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PRELIMINARY ASSESSMENT OF THE PERFORMANCE OF THE AFRICAN ECONOMY IN 1993 AND PROSPECTS FOR 1994

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Layashi YAKER

**United Nations Under-Secretary-General
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EXECUTIVE SUMMARY: KEY FINDINGS AND FORECAST

Economic Performance in 1993

The African economy grew by 1.4 per cent in 1993. This represents an improvement over the 0.7 per cent growth of 1992. Economic growth performance of the subregions was as follows: in North Africa, output is estimated to have grown by 0.1 per cent, in West Africa by 2.7 per cent, and in Eastern and Southern Africa by 1.5 per cent. Central Africa stagnated. A combination of continuing civil conflicts and political crises in some African countries, natural disasters, especially drought in two subregions, and the international economic environment marked by stagnation in the industrialized nations has been primarily responsible for the low growth of regional output this year. In 1993, population continued to grow at a rate of more than 3 per cent, causing Africa's income per capita to continue declining.

The prices of primary commodities, on which the vast majority of African countries depend for significant export income, dropped again in 1993. The ECA index of commodities shows that commodity prices fell by an estimated 6.4 per cent in 1993, worsening the effects of the 5.1 per cent fall in 1992 and of the 3.0 per cent drop in 1991. Total export by values fell by 2.7 per cent to US$ 72 billion, while the total value of imports was around US$ 74.5 billion.

Prospects for 1994

Regional output is forecast to grow by less than 2.5 per cent in 1994. This projected growth is based on a mixed outlook of domestic economic and political factors as well as international ones that will shape the region's economic performance. Three factors that will influence regional output are the pattern of conflicts, the capacity and political resolve for fostering economic policies conducive to growth and weather conditions in the drought-affected countries.

On the international front, three main factors that will influence regional economic performance are: the handling of Africa's external debt and the level of net resource transfers; the direction of the prices of fuel and non-fuel commodities; and the effects of the Uruguay Round. Early indications suggest that the conclusion of the Uruguay Round could increase Africa's food import bills, block the expansion of its textile, apparel and clothing exports to industrialized nations because of the delay in bringing the Multi-Fibre Agreement under GATT discipline, and reduce the benefits from the preferences currently enjoyed by Africa under the Lome Conventions, as these preferences are extended to other trading partners of the European Union.

Building Critical Capacities: A platform for Africa's development

A vital missing ingredient that has often been responsible for Africa's poor economic performance is the lack of adequate indigenous capacity in several critical areas of human, institutional and infrastructural development. Capacity building is an unavoidable and complex undertaking, which will need to be sustained over the long term with significant financial outlay and proper treatment of the debt issue. Capacity building is a solid platform from which Africa can be launched on to the path of sustained recovery, necessarily accelerated growth, environmentally sustainable development and a more equitable distribution of income for the steady reduction of poverty. With the imminent entry into force of the Abuja Treaty, the African Economic Community should propel Africa with its vast resources, despite present and medium-term difficulties, into a 21st century which, given current trends, will have space only for major trading blocs. This is the only way Africa can become a genuine partner in the world economy and, consequently, in the new system of international relations. It is in the interest of Africa and of its development partners for the persistent pattern of degradation to be speedily reversed. This is what makes it vital for the African development agenda being pursued in all areas by the United Nations system as a major priority, to be speedily reflected in action as the major concern both of Africans and of the international community.

INTRODUCTION

The End-of-Year Statement of the Executive Secretary is traditionally devoted to a preliminary assessment of the economic and social conditions in Africa in the year that is ending and forecasts for the next year. Accordingly, I would like to take stock of the African economies in 1993, and reflect with you on the region's performance prospects for 1994. This time, I would also like to dwell on two topical issues of urgent relevance for the growth and development of Africa. These are the need to build critical capacities and the role of international cooperation therein.

ECONOMIC AND SOCIAL SITUATION IN 1993

Preliminary estimates by the ECA secretariat show that the African economy grew by a mere 1.4% in 1993. Though this represents an improvement over the 0.7% growth of 1992, it is barely half of the 3% growth forecast for 1993 at this time last year and well below the annual average growth target of 6% set in the United Nations New Agenda for the Development of Africa in the 1990s. Given that the African regional economy grew by 1.9% in 1990, and 2.0% in 1991, this means that in the first four years of the decade, the annual average growth has been a mere 1.5%. This is barely half of the regional population growth rate, reinforcing the trend of continuing decline in per capita income and a further slide into poverty on the part of the generality of the African population.

The low aggregate regional growth performance was the consequence of poor performance in the subregions. In North Africa, output is estimated to have grown by only 0.1%, in West Africa by 2.7%, and in Eastern and Southern Africa by 1.5% following the contraction of 2.0% in 1992. Central Africa stagnated.

In terms of the performance of the key sectors, agriculture made only a modest recovery in spite of improved weather conditions in several countries, though drought conditions persisted in the Maghreb subregion. However, food aid requirements remained high, though in decline, compared to the previous year.

Some of the most critical areas of assistance and emergency relief in 1993 included: massive logistical and food assistance to people in the conflict-affected areas of Angola and the Sudan; the provision of assistance for drought-affected and displaced persons, refugees and returnees, particularly in Eritrea, Ethiopia, Kenya, Lesotho, Liberia, Malawi,

Mozambique, Rwanda, Sierra Leone, Somalia, Swaziland and Zaire; and support for desert locust control operations in North and Eastern Africa.

Mining production has been in decline for some years and, in 1993, there was no improvement in this respect. This was attributable partly to conflicts in the key mining areas of some countries and partly to weak external demand.

The three main factors responsible for the meagre growth in regional output last year exercised, to varying degrees, a baleful influence: continuing civil conflicts and political crises in some African countries; natural disasters, especially the drought in two subregions; and the international economic environment marked by stagnation in the leading industrialized countries.

In examining the influence of civil conflicts and political crises, three categories of countries can be distinguished: those still mired in conflicts; those in which relative peace has been restored; and those that have experienced some form of political turmoil or social crisis in 1993. Four countries: Somalia, Liberia, the Sudan and Angola belong in the first category. The state of war in Liberia has continued to have serious spill-over effects on Sierra Leone. An extreme case is that of Somalia, where economic production has collapsed, although outside Mogadishu, there has been a resumption of activity, mostly agricultural, under the protection of UNOSOM. In Angola, the civil war has uprooted millions of people, severely disrupted trade and transport and inflicted severe damage on infrastructure. It has been estimated that about one thousand people have been dying daily from the combined effects of fighting, disease, hunger and malnutrition. In Rwanda, the signing of a peace accord among the various parties raised a degree of hope but the situation in Burundi has led to woeful consequences.

For the countries emerging from prolonged periods of conflict, public policy has focused on the pressing issues of resettlement of refugees, returnees, internally displaced persons and demobilized soldiers; clearing of land mines; rehabilitation of infrastructural facilities and institutions; and economic reconstruction. The relative priority attached to these issues varied among countries within this category which included Ethiopia, Eritrea, Chad, Mozambique and Uganda. All these countries are seeking the international support needed to cope with the imperative necessity to rebuild and rehabilitate. Until these countries are able to restore their

infrastructure and resettle the large number of persons in dire need of help, not only will their economic performance lag but political and social cohesion will remain very fragile. Still, judging from the estimated growth in 1993 of 9.3% in Ethiopia, 5.6% in Mozambique and 7.1% in Uganda, these countries appear set on course, barring unforeseen developments, to reap the benefits of peace from what are obviously very low beginnings.

The number of countries where political crisis or turmoil constrained the pursuit of positive economic policies increased during the year. Paradoxically, many such political crises were linked to the democratization process. These political crises manifested themselves in the form of disputes over election results between incumbent governments and opposition parties or the abrupt termination of the transitional process as a result of acts of violence. In all such cases, deterioration of the economy was an inevitable consequence.

While the economic impact of the various political crises on the economic performance of the affected countries has been difficult to assess accurately, their consequences have been very clear in some cases. Thus, Zaire experienced a fall of 4% in output in 1993, after a more severe contraction in output of 12% in 1992. In Nigeria, though the economy may have grown by about 3.7%, that was far below the annual average of 6.2% in the 1988-1992 period. In Libya, lower oil production and the embargo are restraining growth.

Natural disasters, especially drought, are the second factor that had an adverse influence on economic performance, particularly in two subregions. In North Africa, drought reduced cereal crops considerably in Algeria, Libya, Morocco and Tunisia. Morocco had the added problem of water shortages which reduced electricity supply to the point of forcing the introduction of a system of power rationing for industry. The drought which broke out last year in Eastern and Southern Africa lasted longer than had been anticipated and, consequently, Zimbabwe's economy to grew by only 1.4% in 1993, compared to the 8.5% contraction of output in 1992 due to the worst drought it experienced then. Parts of Eritrea and Ethiopia have experienced crop failures this year, although the extent of this is yet to be fully determined. It is still too early to say whether the crop failures in these two countries are a harbinger of another round of famine which appears to have a ten-year cycle judging from the previous occurrences in 1973-1974 and 1983-1985.

The adverse impact of the international economic environment on the African regional economy manifested itself in many forms. It showed up mostly in the continuing fall in fuel and non-fuel commodity export prices as well as in declining ODA flows and the absence of improvements in the external debt situation. Oil prices drifted to less than $14 a barrel in December 1993, bringing the average price of Brent crude to $17.66 in 1993 compared to $19.30 in 1992, a fall of 8.5%. The fall in the price of oil has been attributed to the prolonged stagnation in the industrialized countries, the failure by OPEC members to adhere to agreed production quotas and the lack of concerted action with non-OPEC members.

The prices of primary commodities, on which the vast majority of African countries depend for significant export income, dropped again in 1993. The ECA index of commodities shows that commodity prices fell by an estimated 6.4% in 1993 compared to 5.1% in 1992 and 3.0% in 1991. Some of the key commodities that make up that index are tropical beverage ingredients, the prices of which reached record lows in 1992, and have shown further losses estimated at 4%. The cumulative loss would have indeed been steeper but for the steps taken by producers to reduce supply to markets. This was mostly the result of the efforts of African, Asian and Latin American coffee-producing nations which decided in August to coordinate marketing policies and took 10 million bags off the market.

The fall in prices of food exports moderated in 1993, to 1.5% in 1993 compared to 3.4% in 1992. The prices of agricultural raw materials, cotton especially, have also fallen at a slower pace so far, at an average of 2.3% compared to a fall of 9.8% in 1992. The prices of logs have fallen back, after rising strongly in 1992. The prices of ores and metals fell by as much as 12.6% compared to 1.5% in 1992. This sharp downturn in prices stemmed from the combined effects of stagnation in industrialized countries and the increased supplies from the members of the Commonwealth of Independent States.

It would be a mistake, however, to ascribe all the blame for the relentless decline of commodity prices to sluggish growth in the industrialized nations. Additional factors are at work. Principal among these are the growing substitution of synthetics for primary commodities in the production of some consumer and intermediate goods, and increased dumping of primary commodities on the markets by some producers. As a result of this situation, there has been increasing recognition of the need to intensify efforts at diversifying Africa's production base. In support of

this process, the United Nations Secretary-General submitted a report to the current session of the United Nations General Assembly proposing the establishment of a Diversification Fund for African Commodities. The report recommends that the Fund be located at the African Development Bank and be endowed with a capital outlay of US$ 50 - US$ 75 million for an initial period of three to four years. Discussions are continuing at the current session of the Assembly on the feasibility of establishing this Facility.

Due to the reduced growth and unfavourable markets abroad, export revenues in 1993 have not shown improvements over 1992. Available data at this point indicate that export values may have shrunk in 1993 by around 2.7%, to US$ 72.0 billion. This follows the drop of 1.1% in 1992. Imports in value terms look likely to remain stable at US$ 74.5 billion. Overall, tourism flows declined.

During the year, the view began to evolve that the threat posed to the international financial system by the debt overhang of the developing countries had receded. This is true, however, only in so far as the threat relates to international commercial banks that were owed mainly by middle-income countries of Latin America. Actually, it is increasingly recognized that a different form of debt problem is getting worse. This refers to the growing indebtedness to the multilateral financial institutions of the low-income countries whose debts cannot be rescheduled, given their status as preferred creditors. It happens that a substantial portion of Africa's external debt and debt-servicing obligations are owed to multilateral institutions, principally the World Bank, the IMF and the African Development Bank. The share of multilateral debt in Africa's aggregate debt stock rose to 24.2% in 1993. This compares to 20.5% in 1992 and 19.5% in 1991. Africa's debt indicators, in general, have further deteriorated. Thus, the external debt to GNP ratio rose from 97.6% in 1991 to 98.7% in 1992; the debt to export ratio rose from 327.5% in 1991 to 377.5% in 1992; and the ratio of debt service to exports rose from 30.1% in 1991 to 35.0% in 1992. At the same time, the mounting debt-service arrears disguise the full burden of debt-service obligations. On the other hand, recent data indicate that ODA flows dropped to US$ 19.7 billion in 1992 from US$ 28.2 billion in 1991, a significant 30.1% reduction.

Given that the continent was already pursuing stringent austerity measures and growing social unease, these deflationary measures continued to be politically and socially burdensome. The restoration of macro-economic balances and necessary turn-around in the African

countries required, therefore, more imagination and commitment to policy reforms than was the case in 1993, together with a careful balance between the desirability of faster growth and the obligations of financial discipline.

On the financial discipline side, more rigour was exercised in many countries in Africa in 1993 in addressing the fiscal deficit, which has gradually been brought within acceptable levels as a proportion of GDP - 10.6% in 1989, 5.4% in 1991/92 and 6.5% in 1992/93. But this improvement was achieved mostly at the cost of a steep reduction in the capital budget, highly compressed recurrent expenditure proved inflexible downwards and further cuts became socially and politically untenable. Capital expenditure now accounts for only about a quarter of total public expenditure as compared to about 40% only four years ago. With the soaring costs of servicing domestic and external debts, a number of African countries have been forced to adjust downwards their wage bills through civil service retrenchments. In terms of revenue generation, efforts have been frustrated by the sluggish growth in tax revenues from international trade sources, and growth possibilities have therefore had to be sought increasingly within the domain of the wider economy. Hence the move to introduce more market-friendly measures, including the liberalization of prices and the gradual privatization of public sector enterprises. But these measures, by themselves, failed to bring about the desired upturn in economic growth in 1993 as most of the reform programmes were under-funded, for a variety of reasons, including the insistence on new conditionalities for external aid and resource flows.

Obviously, such measures of economic discipline and institutional upgrading may not be enough for re-launching development in Africa. There is a pertinent need to simultaneously target the raising of production and productivity to sufficiently higher levels if the region is to move to a new frontier of economic efficiency and become more competitive as a genuine and more significant partner in the world economy.

PROSPECTS FOR 1994

The prevailing economic and political conditions in Africa barely allow for optimism. Regional output is, thus, forecast to grow at the best by no more than 2.5% in 1994. This projected growth is based on a mixed outlook with respect to national, regional and international economic and political trends.

Several of the negative political trends that hindered economic growth in 1993 are likely to continue in the new year. There are encouraging signs, however, that a few of the conflicts in the region will be amenable to resolution.

The severe lack of adequate domestic financial resources as well as the unstable political climate in many countries will continue to hinder growth. Indeed, the lack of domestic investor confidence in the economic policies and political directions of countries are inflicting the dual damage of restraining domestic capital formation and sending unfavourable signals to foreign investors. Another factor that will limit growth and development prospects in the coming years is the absence of critical human, institutional and infrastructural capacities.

Three main international factors could potentially have an adverse effect on Africa's economic performance in 1994. First, the price of oil seems to be drifting downwards. In fact, it is now estimated that, in real terms, the price of oil is as low as in 1973, just before prices increased four-fold and it is quite possible that Iraq, which has not been a major player on the oil market since the end of the Gulf War in 1991, could return to the market in the new year.

Second are the severely constraining effects of Africa's external debt on economic growth and development. Yet, existing international initiatives have proven inadequate to significantly alleviate the debt problem. Unless bold, new measures are taken in 1994 to reduce the debt stock and debt-servicing requirements, more of the meagre resources available will have to be devoted to debt repayments. Debt reduction on a scale larger than the *Trinidad terms* are now required to achieve tangible and durable debt relief, particularly to boost investor confidence in African economies. Since the principle of differentiation is not contested, a comprehensive solution is required as requested by the OAU Assembly of Heads of State and Government and also in the Tokyo Declaration of October 1993.

Third, at a time when the Uruguay Round – the boldest and most far-reaching round of multilateral trade negotiations – has been concluded, the over-dependence by African countries on a narrow band of primary commodities must be overcome. This dependence has been one of the main and constant factors behind Africa's poor economic performance and also a major reason why African countries did not benefit from the

economic expansion in the industrialized nations in the mid-1980s. Since the transformation of the region's commodities sector can only occur over the medium to long term, any weakening in the prices of that sector in 1994 will adversely affect African economies.

The successful conclusion of the Uruguay Round negotiations has lifted the danger that the multilateral trading system might be replaced by regional trading blocs, bilateral arrangements, and protectionist policies which would have been most detrimental to the developing countries in view of their weak bargaining power. The agreement does have some special concessions for the less developed economies and we ask the more advanced trading nations to apply them in a spirit of generosity. The major trading powers should also not adopt a restrictive approach in their implementation of this agreement, especially in so far as reciprocal arrangements *vis-a-vis* least developed countries are concerned. It would be appropriate for 25% of the estimated windfall of US$ 150-300 billion that will accrue to the major industrialized nations as a result of trade liberalization from the Round, to be channelled towards the least developed countries to finance capacity-building programmes and projects aimed at upgrading their competitiveness and capacity to participate in the development of global trade.

What implications the Uruguay Round will have on Africa's international trade, as on other regions, is of much interest. This is already a matter of detailed analysis at ECA. However, at this point we can already identify three potential consequences on Africa. First, the decision not to immediately bring the Multi-Fibre Agreement (that governs trade in textiles, apparels and clothing) into the GATT discipline means that the possibility for expanding exports of textiles and clothing has been blocked. Second, African countries, especially those that import food, will experience increased import bills to the extent that agricultural subsidies have been reduced substantially. Finally, African countries also stand to lose if the trade preferences currently available to them under the Lome Convention between the European Union and the African, Caribbean and the Pacific Group are extended to other trading partners of the European Union.

There are some emerging factors which may have a positive influence, particularly the improvement of climatic conditions in North Africa and the end of drought in Eastern and Southern Africa. The initiatives aimed at peaceful resolution of conflicts have gathered momentum, thanks to regional but also intensified United Nations efforts. In Angola, Liberia,

Rwanda and Burundi, there are signs of reconciliation. Peace is also being consolidated in Mozambique. An important development during this year which will have a positive influence on conflict management in Africa next year and beyond is the establishment by the OAU Assembly of Heads of State and Government of the Mechanism for Conflict Prevention, Management and Resolution, which recently inaugurated in Cairo its Peace Fund.

BUILDING CRITICAL CAPACITIES: A PLATFORM FOR AFRICA'S DEVELOPMENT.

The foregoing analysis of economic and social conditions indicates that, on the whole, the African continent is very much still in the grip of the economic crisis which has now lasted a decade and a half, resulting in a virtually continuous decline of per capita income. Indeed, on average, personal incomes have shrunk by over 20% since 1980. The trend of weak economic performance, since 1990, has been most disappointing because of the high hopes for a robust recovery during this decade.

What worries us at the Commission is whether Africa, home to almost 12% of mankind and whose population is growing faster than any other region's (at a 3.1% per annum rate which means that its population of 600 million would double in another 20 years), is adequately equipped and prepared to participate as a full partner in the liberalized world economy and to reap benefits commensurate with its size and vast natural resource endowments. A closer examination of the underlying factors indicates that Africa's economic stagnation and social decline are rooted, among other things, in structural weaknesses. The problem is further aggravated by the underutilization of the capacities available, limited as these are. In every African country, there is the paradox of high rates of unemployment and under-employment among school leavers, including university graduates – even scientists and engineers. This represents a considerable waste of precious human capital, not to mention the demoralization and the vast scope for socio-political turmoil that this situation certainly creates. The result is tremendous pressure on the elite to emigrate to Europe and North America. Other examples of wasteful capacity underutilization can be found in educational and research institutions, hospitals and other structures which are not put to full use due to lack of critical imported supplies, inadequate funding, lack of qualified and motivated staff, and a host of other related problems.

We at the United Nations Economic Commission for Africa feel that, in accordance with the United Nations New Agenda for African Development in the 1990s, Africa should manage to build, in a coordinated manner, through its own efforts and with substantial assistance from development partners, the critical capacities with which to launch itself on the path of sustained recovery, accelerated growth, environmentally sustainable development, equitable distribution of socio-economic opportunities and steady reduction of poverty. This strategy should be pursued through appropriate national, subregional and regional policies and by securing and making effective use of development resources.

This approach would provide an opportunity for the injection of a Keynesian stimulus of sufficient magnitude to end the continent's economic stagnation and, as observed earlier, its accompanying corollary of a lamentable and massive underutilization of human resources. There is nothing unusual about this: the United States of America required the infrastructural public works programmes of President Roosevelt's New Deal to get out of the prolonged slump of the Great Depression. It took the American-financed Marshall Plan of infrastructural rehabilitation projects to get war-devastated Western Europe back on its feet. The concerted effort that OECD countries are making to assist the Eastern European States is another case in point. President Mitterand of France has voiced his own personal support for a Marshall-like plan for Africa's recovery. Dr. Boutros-Ghali, United Nations Secretary-General, has appealed likewise to the international community and, even more recently, to the Group of Seven most industrialized countries. Capacity building should be accompanied by activities targeted at vastly expanding the opportunities open to African economies, increasing their competitiveness in the world economy and permanently boosting their long-term growth potential.

Short-term structural adjustments, as well as relief and rehabilitation, should all be linked to building capacities for self-sustaining long-term development. Happily for Africa, since the cold war which considerably affected the continent by way of persistent borrowing to buy armaments (and which increased the financial difficulties of many countries) there is a growing convergence among the international, continental, and national organizations involved in Africa's development on this subject. The reports issued by the Economic Commission for Africa and the Africa Department of the World Bank are increasingly dominated by this issue.

In the framework of the United Nations New Agenda for the Development of Africa in the 1990s (UN-NADAF), African and external partners committed themselves to a target for sustained recovery and accelerated growth. The New Agenda lays emphasis on accelerated transformation, speedy progress towards the achievement of human development goals and population growth control, agriculture, food security and rural/urban development, the establishment and maintenance of infrastructural facilities, rational management of State affairs and the creation of an enabling social, legal and institutional environment and closer regional economic cooperation for the purpose of integration. The New Agenda will succeed only if it is seen by the international community which adopted it in 1991 at the United Nations as a framework for concerted efforts directed at achieving its objectives.

Building appropriate African capacities will be an enormous and complex undertaking, which will need to be sustained over the long term. It will require the development of Africa's natural resource potential which is the richest in the world and mobilization of vast amounts of domestic as well as external resources – finance, technical expertise and know-how and the participation of a substantial number of male and female, public and private, African and foreign entrepreneurs. This enormous undertaking will generate considerable additional production and export capacities and for that reason, a significant growth of employment in OECD countries.

It will be necessary to make substantial progress in all these areas simultaneously and, given the current situation, in all those sectors in which critical capacities must be built.

In African countries which happen to have a relatively modest infrastructure, one of the critical capacities is the State in its various components – the political leadership, the professional public service, and the legal and regulatory infrastructure enforced by a credible judicial service. Democracy must be strengthened and the establishment of development capabilities will yield better results if a clearer division of labour was established between the State and the private sector which must speedily develop. The State must confine itself to the mobilization of fiscal resources from the private sector through efficient and effective broad-based taxation, and disburse such resources for activities that yield returns to the national economy. Equally important, it must mobilize domestic and foreign private initiative and capital to underwrite much of the capacity building and utilization. Popular participation, civil society and

non-governmental organizations as well as the media must make their dynamic contribution to economic, social, cultural and political development.

Internationally, and with a view to speeding up the regionalization process, development partners should pool their efforts so as to make better use of resources given the limited nature of resources available especially to United Nations organs and the major multilateral institutions.

The Economic Commission for Africa is currently very much seized with this whole issue of development resources and has made it the theme of the twentieth meeting of the Conference of Ministers which is set to take place here in Addis Ababa during late April and early May 1994 and on the occasion of the thirty-fifth anniversary of the Commission. To maximize the success of the forthcoming Conference, now being prepared, the Commission intends to have extensive consultations with member States and sister organizations, including OAU and ADB (under the joint ECA/OAU/ADB secretariat arrangement) and African regional organizations.

Domestic and External Financial Requirements.

The order of magnitude of estimated financial resources required is being updated. However, rough figures have been calculated by different sources for the various programmes proposed for African economic recovery.[1]

The recovery programme proposed by the World Bank for 36 sub-Saharan countries aimed to raise the rate of growth of output to 5% by the year 2000. It envisioned the gross domestic investment rate rising from 15% to 25% of GDP over the period, while the gross domestic savings rate would rise from 8% to 20%. It called for US$ 28-29 billion (in 1988 dollars) of gross external financing annually over the 1990s. This includes the countries' scheduled debt service amounting to about US$ 16 billion annually.

The programme by the African Development Bank aimed to attain a regional average growth rate of 5% over the period 1992-2001. This would

1 See World Bank, 'Sub-Saharan Africa: From crisis to sustained growth', a long-term perspective study; 1989. J. Culagovski, V. Gabor, M.C. Germany and C.P. Humphreys (officials of the Africa Department of World Bank), 'African Financing Needs in the 1990s', November 1990 and Edward V.K. Jaycox, 'Comments on Africa's External Finance in the 1990s', statement made to the advisory committee of the Global Coalition For Africa meeting in Kampala on 8 and 9 May 1992.

require an average domestic investment rate of 26% of GDP, financed by a domestic savings rate averaging 16% of GDP and about US$ 50 billion (in 1990 dollars) annually of external resources, net of debt service payments.[2]

On its part, early this year, the Economic Commission for Africa estimated the financial resources required to achieve the growth target of UN-NADAF over the period 1993-2005. The domestic investment rate would have to rise to an average of about 35% of GDP over the period, while the domestic savings rate would have to rise to 25-35% of GDP. Excluding the Republic of South Africa, the continent would require, in gross terms, US$ 61 billion in 1993, increasing steadily to US$ 124 billion in 2005 of external resources (in 1990 dollars). This indicates a real annual growth rate of about 5.6% and adds up to US$ 950 billion. Of this, however, as much as US$ 490 billion would be required to meet external debt-service obligations, leaving US$ 460 billion of net resource transfers to finance capital investment over the thirteen-year period – or an annual average of US$ 35.4 billion.[3]

The differences between the three sources are not only due to the assumptions they make regarding the pace of economic recovery that is sustainable. They also arise from varying assumptions regarding the feasible pace of micro- and macro-economic reforms, the evolution of external trade elasticities and terms of trade, etc. However, the three studies concur on <u>four</u> points:

First of all, for African recovery to take off, it is imperative that the rate of capital investment be boosted well above from the rates that have prevailed since 1980.

Secondly, the aggregate rate of African domestic savings by governments, enterprises and households must be stepped up substantially. This can be achieved through increased monetization of the rural economy; by doing more to bring agents of the rural and informal sectors into the national financial system; by offering incentives to savers; and by licensing efficient and sound intermediaries for financial mobilization. The public

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2 See African Development Bank, 'Africa's External Resource Requirements and the Bank Group: A Ten-Year Perspective', 1993; paper presented at the meeting of the ad hoc expert working group on the revitalization of investment for African Development - prospects for the 1990s and beyond, 29 November - 1 December 1993.

3 See ECA, 'Strategies for the mobilization of financial resources for African development in the 1990s', April 1993, paper presented at the twenty-eighth session of the Commission / nineteenth meeting of the ECA Conference of Ministers.

sector, too, must step up its savings rate. This requires fiscal revenues to be increased – by taking measures to steadily broaden the tax base, lower the marginal taxation rates, and simplify assessment, collection and refund procedures. It also requires governments to put capacity building and maintenance activities foremost on their priority list; to select projects based on rigorous cost-benefit or cost-effectiveness analyses and a realistic rate of return; to reduce military spending and other activities having doubtful returns; and to institute tough controls on public spending.

Thirdly, over the foreseeable future, net external resource transfers complementary to domestic savings must be sustained at a much higher rate.

Finally, unless more radical measures are adopted to reduce the external debt stock, it will continue indefinitely to account for an inordinate share of Africa's gross external financing requirements.

The domestic saving, investment, and net external transfer requirements for African recovery may be considered as measures of the financial resource requirements to the extent that the latter is effectively used as a vehicle for the achievement of set objectives.

Measures to Boost and Sustain Financial Resource Flows.

Against these resource flow estimates, what is actually happening on the ground? In view of the persisting failure of recovery to materialize, this is a valid question.

On the domestic investment and savings fronts, according to a methodical analysis by the World Bank,[4] there has been "a statistically significant drop in investment ratio", in spite of structural reforms, while the savings rate has not been affected. On the front of net external resource transfers, here too there has been no improvement whatsoever. Aggregate net resource transfers to Africa have not increased substantially over the period 1985 to 1992, having risen from US$ 9.2 billion only to an average of US$ 11.6 billion over the first three years of the 1990s. This is less than one third of the required net resource transfers as estimated by the ECA study.

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4 World Bank, 'Why Structural Adjustment Has Not Succeeded in the Sub-Saharan Africa', study conducted by I.A. Elbadawi, D. Ghura and G. Uwujaren; Working paper Series 1000; October 1992, p.5.

What is even more alarming is the huge stock of external resources that African countries have contracted in the form of long-term debt but which remain undisbursed. This has increased from US$ 42.9 billion in 1985 to an average of US$ 57.4 billion over 1990 to 1992, or about 20 percent of the aggregate debt stock. Much of the undisbursed resources – an average of US$ 44.2 billion over 1990-1992 – are from official creditors. In the North African subregion, however, undisbursed resources from private creditors are quite substantial. For the continent as a whole (excluding South Africa), undisbursed World Bank debt has increased from US$ 9.6 billion in 1985 to an average of US$ 16 billion over 1990 to 1993. As the Bank's Vice-President for the Africa Department has pointed out, this magnitude of undisbursed resources is equivalent to one IDA replenishment!!

Also, African countries have not been able to exhaust resources to which they are entitled under the various Lomé Conventions. Under Lomé II, 14.4 million ecu; under Lomé III, 42.2 million ecu. Under the current Lomé IV, only about 1.44 billion ecu or 13.3% of promised resources have been disbursed. Similarly, under Lomé II and III, 200 million ecu and 75 million ecu, respectively, remain unutilized under the SYSMIN mineral exports stabilization arrangement. At a time when the Lomé IV Convention is nearing its mid-term review and possible renegotiation, the slow pace of disbursement of committed resources is rather disturbing.

The accumulation of undisbursed resources has been interpreted as a sign that African countries lack sufficient absorptive capacity. As a result, commitments of fresh external resources, from official as well as private sources, have stagnated. There are even signs of decline from 1990 to 1993.

The underlying factors are located both in the domestic situation of African countries themselves, as well as in the stance of Africa's external partners.

On the part of the African countries, it is hard to account for lack of sufficient absorptive capacity in the midst of dilapidated infrastructural facilities, industrial, training and research facilities operating at very low capacities due to lack of critical imported inputs, and so forth. A number of factors are responsible for the paradoxical situation, foremost among them, political unrest and the paralysis often accompanying the democratization process and, in some countries, outright armed conflict,

all of which disrupt the implementation of projects and programmes. There are also the weak administrative structures incapable of effective execution of development projects. Competent implementation of projects requires a methodical feed-back approach of periodic evaluation of progress, assessment of the evolution of crucial factors, and necessary modifications to keep the project on track and minimize delays and cost over-runs. A more efficient disbursement of project finance is crucial to speeding up the draw-down of the stock of undisbursed resources.

There have also been problems associated with structural adjustment lending which is meant to be quick-disbursing. Tranches of disbursements are routinely held up whenever strict policy implementation and macro-economic performance conditions are not attained. Here, the partners must improve the effectiveness of their cooperation. Recipient countries must strive for greater diligence in implementing their contractual obligations on reforms; but, when setting conditionalities, the external creditors also must show greater understanding of the difficult situation and the limited room for manoeuvre in which many African Governments find themselves.

In other words, both parties must show greater flexibility in setting and evaluating targets in a spirit of continuous and candid dialogue about the evolving situation and the capacity to support successive stages of structural adjustment. If the transition to pluralistic democracy is not to be undermined, African countries themselves must acquire full responsibility over the design and execution of their macro-economic, sectoral, and social structural reforms. And they will also have to show greater sensitivity to public support for reform measures. Structural adjustments therefore will have to be more carefully designed, especially regarding the sequencing and graduation of reforms with the aim of generating tangible early pay-offs for the majority of the population and minimizing political opposition. The Commission agrees with the World Bank that it is time for the African countries to take over the "ownership" of their programmes of structural reforms. The countries should accept this challenge by boosting the competence of their economic governance.

In this regard, the United Nations Economic Commission for Africa stands ready to provide support to its member States concerned and to work with them to identify viable capital investment projects eligible for funds promised to the ACP by the European Union in support of regional cooperation under the Lomé IV Convention.

The expansion of African countries' absorptive capacity – which really means their capacity to grow on a sustained basis – calls for a new approach to devising medium- to long-term plans. Certainly, the time for rigid central planning is over. But countries have responded to the well-known failures of old approaches by abandoning planning altogether. A more pragmatic and realistic approach is required. The new format should aim to bring together the major institutional actors in the economy – the State, labour, consumers, financial institutions, and sources of external resources. These actors should jointly evaluate the objectives and achievements and the domestic and foreign socio-economic constraints before agreeing on a course for development over the foreseeable future. In the process, they will identify worthwhile projects, the sequencing of their implementation, modalities for their financing, essential micro- and macro-economic policies for a conducive climate, and even bands within which should lie factor costs, productivity growth, and the cost of living.

It follows that strategic planning must replace the central planning of the old mould. African countries therefore should not be marginalizing or eliminating their planning ministries. They should instead enhance their stature and restructure them as bureaux for the coordination of the major institutional partners in economic development, including regional cooperation for development. These ministries should also supervise the implementation of development plans adopted by various partners.

One objective of strategic national planning exercises should be to reduce uncertainties about investing in Africa. A second objective should be to forge closer partnerships among the major institutional players without the State assuming a domineering role that wastes resources and stifles initiative. Within this development approach, African capacity building and utilization, especially in the areas of physical infrastructure, natural resources and industry, and some of the social infrastructure, would be largely underwritten by private sector capital. The State would devote more of its efforts towards maintaining a conducive policy environment, overseeing transactions, regulating economic relations, and mediating between the institutional actors.

This planning methodology is indeed quite workable. The robust rate of economic growth which brought France from the ruins of World War II to become the second largest economy in Europe, the world's second largest agricultural exporter, the second most important exporter of services, and the fourth most important trading power, is a tribute to a

similar planning approach known as "*concertation*". The French periodically planned the medium-term course of their economy using this method until the early 1970s. The emphasis on consensus, and the linkages between the banking and production sectors, which are the hallmarks of the Japanese and the German economies, lend further support to the "all-inclusive" and pragmatic planning approach.

To build such capacities, pride of place must be given to the role of the State and other public institutions. African countries and external partners should adopt a pragmatic stance towards strengthening the public services. They should accept the reality – that the public service is as good as the personnel who staff it. The level of competence, zeal and creativity, probity, morale and commitment, all depend on the remuneration, job security, other terms of service, intellectual freedom without victimization, sense of responsibility, avenues for promotion, and other elements of job satisfaction. Public sector reforms aimed at rationalizing and pruning away excess numbers will bear fruit only if the remuneration package and other terms of service and job satisfaction of the remaining staff are substantially boosted.

The Commission is actively preparing for the coming into force of the Abuja Treaty establishing the African Economic Community. ECA stands ready, as always, to collaborate in the implementation of the Treaty, with its two regional sister organizations, the Organization of African Unity and the African Development Bank, in the framework of the Joint Secretariat. This commitment is consistent with our proven record of fostering regional cooperation and integration. Indeed, as the Commission marks its thirty-fifth anniversary, the celebration of which will culminate at the ECA's Ministerial Conference in May 1994, ECA can count among its accomplishments in regional institution-building, the initiatives for creating the African Development Bank and the Preferential Trade Area for Eastern and Southern African States, not to mention its many activities to promote sectoral and multisectoral cooperation in the various subregions.

ECA is determined to work more closely and effectively with all member States, intergovernmental organizations and non-governmental organizations and other members of the United Nations system in support of Africa's speedy development for the welfare of its people.

ANNEX OF STATISTICAL INDICATORS

Table 1 : Key Economic Indicators

	African economic indicators (percentage growth)			
Gdp growth, 1990 prices	1990	1991	1992	1993
Developing Africa	1.9	2.0	0.7	1.4
North Africa_1/	2.0	1.9	1.5	0.1
Sub-Saharan Africa	1.7	2.1	0.5	2.0
Oil exporters	1.9	2.1	1.7	1.0
Non Oil exporters	1.8	1.8	-0.7	1.9
African LDCs	0.7	0.7	-0.1	2.9
Agriculture value-added(1990 prices)	-0.3	4.1	-0.7	1.5
Mining value added(1990 prices)	6.3	4.2	0.3	-1.0
Oil production(million tons)	319.5	335.1	341.6	333.0
Consumer prices(1990=100)	15.2	30.3	40.1	35.5
Oil price(Brent crude,$/b)	23.99	19.99	19.34	17.66
Commodity prices(1990=100) 2/	-4.0	-3.0	-5.1	-6.4
Exports($ billion)	75.5	74.5	73.7	71.7
Imports($ billion)	72.4	71.5	74.6	74.5
Current account balance($ billion)	2.5	-4.2	-6.1	-12.4
Debt service(percent)	25.8	25.6	23.7	...

1/ without the Sudan
2/ oil not included
SOURCE: ECA Secretariat

Table 2: Primary Commodities Prices index 1990 = 100)

	1989	1990	1991	1992	1993(1)
food	89.3	100.0	103.7	100.2	98.7
beverages&tobacco	111.3	100.0	94.5	88.6	87.5
agricultural raw material	95.8	100.0	95.9	86.5	84.5
metals and minerals	96.1	100.0	98.3	96.8	82.6
crude oil	75.9	100.0	83.3	80.6	73.8
overall index	82.8	100.0	86.6	83.4	76.6
overall index(without oil	104.2	100.0	97.0	92.1	86.2

SOURCE: Compiled from IMF, International Financial Statistics, and UN, Monthly Bulletin of Statistics.
1/based on first 8 months

Table 3: Aggregate Debt Stock by Subregions
(In Billion US Dollars)

	1985	1986	1987	1988	1989	1990	1991	1992
Total Africa 1/	184.89	211.34	249.57	254.81	263.64	272.98	278.29	275.15
North Africa Subregion	95.54	105.95	119.80	123.37	125.92	118.18	118.19	116.09
West Africa Subregion	44.28	52.07	64.47	64.46	66.28	75.38	75.38	72.90
Central Africa Subregion	14.79	18.13	22.12	22.25	24.34	29.35	29.35	29.51
Eastern and Southern Africa Subregion	30.25	35.18	43.16	44.70	47.05	55.33	55.33	56.58
Memo: Republic of South Africa								
Aggregate debt stock	24.54	22.59	22.62	21.19	20.60	17.08	17.08	16.40
Disbursements	0.50	1.00	0.92	0.65	0.94	0.33	0.33	0.40
Net aggregate transfers	-3.30	-3.73	-3.21	-3.78	-2.71	-4.14	-4.14	-4.10

1/ Excluding the Republic of South Africa
(Source: The World Bank: World Debt Extracts Data-base 1993-1994)

Table 4: Undisbursed debt stock and new debt commitments.
(In Billion US Dollars)

	1985	1986	1987	1988	1989	1990	1991	1992
Undisbursed Debt								
Total Africa	42.94	45.06	49.38	50.38	54.55	57.74	58.30	56.03
North Africa	19.72	20.51	20.86	21.93	25.51	25.90	26.80	25.86
West Africa	9.13	9.93	10.89	11.28	11.64	14.01	14.05	13.79
Central Africa	4.74	5.16	6.37	6.16	6.04	5.22	4.81	4.16
Eastern and Southern Africa	9.36	9.45	11.25	11.01	11.35	12.60	12.64	12.21
Official Creditors								
Total Africa	29.28	31.75	36.12	37.41	41.31	44.26	44.95	43.26
North Africa	11.20	12.40	13.76	14.18	16.02	15.91	16.26	14.95
West Africa	7.60	8.18	9.06	9.78	10.70	12.52	12.78	12.78
Central Africa	3.08	3.66	4.34	4.45	5.05	4.91	4.66	4.03
Eastern and Southern Africa	7.40	7.50	8.96	9.01	9.55	10.92	11.25	11.51
Commitments								
Total Africa	15.95	17.95	20.34	26.60	26.74	21.89	23.52	20.49
North Africa	8.02	8.95	9.79	15.84	14.92	11.12	15.11	12.42
West Africa	2.96	3.84	3.68	4.29	4.96	5.46	3.71	3.50
Central Africa	1.91	1.75	2.22	2.47	2.26	1.17	1.10	0.80
Eastern and Southern Africa	3.06	3.21	4.65	3.99	4.60	4.14	3.61	3.75
Memo: Official Creditors								
Total Africa	8.38	11.05	11.93	14.77	16.92	13.56	14.05	11.83
North Africa	3.16	4.50	4.13	6.15	6.66	4.57	6.27	4.23
West Africa	2.15	2.94	2.96	3.69	4.51	4.61	3.57	3.50
Central Africa	1.00	1.39	1.53	1.73	2.06	1.51	1.10	0.79
Eastern and Southern Africa	2.07	2.21	3.31	3.20	3.69	3.23	3.12	3.30

(Source: The World Bank: World Debt Extracts data base 1993-1994)

Table 5: Disbursements and Aggregate Net Resource Transfers to Africa (In Billion US Dollars)								
	1985	1986	1987	1988	1989	1990	1991	1992
Disbursements:								
Total Africa	20.49	20.83	21.00	22.84	21.97	22.07	20.60	20.48
North Africa	11.16	10.84	10.36	12.34	11.33	11.87	11.93	11.99
West Africa	3.44	3.91	4.39	3.88	4.52	3.95	3.58	3.24
Central Africa	1.63	2.07	2.12	2.51	2.14	1.97	1.40	1.32
Eastern and Southern Africa	4.26	4.01	4.13	4.09	3.97	4.26	3.69	3.88
Net Resources Transfers on Debt:								
Total Africa	0.90	1.83	4.10	2.91	-0.15	-5.00	-5.44	-4.13
North Africa	0.38	-0.76	-1.93	0.79	-2.71	-7.06	-3.32	-4.07
West Africa	-2.37	0.83	3.07	0.36	0.16	-0.88	-2.15	-1.61
Central Africa	0.42	0.71	0.52	0.40	0.63	0.65	-0.23	-0.20
Eastern and Southern Africa	2.47	1.06	2.44	1.33	1.74	2.31	0.24	1.72
Foreign Direct Investment (Net):								
Total Africa	2.82	1.85	2.47	2.46	4.23	1.99	2.65	3.04
North Africa	1.42	1.11	1.00	1.44	1.64	1.13	0.87	1.42
West Africa	0.47	0.09	0.84	0.45	2.01	0.69	0.84	1.01
Central Africa	0.48	0.21	0.13	0.22	0.00	0.02	-0.06	0.00
Eastern and Southern Africa	0.45	0.44	0.49	0.34	0.59	0.11	0.90	0.55
Grants (Excl. Technical Assistance)								
Total Africa	5.46	5.67	5.77	7.06	7.22	14.85	13.41	13.45
North Africa	2.00	1.62	1.37	1.24	1.19	5.33	4.61	3.91
West Africa	0.46	0.46	0.44	0.64	0.90	1.31	1.28	1.43
Central Africa	1.15	1.19	1.22	1.63	1.96	2.64	2.65	2.81
Eastern and Southern Africa	1.85	2.39	2.74	3.56	3.21	5.48	4.73	5.13
Aggregate Net Resource Transfer:								
Total Africa	9.18	9.34	12.33	12.43	11.30	11.84	10.62	12.35
North Africa	3.80	1.97	0.43	3.47	0.12	-0.60	2.15	1.26
West Africa	-0.75	2.11	5.13	2.44	4.13	2.45	1.34	2.21
Central Africa	1.36	1.37	1.09	1.27	1.53	1.98	0.99	1.23
Eastern and Southern Africa	4.77	3.89	5.67	5.22	5.55	7.90	5.87	7.40

(Source: The World Bank: World Debt Extracts Data-base 1993-1994)

Table 6: Undisbursed versus New Commitments of Resources of the World Bank (In Billion US Dollars)

	1985	1986	1987	1988	1989	1990	1991	1992
The World Bank								
Undisbursed Debt:								
Total Africa	9.63	10.93	11.57	11.84	13.33	14.63	16.51	16.69
North Africa	3.32	3.78	4.27	3.68	4.37	4.04	4.98	4.63
West Africa	2.88	3.33	3.09	3.69	4.23	4.86	5.51	5.69
Central Africa	0.95	1.23	1.38	1.48	1.66	1.71	1.58	1.34
Eastern and Southern Africa	2.47	2.59	2.82	2.99	3.07	4.02	4.45	5.04
Commitments:								
Total Africa	2.49	4.41	3.73	4.10	5.40	4.79	5.80	4.78
North Africa	0.66	1.51	1.51	0.67	1.90	0.90	2.19	1.24
West Africa	0.89	1.68	0.93	1.68	1.71	1.78	1.70	1.44
Central Africa	0.37	0.50	0.49	0.58	0.68	0.37	0.32	0.13
Eastern and Southern Africa	0.57	0.73	0.79	1.17	1.10	1.75	1.60	1.97

(Source: The World Bank: World Debt Extracts data base 1993-1994)