA	50	114	191	40	66
SENEGAL	49	60	115	52	40
SIERRA LEONE	39	164	284	34	38
TOGO	55	83	132	63	61
TOTAL AFRICA	**42**	**70**	**113**	**43**	**46**

Source : UNICEF, The State of the World's Children, 1996
UNDP, Human Development Report, 1995