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**UNITED NATIONS  
ECONOMIC AND SOCIAL COUNCIL**

Distr.: GENERAL  
E/CN.14/697/Part II  
14 February 1979  
Original: ENGLISH

ECONOMIC COMMISSION FOR AFRICA  
Fourteenth session/  
Fifth meeting of the Conference  
of Ministers  
Rabat, 20-28 March 1979

**CONFERENCE DOCUMENT**

**AGENDA ITEM**

6

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SURVEY OF ECONOMIC AND SOCIAL CONDITIONS IN AFRICA, 1977-1978 - PART II

SECTION A

### Explanatory notes

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The following symbols have been used in this Survey:

... not available - nil or negligible

A billion is one thousand million.

Tonnes or tons mean metric tons unless otherwise specified.

### Prefatory note

The Survey for 1977-1978 is also the fourth biennial review of progress during the Second United Nations Development Decade and is published in two parts. Part I includes a summary and after reviewing the international economic situation and the international development strategy it then provides information on economic and social developments in the African region this decade. Part II covers current economic developments and policies of the individual countries of the ECA region for the period 1970 to 1978 and is presented in two sections, sections A and B.

E/CN.14/697 (Part II)

ECONOMIC COMMISSION FOR AFRICA

SURVEY OF ECONOMIC AND SOCIAL CONDITIONS IN AFRICA, 1977-1978

PART II

COUNTRY ECONOMIC SURVEYS

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## BENIN

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

#### 1. Introduction

During the period 1970 to 1977 GDP at current market prices increased at an average annual rate of 11.7 per cent. Agriculture, which on average accounts for about 45 per cent of total GDP, rose by 10.2 per cent annually and manufacturing by 10.0 per cent. There are no estimates of GDP at constant prices but it is believed that the economy grew in real terms by an average of 3 to 4 per cent per annum during the period under review.

In 1976-77 irregular rainfall adversely affected agricultural production and there was a marked slowdown in the rate of economic expansion compared with the growth achieved in the previous year. GDP at current market prices increased by 11.2 per cent in 1977 compared with a rise of 18.4 per cent in 1976.

The value of exports increased from CFAF 16,093 million in 1970 to CFAF 25,998 in 1977 or by 7.1 per cent yearly. Imports rose by 18.0 per cent on average per annum to reach CFAF 64,886 million from CFAF 20,317 in 1970. The visible trade gap has consequently widened substantially and deficits in the goods and services account of the balance of payments have become the norm. The overall balance on the external account has come to be covered increasingly by the inflow of aid and capital.

Government has improved its budgetary operations significantly in recent years. Government's net creditor position with the banking system has improved and the rate of money expansion has been contained in the recent period. The forecast for 1978 is for GDP to rise by about 17 per cent in money terms as fine weather prevailed and the implementation of the development plan created substantial economic activity.

#### 2. GDP by industrial origin

Table 1 provides details on GDP by industrial origin. Agriculture and related activities remained the dominant sector of the economy during the period 1970 to 1977. Its contribution to total GDP fell from 46.7 per cent in 1970 to 42.6 per cent in 1977. On the other hand, the share of commerce rose sharply from 18.1 per cent in 1970 to 25.2 per cent in 1977. The contributions of the manufacturing, electricity and water and building and construction sectors remained virtually unchanged at about 8, 0.5 and 3 per cent respectively. The share of the services other than commerce and transport declined from 17.0 per cent of GDP in 1970 to 13.1 per cent in 1977.

Benin: Table 1. GDP by source, 1970 and 1975 to 1977 (millions of CFA francs)

|                                   | 1970   | Percentage | 1975    | 1976 <sup>a/</sup> | 1977 <sup>a/</sup> | Percentage |
|-----------------------------------|--------|------------|---------|--------------------|--------------------|------------|
| <u>At current prices</u>          |        |            |         |                    |                    |            |
| Agriculture, forestry and fishing | 28 577 | 46.7       | 38 983  | 50 050             | 56 500             | 42.6       |
| Manufacturing and crafts          | 5 189  | 8.5        | 9 576   | 9 880              | 10 100             | 7.6        |
| Electricity and water             | 351    | 0.5        | 763     | 790                | 826                | 0.6        |
| Building and construction         | 2 072  | 3.4        | 4 606   | 4 810              | 4 920              | 3.7        |
| Commerce                          | 11 062 | 18.1       | 26 081  | 29 560             | 33 500             | 25.2       |
| Transport and communications      | 3 546  | 5.8        | 7 932   | 8 820              | 9 500              | 7.2        |
| Services                          | 10 411 | 17.0       | 15 235  | 15 101             | 17 410             | 13.1       |
| Total GDP at factor cost          | 61 208 | 100.0      | 103 176 | 119 011            | 132 756            | 100.0      |
| Indirect taxes less subsidies     | 7 503  |            | 9 604   | 14 503             | 15 724             |            |
| Total GDP at market prices        | 68 711 |            | 112 780 | 133 514            | 148 480            |            |

Source: Benin, Institut Nationale de la Statistique et de l'Analyse Economique (INSAE).

a/ Provisional.

### 3. Selected economic sectors

(a) Agriculture, forestry and fishing. Agriculture in Benin was seriously affected by drought during the 1974/75 season. Crop production in that year fell significantly below the levels attained in 1970. There was a bad season in 1976/77, but in 1975/76 and 1977/78 fine weather prevailed and, as shown in table 2 there has been some rebound in production to the 1970 levels during the past few years. The rebound has also been greatly aided by the introduction in 1976 of the national campaign for agricultural production.

In 1975, the index of agricultural production by volume was 22 per cent below the 1970 level. In 1976 it rose by 16 percentage points and by a further 2 percentage points in 1977. The rise in the past few years was due to a large extent to increases in the output of cereals, notably maize, and of roots and tubers. Export crops benefited from generally rising producer prices and some high rates of expansion were recorded for individual crops, particularly groundnuts and palm products.

The livestock population has increased steadily since 1970. The total cattle population rose from 566,400 in 1970 to 725,500 in 1977. Sheep, goats and pigs increased from 580,300, 595,300 and 355,700 respectively in 1970 to 780,900, 848,300 and 402,300 respectively in 1977. Benin currently produces about 20 per cent of its livestock needs. The balance of meat supplies is met by imports from Niger and Upper Volta.

Benin: Table 2. Agricultural production, 1970 and 1975-1977 (tonnes)

|                     | 1970    | 1975    | 1976    | 1977    |
|---------------------|---------|---------|---------|---------|
| <u>Food crops</u>   |         |         |         |         |
| Millet and sorghum  | 47 500  | 66 900  | 75 840  | 80 000  |
| Rice (paddy)        | 5 000   | 12 000  | 18 600  | 20 500  |
| Maize               | 228 700 | 216 500 | 181 700 | 242 000 |
| Cassava             | 828 000 | 461 400 | 623 600 | 624 500 |
| Yams                | 575 800 | 444 800 | 590 000 | 552 000 |
| <u>Export crops</u> |         |         |         |         |
| Palm kernels        | 61 200  | 83 000  | ...     | ...     |
| Cotton              | 36 000  | 22 400  | 21 800  | 16 100  |
| Groundnuts          | 47 200  | 34 600  | 61 100  | 66 500  |
| Coffee              | 1 300   | 600     | 550     | 600     |
| Cocoa               | ...     | 1 700   | 1 065   | 1 090   |
| Tobacco             | 800     | 1 200   | 326     | 400     |

Source: Official data from Benin.

Fishing has declined in recent years owing to deficiencies in the infrastructure for industrial fishing. Total fish landed were 25,400 tonnes in 1976 compared with 30,870 tonnes in 1970. There are plans to put more ocean fishing vessels in operation and for improving the facilities at the fishing port.

(b) Manufacturing. The manufacturing sector is still relatively small with oil and fats production providing about one third of total value added in the sector. There has been substantial investments in textiles, and a soap factory and an oil seed plant have recently been built. Beer-making capacity has also been raised to 200,000 hectolitres.

The most important industrial project now underway is the sugar complex being built at Savé. When completed, the complex will have a total capacity of 40,000 tonnes of sugar and will be supplied by cane from some 4,400 hectares of adjoining irrigated plantation. A total investment outlay of 400 billion CFA francs is envisaged.

There are also plans to build a cement factory with a capacity of 500,000 tonnes.

(c) Electricity. Production rose from 40.34 million kWh in 1971 to 56.58 million kWh in 1975. In 1976 it rose by a further 9.4 per cent to reach 61.9 million kWh. During the first half of 1977 total electricity produced was 36.78 million kWh which compares with 30.57 million kWh produced during the corresponding period in 1976.

(d) Transport services. Transport services have expanded in line with the growth in the distributive trades and the attempts to develop the economy at a faster rate. Table 3 gives details of developments in the transport sector so far this decade.

Benin: Table 3. Selected transport indicators, 1970 and 1975-1977

|                                    | 1970  | 1975  | 1976  | 1977  |
|------------------------------------|-------|-------|-------|-------|
| <u>Port of Cotonou</u>             |       |       |       |       |
| Freight loaded (thousand tonnes)   | 172.5 | 108.1 | 128.2 | 73.4  |
| Freight unloaded (thousand tonnes) | 387.3 | 647.2 | 784.4 | 978.7 |
| <u>Railways</u>                    |       |       |       |       |
| Freight (million tonne/km)         | 95.5  | 127.3 | 124.0 | 137.8 |
| Passengers (million passenger/km)  | 71.7  | 96.7  | 119.1 | 120.0 |
| <u>Cotonou Airport</u>             |       |       |       |       |
| Passengers handled (thousand)      | 57.2  | 77.6  | 92.7  | 98.2  |

Source: BCEAO, Indicateurs Economiques, No. 227, April 1975 and BCEAO, Statistiques économiques et monétaires, No. 263 July 1978.

Total traffic at the port of Cotonou grew by 9.5 per cent on average per annum during the period 1970 to 1977. Goods unloaded increased at a much faster rate and this reflects increasing use made of Cotonou Port for the entrepôt trade. Since 1974 transit trade through Cotonou has been boosted by traffic destined for Nigeria because of the port congestion at Lagos. The significant fall in the volume of goods loaded between 1976 and 1977 reflects the decline in the palm oil and palm kernel output in the 1976/77 season in particular. This decline in output which was of the order of 40 per cent for palm oil and 31 per cent for palm kernels in 1976/77 was the result of poor rainfall in 1976.

Port congestion has been experienced at Cotonou as the transit trade has increased. A project to extent facilities at the port was scheduled to start by the end of 1978. This project will cost \$US 46 million which is to be provided jointly by various bilateral and international agencies.

Railway freight and passenger traffic has increased substantially since 1970. Passenger traffic has increased also at Cotonou airport reflecting the greater use of air transport.

#### 4. Expenditure and the GDP

An increasing proportion of the GDP has been spent on gross domestic capital formation since 1970. In 1977 capital formation represented about 20 per cent of total GDP compared to 15.7 per cent in 1970. Public consumption rose at a rate less than the rate of growth of GDP and as a result its share in total expenditure declined from 12.6 per cent in 1970 to 9.8 per cent in 1977. The proportionate share of private consumption, on the other hand, rose from 75.1 per cent in 1970 to 82.8 per cent in 1975, the latest year for which data are complete.

Benin: Table 4. Expenditure and the GDP, 1970 and 1975 to 1977 (millions of CFA francs)

|   | 1970          | 1975           | 1976 <sup>a/</sup> | 1977 <sup>a/</sup> |
|---|---------------|----------------|--------------------|--------------------|
| <u>At current prices</u>                          |               |                |                    |                    |
| Private consumption                               | 51 645        | 93 392         | ...                | ...                |
| Public consumption                                | 8 634         | 12 949         | 12 351             | 14 500             |
| Gross domestic capital formation                  | 10 234        | 17 877         | 23 240             | 26 020             |
| Increase in stocks                                | 620           | 1 958          | 3 550              | 3 660              |
| Exports <u>less</u> imports of goods and services | -2 422        | -13 396        | ...                | ...                |
| <b>Total GDP at market prices</b>                 | <b>68 711</b> | <b>112 780</b> | <b>133 514</b>     | <b>148 480</b>     |

Source: Benin, Institut Nationale de la Statistique et de l'Analyse Economique (INSAE).

a/ Provisional.

Domestic savings were positive in 1970 and equal to 12.3 per cent of GDP; by 1975 they had fallen to 5.7 per cent of GDP and in view of the very large trade deficit in 1977 they appear to have been negative in that year.

##### 5. External trade and balance of payments

Between 1970 and 1977 the value of exports from Benin rose by 7.1 per cent per annum and imports by 18.0 per cent. The visible trade gap has consequently widened substantially. It reached CFAF 38,888 million in 1977 compared to CFAF 4,224 million in 1970.

In 1977 the volume of exports of Benin's principal export commodities, namely palm products, cotton, coffee, shea butter and groundnuts, virtually stagnated. The 10.6 per cent rise in export receipts realized in 1977 was almost entirely due to increases in export prices. The percentage rise in the value of imports was 29.8 per cent compared to a percentage rise in volume of 13 per cent. With an apparent rise in import unit prices of 14.9 per cent in 1977 the terms of trade worsened by about 4 per cent.

The latest year for which complete balance of payments data are available is 1975. There are indications of a rise in earnings from services in 1976 and 1977 but any possible surpluses would not have been sufficient to offset the much wider deficits on the merchandise account in those years. It is possible that the over-all deficits for goods and services were of the order of CFAF 26,500 million and CFAF 39,000 million respectively in 1976 and 1977. These deficits appear to have been covered by increases in the net inflow of both private and public transfers and capital although judging from the movements of net foreign assets of the banking system shown later, the overall balance of payments position strengthened in 1976 and weakened in 1977.

Benin: Table 5. External trade and balance of payments, 1970 and 1975 to 1977  
(millions of CFA francs)

|                            | 1970     | 1975      | 1976 <sup>a/</sup> | 1977 <sup>a/</sup> |
|----------------------------|----------|-----------|--------------------|--------------------|
| <u>External trade</u>      |          |           |                    |                    |
| Exports <sup>b/</sup>      | 16 093   | 19 202    | 23 499             | 25 998             |
| Imports                    | 20 317   | 33 001    | 50 000             | 64 886             |
| Balance                    | -4 224   | -13 799   | -26 501            | -38 888            |
| <u>Balance of payments</u> |          |           |                    |                    |
| Goods and services (net)   | -5 915.2 | -14 145.1 | ...                | ...                |
| Private transfers (net)    | 805.4    | 3 900.6   | ...                | ...                |
| Government transfers (net) | 4 776.6  | 5 465.2   | ...                | ...                |
| Capital (net)              | 2 193.9  | -1 821.7  | ...                | ...                |
| Reserves and related items | -1 721.8 | 4 586.4   | ...                | ...                |
| Errors and omissions       | -138.9   | 2 014.6   | ...                | ...                |

Source: National data for external trade and IMF, International Financial Statistics, vol. XXX, No. 11, November 1977 and vol. XXXI, No. 9, September 1978 (figures relating to balance of payments converted from United States dollars).

a/ Provisional.

b/ Includes estimates for unrecorded trade.

#### 6. Development aid and external debt

Benin relies heavily on foreign aid and capital for its development. The inflow of aid has been at a high level in recent years, some of it in the form of loans but although the level of external debt was 43 per cent higher in 1977 than in 1972, in 1976 the service payments on external debt had been estimated by the World Bank at only 2.4 per cent of earnings from goods and services.

#### 7. Government revenue and expenditure

As shown in table 6 total recurrent revenue rose from CFAF 8,349 million in 1970 to CFAF 19,250 million in 1977 which represents an average annual rate of increase of 12.6 per cent. About 55 per cent of total recurrent revenue is made up of indirect taxes.

Benin: Table 6. Government revenue and expenditure, 1970 and 1975 to 1978 (millions of CFA francs)

|                       | 1970   | 1975   | 1976 <sup>a/</sup> | 1977 <sup>a/</sup> | 1978 <sup>a/</sup> |
|-----------------------|--------|--------|--------------------|--------------------|--------------------|
| Recurrent revenue     | 8 349  | 13 737 | 16 080             | 19 250             | 23 200             |
| Recurrent expenditure | 9 836  | 14 479 | 16 080             | 19 250             | 23 200             |
| Balance               | -1 487 | -742   | ...                | ...                | ...                |

Source: BCEAO, Statistiques économiques et monétaires, No. 263 July 1978.

a/ Budget estimates.

Data are available only on recurrent expenditure; capital expenditure is financed mainly from extra-budgetary outlays. Between 1970 and 1977 recurrent expenditure increased by 10 per cent on average per annum, that is less than the rate of growth of GDP at current market prices. Based on the budget estimates the deficit in the current budget appears to have been eliminated since 1975 as a result of stringent controls on expenditure and a better tax effort.

Estimates of revenue and expenditure in the 1978 current budget amounted to CFAF 23,200 million, a rise of 20.8 per cent over 1977.

## 8. Money and banking

Money supply broadly defined to include quasi-money increased by 26 per cent an average per annum between 1970 and 1975. In 1976 it contracted by about 4 per cent but expanded again in 1977 by about 12 per cent. Table 7 provides details on the movement of monetary aggregates since 1970.

Benin: Table 7. Monetary survey, 1970 and 1975 to 1978 (billions of CFA francs)

|                          | End<br>1970 | End<br>1975 | End<br>1976 | End<br>1977 | March<br>1978 |
|--------------------------|-------------|-------------|-------------|-------------|---------------|
| Net foreign assets       | 4.01        | 5.32        | 5.64        | 5.33        | 2.40          |
| Domestic credit          |             |             |             |             |               |
| Net claims on government | -0.14       | -2.94       | -2.30       | -6.20       | -6.43         |
| Claims on private sector | 7.40        | 32.60       | 32.10       | 37.60       | 42.00         |
| Money                    | 9.63        | 26.88       | 25.63       | 28.69       | 27.56         |
| Quasi-money              | 0.40        | 4.99        | 5.00        | 5.60        | 5.70          |
| Other items (net)        | 1.21        | 3.10        | 4.81        | 2.49        | 4.71          |

Source: IMF, International Financial Statistics, vol. XXX, No. 11, November 1977 and vol. XXXI, No. 9, September 1978.

In 1977, private sector credit which fell slightly in 1976, rose by 17.1 per cent. The Government creditor position with the banking system improved significantly as government deposits rose from CFAF 2.30 billion to CFAF 6.20 billion. The net result was that domestic credit rose from CFAF 29.80 billion to CFAF 31.38 billion or by 5.3 per cent. As there was a small reduction in net foreign assets, the increases of 11.9 per cent for money and 12 per cent for quasi-money owed much to the decline in other net liabilities of the banking system.

In the first quarter of 1978 net foreign assets fell sharply and by much more than the normal seasonal decline. Domestic credit rose by 13.4 per cent but there was a fall of 3.9 per cent for money and an increase of 1.8 per cent for quasi-money.

#### 9. Wages and prices

The minimum legal wage which had remained fixed a CFAF 39.60 per hour since January 1969 was raised to CFAF 45.0 in July 1974. In 1976 wages in the public sector were raised by 14 per cent.

There is no consumer price index but the rate of price increase has been substantial particularly for foodstuffs; for example, between December 1973 and April 1978 unit prices rose by 53.8 per cent for sugar, 45.3 per cent for imported rice, 94.1 per cent for maize, 47.8 per cent for groundnut oil and 100 per cent for palm oil. The estimated GDP deflator based on very incomplete data would suggest a rise in prices of about 8 per cent a year between 1970 and 1977. It is likely that the rate of inflation was higher from 1974 onwards.

#### 10. Employment and unemployment

The total number of persons in wage employment was estimated at 57,405 in 1977 compared with 49,930 in 1975 and 34,010 in 1970. As reported in last year's Survey about 90 per cent of the total labour force is effectively engaged in the traditional sectors of the economy including agriculture or in self-employment in commerce and other services. Unemployment is substantial in the urban centres and rural under-employment exists outside the planting and harvesting seasons.

#### 11. Other social sectors

(a) Education. Total primary enrolments reached 307,000 in 1977 from 155,200 in 1970. The enrolment rate thus increased from 28.4 per cent to about 45 per cent during this period. Secondary school enrolments were 50,000 in 1977 compared to 17,200 in 1970. These substantial rates of growth in primary and secondary education illustrate the effort being made in education.

(b) Health. Data on health facilities have not changed since the last issue of this survey. There were 2,593 hospital beds in 1976 compared with 1,439 in 1970 and the number of clinics and dispensaries serving rural areas increased from 211 to 263 in this six year period. The number of doctors increased to 109 in 1977 from 93 in 1976.

## B. MAJOR PROBLEMS

Trade has become increasingly unbalanced as imports continue to rise faster than exports. The need to curtail imports particularly of foodstuffs, including rice, and to boost exports through improved agricultural production has become urgent as the deficit on goods and services in the balance of payments has increased and is only sustainable because of the high aid and capital inflow.

Benin has lost a significant production of the transit trade with Niger to cheaper alternative routes. There is therefore urgent need to rationalize the transport system especially railways to reduce costs and to improve facilities for internal distribution.

The increased capital investment being undertaken within the framework of the current development plan should expand economic activity significantly during the next few years and with more normal rainfall the result could be further substantial growth of the economy.

## C. ECONOMIC CO-OPERATION

Under the Lomé Convention, Benin receives substantial aid from the EEC and through the STABEX Scheme established under this convention, Benin was compensated for declines in its export earnings from cotton and palm products in 1977.

Benin has been an active member of ECOWAS and is co-operating with its west African neighbours in the feasibility studies now being undertaken in various fields.

At the bilateral level, a common organization has been established with Niger for the management of the rail transport. Benin has also entered into an agreement with Ghana for the supply of electricity and with Nigeria for the construction of a cement plant and a sugar complex.

BOTSWANA

A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

1. Introduction

The rapid growth of Botswana's economy since 1970 has been due at least partly to the development of mineral resources; diamonds, copper and nickel, which had been discovered before 1970 but not exploited, are now being mined. The growth of the mining sector has been accompanied by substantial construction activity, the essential development of electricity generation and water supplies and an increase in the slaughtering and processing of cattle under factory conditions. As these productive sectors have grown rapidly so there has also been concomitant growth in the service sectors, including trade and finance and community and personal services.

The GDP figures available have not been prepared under a uniform system for the whole of the period under review and the apparent growth at current market prices from 1970 to 1976/1977 of from about 78 to 299 million pula indicates an average annual growth rate of more than 21 per cent at current prices. At constant prices GDP increased at an average annual rate of more than 11 per cent. These rates overstate the growth rates actually achieved and it is probably more realistic to work on 10 per cent a year at constant prices and 20 per cent at current prices, which by the standard performance in many developing countries is indeed high. The implicit GDP deflator suggests that prices during the 1970s rose at the average annual rate of 8.8 per cent.

Unfortunately, in 1976/1977 there was a GDP growth of 8 per cent at current market prices but no growth at constant prices. Crop production fell markedly in 1976/1977 and losses were also incurred by the railway system, and these two unfavourable developments offset the growth in mining and other sectors of the economy.

With a favourable development of the mining sector, exports from Botswana which were only P20 million in 1970/1971 grew to P156.7 million in 1977 and should be higher in 1978. At the same time general economic prosperity and increased demand for capital equipment have led to imports rising from P44.8 million in 1970/1971 to P239.6 million in 1977. In the first six months of 1978 imports were valued at P131 million.

Receipts by the Government under the Southern African Customs Union Agreement have grown rapidly in line with imports. This has helped to sustain a greatly increased level of expenditure and Government recurrent expenditure on a cash flow basis has risen from P15.84 million in 1970/1971 to P77.8 million in 1977/1978. Capital spending has risen over the same period from P8.53 million to P53.71 million, the latter figure including net loans to parastatal bodies. The receipt of grants from external sources has made an increasing contribution to capital funding but borrowing from abroad has been heavy with the external debt rising from P15.2 million at March 1971 to P125 million at March 1977. Fortunately in 1977 both the Canadian and Swedish Governments decided to waive repayment on loans of P35 million and this has had a favourable impact on the level of outstanding external debt.

The Bank of Botswana was established by act of parliament on 1 July 1975 but began to carry out its central bank functions in 1976. The withdrawal of Botswana from the Rand Monetary Area in August 1976 and the introduction of the pula as the unit of currency were steps on the way to monetary independence. The foreign exchange reserves of Botswana have been rising fairly rapidly and were P92.6 million at June 1978 compared with P31.8 million at December 1975.

Data on educational enrolments and health facilities and personnel given later point to a relatively fast growth of these services and generally there has been some improvement in housing. Employment in the modern sector of the economy has grown from about 35,000 in 1970 to 60,400 in 1976 and probably to a higher figure in 1977. However, the figures of recruitment for mines in South Africa point to the employment of fairly large numbers outside the country up to the end of 1977 but the data for 1978 suggest a fall in the numbers so employed.

The outlook for the economy in 1978 is mixed. Export figures show that the value of both diamond and copper nickel matte exports have increased, in the case of diamonds very materially, but the outbreak of foot and mouth disease in the northern areas is having its impact on slaughtering of cattle and exports of meat from the country. Crop production was also reduced in 1977/1978 because the rains were too low at the beginning of the season and too heavy at the end.

For the rest of the decade it is possible to be fairly optimistic with the likelihood of increasing mineral exports and hopefully a recovery in the exports of livestock products. A new development plan aiming at the continuation of a high GDP growth rate is now being finalized. This plan will emphasize employment creation.

## 2. GDP by industrial origin

The qualifications about a lack of uniformity in the coverage GDP estimates have already been made. Table 1 shows the figures available for the years 1968/1969 to 1976/1977.

When comparing 1968/1969 with 1976/1977, the growth in agriculture has been very much less than in any other sector except that of transport and services. The low figure for transport in 1976/1977 is a result of the treatment of the losses of the railway system. For some of the other economic sectors the level of growth shown reflects to some extent a better coverage in the statistics for later years compared with those for the earlier years.

On the whole it seems that whereas the share of agriculture, forestry and fishing, transport and services in GDP at current prices declined during the 1970s, suggesting lower growth rates than the average for GDP as a whole, the share of mining, manufacturing, electricity and water, construction and wholesale and retail trade rose substantially.

Botswana: Table 1. GDP by source, 1968/69, 1971/72 and 1974/75 - 1976/77  
(millions of pula)

| At current market prices                 | 1968/<br>1969 | Percentage   | 1971/<br>1972 | 1974/<br>1975 | 1975/<br>1976 | 1976/<br>1977 | Percentage   |
|--|---------------|--------------|---------------|---------------|---------------|---------------|--------------|
| Agriculture, forestry, fishing           | 23.2          | 45.3         | 33.1          | 61.2          | 64.2          | 70.8          | 23.7         |
| Mining                                   | 0.2           | 0.4          | 11.2          | 15.2          | 33.9          | 43.4          | 14.5         |
| Manufacturing                            | 2.8           | 5.5          | 5.1           | 15.5          | 20.9          | 21.0          | 7.0          |
| Electricity and water                    | 0.3           | 0.6          | 1.3           | 6.9           | 11.1          | 10.9          | 3.6          |
| Construction                             | 1.9           | 3.7          | 10.0          | 21.2          | 20.3          | 17.5          | 5.8          |
| Wholesale and retail trade <sup>a/</sup> | 5.1           | 10.0         | 17.5          | 43.0          | 53.9          | 57.9          | 19.4         |
| Transport, etc.                          | 3.4           | 6.6          | 3.8           | 5.5           | 7.6           | 1.7           | 0.6          |
| Services                                 | 14.3          | 27.9         | 20.6          | 44.6          | 64.3          | 76.0          | 25.4         |
| <b>Total GDP</b>                         | <b>51.2</b>   | <b>100.0</b> | <b>102.6</b>  | <b>213.1</b>  | <b>276.2</b>  | <b>299.2</b>  | <b>100.0</b> |

Source: Botswana Central Statistical Office.

<sup>a/</sup> Includes hotels and restaurants.

### 3. Selected economic sectors

(a) Agriculture, forestry, fishing. Despite its large area (581,730 square kilometres) only very limited parts of Botswana have been cropped to date. The cultivated area under sorghum and maize, the two major crops, varies annually depending on rainfall. In 1975/1976 it was only 403,000 hectares which is a very small portion of the total land area. Livestock rearing is much more widely practised and out of about 80,000 land holders in the three years to 1976/77, two thirds had cattle, the same proportion grew sorghum, maize and/or beans and one fifth grew millet.

Data on crop and livestock production since 1970/1971 are given in table 2. Because the years between 1970/1971 and 1975/1976 are excluded, the table does not fully reflect the erratic nature of crop production in Botswana.

Rainfall has varied from 291 mm to 722 mm a year in the main crop-growing areas between 1967/1968 and 1976/1977. The better crops have generally been related to the higher than average rainfall years such as 1970/71, 1971/72, 1973/74 and 1975/76. Rainfall was also above average in 1974/75 and 1977/78 but the erratic nature of the rain led to disappointing crops. Low harvests have also been linked to low producer prices.

Botswana: Table 2. Crop and livestock production, 1970/71 and 1975/76 - 1976/77

|                                       | 1970/71     | 1975/76     | 1976/77     |             |
|---------------------------------------|-------------|-------------|-------------|-------------|
| Maize (thousands of tonnes)           | 16.6        | 62.6        | 35.4        |             |
| Sorghum (thousands of tonnes)         | 73.3        | 55.6        | 33.0        |             |
| Millet (thousands of tonnes)          | 3.3         | ..          | 4.1         |             |
|                                       | <u>1970</u> | <u>1975</u> | <u>1976</u> | <u>1977</u> |
| Cattle slaughtered by BMC (thousands) | 128         | 188         | 212         | 197         |

Source: Botswana Ministry of Agriculture.

Bean production was 12,950 tonnes in 1976/1977.

The importance of livestock rearing was highlighted in late 1977 when an outbreak of foot and mouth disease in the northern parts of the country led to a large fall-off in the cattle intake to the Botswana Meat Commission's abattoir. Many farmers unable to sell cattle will be in a difficult financial position until the disease is eradicated but the Government is making loans against the security of cattle to see them through this difficult period.

Total cattle herds had risen to around 3 million in 1976 and the offtake mainly by the Botswana Meat Commission (BMC), but including other sources, was in the region of 300,000. Most of the meat produced was exported as carcasses or as boneless beef. The BMC slaughtered 212,000 cattle in 1976 and the total would have been higher in 1977 as 194,000 had been slaughtered by September; unfortunately the foot and mouth outbreak led to the virtual closure of the abattoir for the rest of the year. The abattoir reopened in January 1978.

The impact of foot and mouth disease on the cattle intake into BMC can be measured from the low figure of 38,000 in the first quarter of 1978 against more normal figures of 63,000 and 57,000 in the first quarters of 1977 and 1976 respectively.

(b) Mining. This has been one of the main originators of growth since 1970. Two mines, Orapa for diamonds and Pikwe for copper/nickel were brought into production, the latter at very high cost, and more recently diamond output was boosted by the Letlhakane mine. Expansion of capacity at Orapa is under way and full production with its own crushing operation will commence at Letlhakane in early 1979. The new diamond mine at Jwaneng should be in production in 1982 and the revised agreement with BCL calls for phase 2 to be developed at Selebi at a cost of P22 million.

The Morupule colliery was developed to provide coal for the thermal generation of electricity for the Shashe project (the name given to the original Selebi/Pikwe mining developments). The Shashe project has so far failed to measure up to expectations. There were early technical difficulties, inflation caused cost overruns, the metal market was disastrous in the crucial years of the project and the peculiar nature of financing the completion capital all contributed to this state of affairs. A new agreement signed in March 1978 is expected to help the Selebi/Pikwe project achieve earlier profitability.

Botswana: Table 3. Output of major minerals, 1970 and 1975 - 1977

|                             | 1970 | 1975  | 1976   | 1977   |
|-----------------------------|------|-------|--------|--------|
| <u>Copper/nickel matte</u>  |      |       |        |        |
| Copper content (tonnes)     | -    | 6,504 | 12,473 | 11,783 |
| Nickel content (tonnes)     | -    | 6,447 | 12,581 | 12,099 |
| Coal (thousands of tonnes)  | -    | 71.2  | 224.2  | 294.0  |
| Diamonds (millions of pula) | -    | 29.6  | 33.8   | 48.6   |

Source: Republic of Botswana, Central Statistical Office, Statistical Bulletin, June 1978, vol. 3, No. 2 (Govt. Printer, Gaborone).

In the first half of 1978 copper output was 7,289 tonnes, nickel 7,953 tonnes, coal 154,000 tonnes and the value of diamond production was P27.87 million. All these figures suggest that mineral production will increase materially in 1978. The index of mining production actually increased by 16 per cent in the first half of 1978 to reach 120 based on 1976 = 100.

(c) Manufacturing. There are very few large enterprises in this sector, the two most important are the BMC's cattle processing plant and a brewery. There are a substantial number of small plants and one measure of their output is the rise in value of textile exports from P2.74 million in 1975 to P6.28 million in 1977.

The BMC plant was enlarged in 1977 but the expansion coincided with the foot and mouth outbreak so its advantages will be delayed temporarily. The processing is mainly to prepare carcasses and boneless beef for export. The tonnage of boneless beef exports reached 25,905 in 1976 compared with 10,382 tonnes in 1970. In contrast carcasses exported fell from 55,419 in 1970 to 26,575 in 1976. In August 1978 BMC opened two extensions, a cannery and tannery.

(d) Electricity. The generation of electricity has been expanded very rapidly to meet the requirements of the mining industry and also for the general growth of the economy. Output was 38.8 million kWh in 1971 but had risen nearly tenfold to 347.8 million in 1977 and should be around 380 million kWh in 1978. The growth rate since 1975 has been 12 per cent a year.

(e) Construction. There was rapid expansion in this sector up to 1973/1974 as the Shashe complex was being developed but since then output has fallen somewhat. The value of building plans passed in three main urban areas was P9.7 million in 1975, P7.8 million in 1976 and P7.9 million in 1977. There appears to have been a substantial increase in 1978 based on figures for the first half of the year. The increase is particularly in Gaborone.

(f) Transport services. The statistics for railway services show little change in traffic this decade but there has been substantial growth in the number of commercial vehicles on the road and since 1976 the number of passengers handled at airports has also risen. Details are given in table 4.

Botswana: Table 4. Selected transport indicators, 1970 and 1975 - 1977

|                                | 1970                  | 1975    | 1976    | 1977    |
|--------------------------------|-----------------------|---------|---------|---------|
| <u>Railways</u>                |                       |         |         |         |
| Freight tonne/km (million)     | 1 036.4 <sup>a/</sup> | 1 091.1 | 1 199.5 | 1 056.2 |
| Passengers (thousand)          | 607.3 <sup>a/</sup>   | 568.7   | 545.4   | 458.3   |
| <u>Roads</u>                   |                       |         |         |         |
| Commercial vehicles (thousand) | 3.02                  | 6.69    | 7.80    | 11.08   |
| <u>Airports</u>                |                       |         |         |         |
| Passengers handled (thousand)  | ...                   | ...     | 153.4   | 198.4   |

Source: As table 3.

a/ 1971.

In the first half of 1978 101,200 passengers were handled at airports and from January to April 324.3 million tonne/kilometres of freight were handled on the railways.

In the 1978/79 development budget, major expenditures were expected on vital road links such as Lobatse-Jwaneng, Serule-Francistown, Mahalapye-Serule, Ramatlabama-Lobatse and Gaborone-Molepole.

(g) Tourism. The expenditure by visitors has been virtually stagnant since 1975 after a period of high growth. There were 176,000 visitors in 1977 compared with 150,400 in 1976 and 154,000 in 1975.

#### 4. Expenditure and GDP

During the 1970s the share of consumption, both private and public, in GDP rose substantially from 72.2 per cent in 1971/1972 to 85.5 per cent in 1976/1977 and consequently the share of domestic savings in GDP declined from 27.8 per cent in 1971/1972 to a mere 14.5 per cent in 1976/1977. The share of investment fell from 54.4 per cent to 31.7 per cent in 1976/1977. Even with this substantial fall, investment in Botswana is still high by any standard. In spite of the increase in the share of consumption in GDP, the share of the deficit on goods and services of the balance of payments fell substantially, apparently as a result of the sharp fall of the share of fixed capital formation in GDP. The import content of fixed capital formation is usually much higher than GDP as a whole.

Botswana: Table 5. Expenditure and the GDP, 1971/72 and 1975/76 - 1976/77  
(millions of pula)

|  | 1971/<br>1972 | Percentage<br>of GDP | 1975/<br>1976 | 1976/<br>1977 | Percentage<br>of GDP |
|--|---------------|----------------------|---------------|---------------|----------------------|
| Private consumption                                  | 58.1          | 56.6                 | 151.2         | 185.1         | 61.9                 |
| Public consumption                                   | 16.0          | 15.6                 | 50.6          | 70.5          | 23.6                 |
| Gross fixed capital formation                        | 53.1          | 51.8                 | 79.1          | 77.1          | 25.7                 |
| Change in stocks                                     | 1.3           | 1.3                  | 35.1          | 18.1          | 6.0                  |
| Exports <u>less</u> imports of goods<br>and services | -25.9         | -25.3                | -39.8         | -51.6         | -17.2                |
| GDP at market prices                                 | 102.6         | 100.0                | 276.2         | 299.2         | 100.0                |

Source: As table 3.

#### 5. External trade and balance of payments

During the 1970s the growth rate of exports was higher than that of imports. However, the deficit on external trade has grown materially in absolute terms, although as percentage of GDP the deficit fell substantially as stated above.

The figures for the first half of 1978 show that both exports and imports should increase for the year as a whole but that the deficit should be similar to that of 1977. In the first half of 1978 diamond exports were running at an annual rate of P72 million or 48 per cent higher than in 1977; exports of copper/nickel matte were higher by 25 per cent but exports of meat and meat products had fallen by 30 per cent. It is hoped that beef exports will be back to normal in 1979.

Botswana: Table 6. External trade and balance of payments, 1970 and 1975 - 1978  
(millions of pula)

|                            | 1970   | 1975   | 1976   | 1977              | Jan.-June<br>1978 |
|----------------------------|--------|--------|--------|-------------------|-------------------|
| <u>External trade</u>      |        |        |        |                   |                   |
| Exports                    | 20.00  | 105.04 | 153.17 | 156.65            | 89.90             |
| Imports                    | 44.80  | 159.29 | 181.39 | 239.61            | 130.90            |
| Balance                    | -24.80 | -54.25 | -28.22 | -82.96            | -41.00            |
| <u>Balance of payments</u> |        |        |        |                   |                   |
| Goods and services (net)   | ...    | -47    | -26    | -26               |                   |
| Private transfers (net)    | ...    | 10     | 19     | 21                |                   |
| Public transfers (net)     | ...    | 6      | 21     | 46 <sup>a/</sup>  |                   |
| Capital                    | ...    | 57     | -6     | -28 <sup>a/</sup> |                   |
| Reserves and related items | ...    | -12    | +5     | -17               |                   |
| Errors and omissions       | ...    | -14    | -13    | +4                |                   |

Source: External trade: as table 3.

Balance of payments: Bank of Botswana: Annual Report, 1977.

a/ Transfers includes P33 million loans converted to grant capital: the net total includes the imputed outflow of P33 million converted as above.

#### 6. Development aid and external debt

Some information on the grants received by Botswana is available from the Government accounts. Grants for recurrent and development account were P6.27 million in 1973/1974 and had risen to P8.10 million in 1975/1976 and further to P16.47 million in 1976/1977. The estimates for 1977/1978 and 1978/1979 show figures of P19.4 million and P22.37 million respectively.

External loans have tended to fall over this period. The total in 1973/1974 was P21.86 million and in 1976/1977 it had fallen to P12.4 million but the estimate for 1978/1979 is P17 million.

The external public debt has risen sharply from P15.2 million in March 1971 to P125 million in March 1977 but in 1977/1978 there was some reduction because of the conversion of loans from Canada and Sweden into grants. The scheduling of debt repayment spans a large number of years.

## 7. Government revenue and expenditure

Government revenue and expenditure (current and capital) rose substantially during the 1970s. It is indeed gratifying that recurrent revenue rose at the average annual rate of 32 per cent compared with 23.8 per cent for recurrent expenditure with the result that the current budget has been showing substantial surpluses which have been utilized for financing capital expenditure.

However, as a result of the large average annual rates of expansion in capital expenditure amounting to 29.6 per cent and a lower growth rate in capital grants of 10.8 per cent yearly, the treasury cash deficit has risen substantially from a mere P2.16 million in 1970/1971 to P15.25 million in 1978/1979. External loans for the 1978/1979 budget are forecast to be about P17 million or more than the cash deficit.

Botswana: Table 7. Government revenue and expenditure, 1970/71 and 1975/76 - 1978/79  
(millions of pula)

(Presentation on a cash-flow basis from 1975/76)

|                                  | 1970/71 | 1975/76 | 1976/77 | 1977/78 <sup>a/</sup> | 1978/79 <sup>a/</sup> |
|----------------------------------|---------|---------|---------|-----------------------|-----------------------|
| Recurrent revenue                | 12.92   | 79.84   | 72.00   | 103.50                | 118.99                |
| Recurrent expenditure            | 15.84   | 48.75   | 64.79   | 77.80                 | 87.53                 |
| Current surplus(+) or deficit(-) | -2.92   | +31.09  | +7.21   | +25.70                | +31.46                |
| Capital grants                   | 9.29    | 7.92    | 15.36   | 17.50                 | 21.00                 |
| Capital expenditure              | 8.53    | 41.21   | 43.30   | 53.71                 | 67.71                 |
| Total receipts                   | 22.21   | 87.76   | 87.36   | 121.00                | 139.99                |
| Total expenditure                | 24.37   | 89.96   | 108.09  | 131.51                | 155.24                |
| Cash deficit                     | 2.16    | 2.20    | 20.73   | 10.51                 | 15.25                 |
| Financed by:                     |         |         |         |                       |                       |
| External loans                   | ...     | 16.09   | 12.14   | 11.50                 | 17.00                 |
| Other sources                    | ...     | 5.65    | 11.50   | -1.58                 | -2.03                 |
| Change in cash balance           | ...     | -19.54  | -2.91   | 0.59                  | 0.28                  |

Source: Republic of Botswana, Financial statements, tables and estimates of consolidated and development fund revenues, 1978/1979 (Govt. Printer, Gaborone).

<sup>a/</sup> Budget estimates.

## 8. Money and banking

The Bank of Botswana was created in July 1975 and in August 1976 the pula replaced the rand as the unit of currency. Botswana left the rand monetary area and the bank has progressively assumed the role of a central bank. The monetary system has been transformed from a dependent self-regulating one to an independent system.

The build-up of international reserves in the initial years as an independent system was rapid. The increase has continued up to June 1978, the latest date for which information is available. These reserves were P31.75 million at December 1975 and have increased to P82.8 million at December 1977 and further to P92.6 million at June 1978. Monetary statistics also show that the level of quasi-money (savings and time deposits) has more than doubled over this period but the growth of money proper has been less rapid.

Government deposits at the Bank of Botswana rose from P28.8 million to P38.1 million between December 1976 and December 1977 and further to P47.7 million in June 1978. Over this same period its deposits with the commercial banks fell rapidly and had virtually been extinguished by June 1978. The figures were P42.3 million in December 1975, P22.3 million in December 1976, P13.1 million at the end of 1977 and P2.8 million in June 1978. However, total loans and advances by the commercial banks increased in the years 1975, 1976 and 1977 to rise from P37 million in December 1974 to P74.2 million at the end of 1977. There was some reduction to P71.9 million by June 1978.

In April 1977 the pula was appreciated by 5 per cent primarily to help to moderate domestic price increases, which are heavily affected by inflation in the major sources of supply of imports.

Domestic credit to the private sector rose by 45 per cent in 1975, 28 per cent in 1976 and 6 per cent in 1977 but fell in the first half of 1978. The banks were liquid in 1977/1978 and steps have been taken to help to stimulate credit demand. In August 1978 there was an all-round lowering of interest rates by 1 per cent. The commercial banks' lending rate fell to 10 per cent.

During 1977 money supply widely defined to include quasi-money rose by 25.5 per cent, the major contributing factor being the increase in foreign exchange reserves. The same trend continued during the first half of 1978.

Botswana: Table 8. Monetary survey, December 1974 to June 1978 (millions of pula)

|                        | December<br>1974 | December<br>1975 | December<br>1976 | December<br>1977 | June<br>1978 |
|------------------------|------------------|------------------|------------------|------------------|--------------|
| International reserves | 23.60            | 31.75            | 65.1             | 82.8             | 92.6         |
| Loans and advances:    |                  |                  |                  |                  |              |
| To Government          | 1.5              | 2.9              | 2.9              | 2.6              | 2.6          |
| To private sector      | 36.2             | 52.6             | 67.5             | 71.6             | 69.3         |
| Government deposits    | 20.7             | 39.4             | 51.1             | 51.2             | 50.5         |
| Money <u>a/</u>        | ...              | ...              | 43.5             | 58.1             | 59.4         |
| Quasi-money <u>b/</u>  | ...              | 25.9             | 42.5             | 49.8             | 53.0         |

Source: Based on data published in CSO Statistical Bulletin, June 1978, vol. 3, No. 2. (Govt. Printer, Gaborone).

a/ Botswana currency outside banks and current and call deposits of commercial banks.

b/ Savings and fixed time deposits of commercial banks.

## 9. Wages and prices

Botswana's income policy is to prevent any widening of the gap in living standards between those in formal sector employment and those dependent on traditional agriculture. To a considerable degree, however, wage rises in the formal sector have tended to follow increases in consumer prices. For the livestock producer the rises in producer prices for cattle have helped to maintain their relative standard.

The series on consumer prices is not complete since 1970 but from 1970 to June 1973 prices based on three index numbers rose by 15.5 per cent or 4.8 per cent yearly. From March 1974 to July 1978 there was a further increase of 64.7 per cent or an acceleration to nearly 13 per cent yearly. Between March 1975 and March 1976 the percentage rise was 12.6 per cent, from March 1976 to March 1977 it was 13.7 per cent and from March 1977 to March 1978, 10.4 per cent.

The double digit rate of inflation in recent years is indeed high and, coupled with the present rate of exchange, may, if it continues, adversely affect the competitive position of Botswana's exports.

## 10. Employment and unemployment

The growth in wage employment in Botswana has been comparatively rapid this decade with the total number of persons rising from about 35,000 in 1970 to 57,150 in 1975 and 60,400 in 1976, an average annual rate of 9.5 per cent. There was probably a further rise in 1977. There are still substantial numbers of Botswana nationals working in South Africa and mine recruitment figures were 35,920 in 1970, 32,630 in 1975, 40,390 in 1976 and 38,270 in 1977. In the years 1971 to 1974 recruitment was at a much lower level probably resulting from the development of Botswana's own mining industry. In the first half of 1978 there was a substantial fall in the numbers recruited to 12,298 which may reflect a change in labour policies in South Africa.

The growth of education has probably had some impact on temporarily reducing the demand for employment but after a period when there was a rapid build-up in the number of school students, they are now leaving school in comparatively large numbers, emphasizing the need for accelerated development to create worthwhile activity in both urban and rural areas.

## 11. Other social sectors

(a) Education. There have been substantial increases in enrolments in primary and secondary schools this decade with the totals rising from 83,002 to 137,290 at the primary level and from about 6,800 to 15,496 at the secondary level between 1970 and 1977. In 1977 there were some 156,000 students at all levels of education equal to 21.1 per cent of the total population.

It was announced in 1977 that it was the Government's intention to abolish fees at medium primary schools by 1980. In the 1978 budget speech the programme for education in 1978/1979 included five new secondary schools and the expansion of 11 existing ones. Teachers training colleges were also being expanded.

(b) Health. It is the long-term aim to provide a comprehensive health service to people throughout the country and a total of 10 health centres, 100 clinics and 250 health posts were scheduled to be built in rural and periurban areas between 1973 and 1981. Training of health personnel was also to be stepped up.

Figures for 1976 show 1,937 hospital beds, some 76 doctors and specialists employed by the Government, local councils, missions and the private sector, a total of 339 registered nurses, 411 enrolled nurses and 359 student nurses. The total number of clinics and health posts had risen to 344. In 1978/1979 it was proposed to up-grade and extend 13 health centres and hospitals.

(c) Housing. The Botswana Housing Corporation is continuing to provide about two thirds of the housing in the expanding urban areas with the remainder being built by the private sector. A review of housing policy in 1978 was expected to lead to more home ownership; probably assisted by a Government Guaranteed Housing Loan Scheme. In 1978/1979 the Corporation was expected to start its partially assisted housing scheme for persons wishing to build their own houses on low- and medium-cost plots.

There is still a very substantial pent-up demand for housing in the main urban areas.

#### B. MAJOR PROBLEMS

The outbreak of foot and mouth disease in the latter part of 1977 has led to a sharp fall in the number of cattle processed at BMC and consequent falls in export realizations from carcasses and meat.

A constant problem in Botswana is the erratic nature of the rainfall which has a particular impact on crop production and on the attempts to achieve self-sufficiency in the major grain crops.

Employment creation has been comparatively rapid so far this decade. At the same time there is still a crucial shortage of trained indigeneous personnel for high-level administrative and professional and middle-level technical and managerial posts.

Refugee facilities have had to be provided on a substantial scale over the last year or two.

The poor world market for the minerals, copper and nickel, produced from the Selebi/Pikwe mine is still having an adverse impact on the profitability of this mine. A financial restructuring exercise is expected to help the situation but some worthwhile increases in both copper and nickel prices are required.

#### C. INTERNAL DEVELOPMENT POLICIES

The fourth development plan summarized the internal development policies as giving the highest priority to rural development; the creation of wider employment opportunities through greater use of labour-intensive methods where appropriate; localization and training to move Batswana into jobs presently held by expatriates in such a way as to produce optimal results; increased participation of Batswana in

industrial and commercial enterprises; the prevention of any widening of the gap in living standards between those in formal sector jobs and those dependent on traditional agriculture; economic diversification away from dependence on minerals and livestock; self-sufficiency in crop production; re-investment of the returns from mineral exploitation to ensure a lasting beneficial impact on the economy; development of water resources to reduce long-term vulnerability to drought. There are other policies which are of lesser significance.

The fifth plan is now under finalization and will probably lead to some changes in these policies. However, the major emphasis should continue to be on the creation of employment for the growing educated population. It is only by reinvesting the proceeds from the sale of minerals that the situation which forces so many of the young men to seek employment abroad can be alleviated. A policy of encouraging crop production also forms a basic feature of this approach. Ways and means have to be found to increase credit available for private sector investment. A better system of manpower allocation especially in professional and technical fields is also under examination. The whole question of employment policy is to be the subject of a white paper under preparation for submission to parliament.

#### D. PROSPECTS FOR 1978 AND 1979

The continued growth of diamond mining plus a better outlook for the copper/nickel venture should enable Botswana to compensate fully for the loss of meat and meat product exports in 1978 while 1979 should see a recovery of the meat trade as the foot and mouth disease dies out.

In the first half of 1978 exports rose to P89.9 million while imports were P130.9 million. The annual rates suggested by these figures are approximately P180 million and P262 million respectively, 15 per cent and 11 per cent higher than the corresponding figures for 1977. The Government budget for 1978/79 calls for a total expenditure 18 per cent higher than in 1977/78. Inflation appears to have fallen a little in 1978 with an increase of 5.1 per cent in the first seven months of the year equal to an annual rate of about 8.8 per cent.

Diamond mining should increase further in 1979 as the Lethlakane mine is scheduled to come into full production with its own crushing operation.

The emphasis on employment creation in the new plan should find some reflection in more capital expenditure probably emphasizing labour-intensive methods. The level of capital expenditure in 1979 could therefore be higher than in 1978.

Thus, over-all, it is possible to be reasonably optimistic about both 1978 and 1979 in the non-agricultural sectors. However a poor crop in the 1977/78 season plus the foot and mouth outbreak will have a negative effect in 1978 itself, reducing the growth rate in that year.

Finally the forthcoming negotiations for a successor arrangements to the Lome Convention are of critical importance for Botswana as the country must retain its access to the EEC beef markets on terms that provide a reasonable return to the livestock producer.

## BURUNDI

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

#### 1. Introduction

Burundi is a small country, with a very dense population (137 inhabitants per square kilometre in 1976), and it is overwhelmingly dependent on agriculture, coffee being the most important commercial crop and foreign-exchange earner. In the period 1970-1977, the economy has grown slowly, barely keeping pace with the population growth. Up to 1975, according to official estimates, the rate of growth of GDP was less than 1 per cent per year. In 1976 and 1977, however, the boom of coffee prices raised the rate of growth of the economy to 8.2 per cent in 1976 and then 11.7 per cent in 1977 and overall for the period 1970-1977 the average rate of growth of GDP at constant prices was 3.4 per cent a year.

Coffee is the only significant export product and the import capacity of Burundi is limited by what is earned from coffee and the aid receipts. With increased export proceeds and foreign aid, the basic balance of payments has remained most of the time in surplus in the period under review. When coffee prices started to grow rapidly in 1976 and further in 1977, exports soared and Burundi accumulated record reserves of foreign exchange, which reached a level equal to 10 months of imports by the end of 1977. The much better fiscal situation encouraged the Government greatly to increase investment expenditure.

Inflation grew significantly in the years after 1973 and price rises were compounded by the rise of transport costs from the port of Dar-es-Salaam which is the main entry and exit outlet for Burundi's external trade. As measured by the GDP deflator, after growing by 3.4 per cent per annum in 1970-1973, prices soared by 12.8 per cent in 1974, then by 18.4 per cent in 1975. Since then the rate of inflation has stabilized at about 11 to 12 per cent a year, the average rate of inflation being 9.2 per cent for the whole 1970-1977 period.

Economic prospects for 1978 are determined by the trends in coffee prices and the investment programme launched by the Government in the framework of the third plan. Coffee prices are less favourable and will not regain their previous exceptional level. However this will not have a large impact on Burundi in 1978, since the crop was sold before the drop in prices. On the other hand, the Government has greatly increased development spending, contracting loans abroad which at the same time the private sector is showing more eagerness to invest. Consequently the growth of the economy will remain at a relatively high level. Unfortunately, subsistence agriculture has shown little signs of improvement in the season ending in 1978.

#### 2. GDP by industrial origin

The agriculture sector as a whole has grown at only 1.6 per cent per year in 1970-1977, so that its share of GDP has fallen from 68.2 per cent in 1970 to 64.1 per cent in 1977. There has been only a very slow growth rate in the non-monetary sector as a whole estimated at 1 per cent a year while the monetary economy has grown by 5.9 per cent a year, the divergent rates leading to a fall of the share of the subsistence sector to 44.6 per cent of GDP in 1977 from 52.7 per cent in 1970, while the monetary sector grew from 47.3 to 55.4 per cent.

Although the industrial sector grew much more rapidly than all other sectors with an average increase of 7.4 per cent a year, more than twice the GDP growth rate as a whole, it remains of relatively small significance in the economy, accounting for 12.9 per cent of GDP in 1977 compared with 9.4 per cent in 1970. Construction growth was particularly rapid in 1977 and its share of GDP rose from 2.3 per cent in 1970 to 4.5 per cent in 1977. Manufacturing has recorded a growth rate averaging 5 per cent a year since 1970 and in 1977 its GDP contribution was 8.1 per cent. Inflation and transport problems have limited the expansion of commerce and the value added by this sector in 1977 declined to only 7 per cent of GDP against 8 per cent in 1970. Other services excluding commerce and transport grew somewhat faster than GDP as a whole and contributed 14.2 per cent of GDP in 1977 compared with 13.2 per cent in 1970.

Burundi: Table 1. GDP by source at constant 1970 prices, 1970 and 1975-1977  
(millions of Burundi francs)

|                                   | 1970   | Percentage | 1975   | 1976   | 1977   | Percentage |
|-----------------------------------|--------|------------|--------|--------|--------|------------|
| Agriculture, forestry and fishing | 13 568 | 68.2       | 14 224 | 14 770 | 14 922 | 64.1       |
| Mining and energy                 | 64     | 0.3        | 69     | 71     | 78     | 0.3        |
| Manufacturing                     | 1 346  | 6.8        | 1 657  | 1 842  | 1 889  | 8.1        |
| Construction                      | 450    | 2.3        | 410    | 535    | 1 046  | 4.5        |
| Wholesale and retail trade        | 1 582  | 8.0        | 1 560  | 1 559  | 1 631  | 7.0        |
| Transport and communications      | 238    | 1.2        | 381    | 361    | 427    | 1.8        |
| Services                          | 2 634  | 13.2       | 2 659  | 2 928  | 3 308  | 14.2       |
| GDP at 1970 factor cost           | 19 882 | 100.0      | 20 960 | 22 066 | 23 301 | 100.0      |
| GDP at 1970 market prices         | 21 476 | 100.0      | 22 187 | 23 996 | 26 798 | 100.0      |
| Non-monetary                      | 11 318 | 52.7       | 11 498 | 11 726 | 11 947 | 44.6       |
| Monetary                          | 10 158 | 47.3       | 10 689 | 12 270 | 14 851 | 55.4       |
| GDP at current market prices      | 21 476 |            | 32 672 | 39 327 | 49 115 |            |

Source: Burundi, Ministry of Planning.

### 3. Selected economic sectors

(a) Agriculture, forestry and fishing. The fact that agriculture provides the livelihood of more than 95 per cent of the country's population but contributes only 64 per cent of GDP indicates a sector with low productivity. As measured by GDP constant price estimates given in table 1, the growth of agricultural production since 1970 has, at only 1.6 per cent on the average, been lower than population growth. Although according to the FAO index for gross agricultural production the growth has been 2.5 per annum in 1970-1977 which is slightly higher than the population growth rate. Food, which accounted in 1977 for 82 per cent of total agricultural production,

includes bananas, root crops, beans and peas and cereals. Bananas are most important being both a food and a source of drink. Production has shown wide fluctuations depending on weather conditions and over-all production has grown by only 1.7 per cent a year on average since 1970. The results for the latest season, 1977/78, are not yet known with precision, but a lack of rain in May 1978 has harmed some crops like beans and potatoes so that only average results are expected.

Available data suggest that the diet is adequate even with the rather indifferent production record. Import statistics include wheat flour, which amounted to 6,922 tonnes in 1976. These imports were no higher than in 1971 and were destined for the urban population. The substantial rate of population growth and the finite land resources are leading to population pressures on the land with some shrinkage in average farm sizes. Marginal lands are being put into cultivation and forests cut down to make room for crops as well as providing firewood for the population. The Ministry of Agriculture reports further that yields are decreasing partly because of the use of less fertile land but also because seeds have not been renewed since 1959.

The new plan aims at greatly increasing food production and in general at increasing economic activity in rural areas. Agriculture is expected to grow at 3.4 per cent and food production by 3.1 per cent a year. Of total investments, 22.2 per cent is scheduled for agriculture and 57 per cent for the rural areas as a whole. The most important constraints to be overcome are not financial resources, which are considered to be adequate, but the acute shortage of trained personnel to educate peasants in new techniques and direct agricultural projects. That is the reason why a particular effort is planned to train agricultural extension workers and other agricultural technicians and experts. One objective is to have one extension worker for every 250 families which would mean a total of 3,200 such workers. This specific target should be reached fairly rapidly but there is some doubt over the likely competence of these workers as their education levels and training periods are only very modest. At present there are two institutions for the training of middle-level personnel while a faculty for agronomy has been opened at Bujumbura University. However, continuing high reliance on external technical assistance is crucial for the development of Burundi's agricultural sector.

There are three important commercial crops, coffee, cotton and tea. In the period 1970-1977, the growth in volume of commercial crops has been only 2 per cent per year. Coffee, by far the most important crop, has fluctuated around 22,000 tonnes of "green" coffee per year, cotton production has been in continuous decline but steady progress has been shown for tea production. The coffee price boom in 1976/77 has helped to generate greatly increased rural incomes and, while the production of arabica parchment coffee reached 27,982 tonnes in 1976/77, it declined to 20,522 tonnes in 1977/78. The high coffee prices resulted in a considerable boost to producers' revenues after the authorities decided to raise producer prices from 39 Burundi francs per kg in 1975 to 65 francs in 1976 and 112 Burundi francs in 1977. Receipts by producers, which were only 794.6 million Burundi francs in 1975/76, grew to FBu 1,818.8 million in 1976/77 and further to FBu 2,298.5 million in 1977/78. Government receipts from coffee increased much more substantially reaching FBu 1,195.9 million in 1976/77 and FBu 3,507.1 million in 1977/78.

A lack of growth in the volume of coffee production over the years has been due to many factors including the pressure of population on land so that very little additional land has been allocated for coffee production; an unremunerative level of prices up to 1976 which led to the peasant neglecting the coffee trees; and competition from other crops. The decline in cotton production has been basically a

result of cotton production being only half as profitable to the producer as cassava. Tea production, which is supported by EEC funds has done well in the 1970s, and the volume of tea produced in 1976 was three to four times as much as in 1971. The Government is now undertaking a programme to boost coffee production by replacing old trees and the producer's price for cotton has been increased.

The number of cattle was estimated at 779,000 head in 1976. Because of population pressures there is a growing problem over pastures and it is possible that herds are already too high for existing pastures.

Burundi: Table 2. Food and commercial crop production, 1970 and 1974-1976

|   | 1970              | 1974   | 1975   | 1976   |
|---|-------------------|--------|--------|--------|
| <u>Food crops (thousands of tonnes)</u> |                   |        |        |        |
| Bananas                                 | ...               | 1 250  | 1 272  | 1 299  |
| Roots and tubers                        | ...               | 829    | 929    | 959    |
| Cereals                                 | ...               | 143    | 179    | 183    |
| Beans, peas, etc.                       | ...               | 258    | 326    | 332    |
| <u>Commercial crops (tonnes)</u>        |                   |        |        |        |
| Coffee                                  | 22 084            | 28 139 | 16 929 | 21 428 |
| Tea                                     | 321 <sup>a/</sup> | 986    | 787    | 1 136  |
| Cotton                                  | 3 521             | 1 653  | 1 422  | 1 174  |

Source: Compiled from national data from Burundi.

a/ 1971.

Lake Tanganyika contains important fish resources which are being increasingly exploited with FAO assistance. Three types of fishing are practised; industrial fishing, small-scale artisanal fishing, and traditional fishing using dug-out canoes. Over the years the catch has shifted to the benefit of non-traditional fishing, and has grown from 16,895 tonnes in 1971 to 20,333 tonnes in 1976. In 1977/78 production was affected by the decision of the authorities to suspend fishing because of a cholera epidemic, but fishing resumed around the middle of 1978.

With increasing population more and more forests have been cleared to provide agricultural land and firewood. It is now estimated that only 1.6 per cent of the total area of the country is covered by forests and an acute shortage of firewood exists in the country. The Government has included in the 1978-1982 plan, projects for reafforestation. The presence of large deposits of peat (some 500 million tonnes) means that there is an abundant source of fuel but there are difficulties in acquainting peasants with the use of peat.

(b) Mining. Mineral production is small and plays only a limited role in the country's economy. Some small quantities of cassiterite, bastnaesite and gold are produced. There are important reserves of nickel, which are still being intensively investigated to establish when commercial production will be feasible. Mineral exploration is far from complete in Burundi.

(c) Energy. The peat reserves already noted could supply energy resources for a very long time to come. Apart from firewood and crop residues which supply energy to the rural population present energy needs are covered through the importation of electricity from Bukavu in Zaire and from oil imports. In 1976 total oil consumption amounted to 31,233 cubic metres, 9.6 per cent more than in 1975 and 38.2 per cent more than in 1971. In the first six months of 1977 oil consumption amounted to 14,446 m<sup>3</sup> which is about 7.5 per cent less than in the same period of 1976. Electricity consumption has grown by 4.4 per cent a year in the period 1970-1977 and in 1977 results for the first three quarters suggest a further increase of 4 per cent. To increase production, the Government has included a hydroelectric project (the Mugere Dam) in the 1978-1982 plan. In 1976 electricity consumption was 27.8 million kWh.

(d) Manufacturing. This sector provided 8.1 per cent of GDP in 1977 and it has been growing relatively fast since 1970. However, at the moment the major activities are coffee and tea processing and the production of beer and blankets. Beer production has grown by 15.5 per cent yearly on average in 1970-1976, reaching 480,000 hl in 1976. In the next plan period manufacturing is expected to grow by about 14 per cent a year compared to 4.7 for GDP and, out of the total Fbu 67.6 billion of planned investment, manufacturing and handicrafts will receive 11.3 per cent. The main projects are a sugar mill, a flour mill, a textile complex, a cloth printing workshop and a glass factory, the total number of new jobs created being estimated 5,650.

(e) Construction. This has been a relatively fast growing sector but there have been fluctuations in yearly output. Most of the growth in the sector has occurred in 1976 and 1977. There has been a large increase in investments produced by the exceptional increase in revenues from coffee in 1976 and 1977. In 1977, investments grew by 46.9 per cent in volume but the increase in construction activity was higher. Much of the recent construction has been in transport and housing but includes a large tourist hotel in Bujumbura.

(f) Transport. Practically all Burundi's foreign trade is carried over the railway system from Lake Tanganyika to Dar es Salaam and traverses the lake itself between Bujumbura and Kigoma. There is an alternative route through Rwanda to Mombassa but it is very long (2,200 km) and at present the Bujumbura-Kigoma-Dar es Salaam system handles 90 per cent of the traffic. The long lines of communication and other features including the limited capacity of railways and ports create numerous problems for Burundi and impose heavy costs on its trade. The internal road network totals 5,500 km but parts suffer from poor maintenance.

Burundi: Table 3. Selected transport indicators, 1970 and 1975-1977

|                                       | 1970   | 1975   | 1976   | Jan.-Sept.<br>1977 |
|---------------------------------------|--------|--------|--------|--------------------|
| <u>Bujumbura port</u>                 |        |        |        |                    |
| Freight (total) (thousands of tonnes) | 129.48 | 134.54 | 128.99 | 114.64             |
| <u>Airport</u>                        |        |        |        |                    |
| Passengers handled (thousands)        | 40.45  | 27.33  | 38.20  | 26.29              |

Source: Compiled from national data from Burundi.

The traffic handled at Bujumbura port varies depending on the coffee crop for exports and on the level of economic activity for imports. There is little sign of increasing volume in the years 1970 and 1975-1976 shown in table 3 but in 1977, based on nine months trade, the total volume probably rose to more than 150,000 tonnes.

The improvement and diversification of transport lines is one of the most important policy objectives. Recently a road transport corporation has been established combining public and private interests, whose specific objective is to use the route to Mombasa. This route has recently become more attractive with the improvement of the roads in Rwanda. Requests have been made to EEC for finance to improve the ports of Bujumbura and Kigoma, especially the latter whose capacity is insufficient. In the new plan FBu 13 billion has been allocated for transport services.

#### 4. Expenditure and GDP

Between 1970 and 1976, domestic expenditure was consistently higher than GDP. In 1975 the deficit was equal to 10.9 per cent of GDP but it fell in 1976 to only 2.9 per cent and in 1977 there was actually a small surplus. However, the exceptionally high coffee prices of 1977 seem unlikely to recur in the near future so it is probable that there will be a return to a position of deficit for 1978 to 1980. Consumption expenditure as a proportion of GDP has been high in the period under review. In 1970 the percentage share of consumption in GDP was 96.4 per cent leaving only a small residual of 3.6 per cent for domestic savings. In 1977 consumption had fallen to 88.7 per cent of GDP with the share of domestic savings rising to 11.3 per cent of GDP indicating a marginal propensity to save of 0.17. Even with large foreign assistance funds on offer, expenditure on investment, although rising, has been relatively small, equal to 4.5 per cent of GDP in 1970, 8.9 per cent in 1976 and 11 per cent in 1977. This increasing trend must be enhanced substantially over the next plan period to 1982 if accelerated growth is to be achieved.

Burundi: Table 4. Expenditure and GDP, 1970 and 1975-1977 (millions of Burundi francs)

|  | 1970   | Percentage | 1975   | 1976   | 1977   | Percentage |
|--|--------|------------|--------|--------|--------|------------|
| Private consumption                        | 18 636 | 86.7       | 29 886 | 31 466 | 36 096 | 73.5       |
| Public consumption                         | 2 075  | 9.7        | 3 828  | 5 487  | 7 452  | 15.2       |
| Gross fixed capital formation              | 849    | 4.0        | 3 069  | 3 515  | 5 417  | 11.0       |
| Change in stocks                           | 113    | 0.5        | -556   | ...    | ...    | ...        |
| Exports less imports of goods and services | -198   | -0.9       | -3 556 | -1 141 | +150   | +0.3       |
| GDP at current market prices               | 21 475 | 100.0      | 32 671 | 39 327 | 49 115 | 100.0      |

Source: Burundi Ministry of Planning.

5. External trade and the balance of payments

Coffee is the leading export accounting for 84.4 per cent of the total value of exports in 1970 and 94.3 per cent in 1977. Exports which fluctuated between 1.7 and 2.5 billion Burundi francs in the period 1970 to 1975 rose sharply in both 1976 and 1977 as a result of the coffee boom to record totals of FBu 5.4 billion in 1976 and FBu 8.5 billion in 1977. The growth of imports was fairly regular from 1970 to 1977 with the total rising from FBu 2 billion to FBu 6.7 billion averaging 19.2 per cent a year compared with a growth rate of GDP at current market prices of 12.6 per cent yearly which implies an import elasticity with respect to GDP of 1.5.

In 1976 and 1977 for the first time since 1970 there were surpluses on merchandise account. In 1977 the surplus reached FBu 1.8 billion. As for the balance of payments the large receipts of public transfers together with a smaller inflow of private transfers and in some years a net capital inflow has led to a continuous and large rise in the level of Burundi's external reserves in the period under review. By December 1977 net foreign assets reached FBu 7.76 billion compared with FBu 66.0 million at the end of 1970. To a certain extent the increase in these reserves indicates a relative failure to develop the economy and in 1978 the Government eased its credit policies to facilitate imports.

Burundi: Table 5. External trade and balance of payments, 1970 and 1975-1977  
(millions of Burundi francs)

|                            | 1970  | 1975   | 1976   | 1977   |
|----------------------------|-------|--------|--------|--------|
| <u>External trade</u>      |       |        |        |        |
| Exports                    | 2 132 | 2 515  | 5 363  | 8 511  |
| Imports                    | 1 956 | 4 856  | 5 027  | 6 676  |
| Balance                    | +176  | -2 341 | +336   | +1 835 |
| <u>Balance of payments</u> |       |        |        |        |
| Goods and services (net)   | -361  | -739   | -597   | 1 901  |
| Private transfers (net)    | 156   | 234    | 366    | 484    |
| Public transfers (net)     | 586   | 1 229  | 1 877  | 1 057  |
| Capital (net)              | -91   | 385    | -146   | 105    |
| Reserves and related items | -290  | -1 109 | -1 653 | -3 547 |
| Errors and omissions       | -     | -      | 153    | -      |

Source: IMF, International Financial Statistics, vol. XXX, No. 12, December 1977, vol. XXXI, No. 9, September 1978.

Central Bank of Burundi (for balance of payments).

6. Development aid and external debt

According to OECD, total financial flows from DAC countries to Burundi increased from \$US 17.50 million in 1970 to \$US 53.83 million in 1975. Official aid flows accounted for the overwhelming majority of the total. In line with the recommendations relative to aid to least developed countries Burundi receives most of its aid in the form of grants. Balance-of-payments data given earlier show that transfers and capital inflows doubled between 1970 and 1977, and public transfers represented 64.2 per cent of the external resources provided to Burundi in 1977. Capital flows, i.e. loans and private investments represent a fluctuating and relatively unimportant element in the inflow of funds, while the most rapidly increasing flow has been of private transfers whose level tripled between 1970 and 1977.

Up to 1974 there was very little recourse by Burundi to foreign loans and the foreign debt reached FBu 629.4 million in 1974 compared with FBu 651 million in 1970. Since 1974 the Government changed its outlook and adopted a bolder development policy so that the reliance on foreign loans has greatly increased. In 1977 the debt reached FBu 3.2 billion; however, this is still small in terms of servicing costs in relation to the foreign earnings from goods and services.

7. Government revenue and expenditure

The most important budgets are those covering ordinary and extraordinary expenditure. Special accounts are held in the treasury to cover non-budgetary operations, and in particular expenditure from foreign grants. Although the size of the budget has doubled over the period 1970-1977, Government policy has been rather cautious, expenditure remaining more or less in line with available revenues and deficits, when they arose, being kept at low levels. The main increase in expenditure has arisen after 1975 when record coffee revenues made large increases possible, the main beneficiary has been the extraordinary budget which was doubled in 1977 after having trebled in 1976. For the ordinary budget, receipts reached FBu 5,648 million in 1977 against FBu 2,093 million in 1970 the increase being equal to an average of 15.2 per cent a year. The increased coffee revenues in 1976 and 1977 did not all go to the ordinary budget alone but were shared between the ordinary budget and the extraordinary budget. To measure the impact of the coffee boom it is sufficient to show that according to the Bank of Burundi the total treasury receipts from Arabica coffee were only FBu 134.8 million in 1975/76 but they rose to FBu 1,196.7 million in 1976/77 and then to FBu 3,507.1 million in 1977/78. For 1978 ordinary revenue has been estimated at FBu 6,271 million.

Burundi: Table 6. Government revenue and expenditure, 1970 and 1975-1977 (millions of Burundi francs)

|                     | 1970  | 1975  | 1976  | 1977  |
|---------------------|-------|-------|-------|-------|
| Current revenue     | 2 093 | 3 054 | 4 624 | 5 648 |
| Current expenditure | 2 160 | 3 228 | 4 298 | 5 094 |
| Capital receipts    | 80    | 409   | 841   | 2 340 |
| Capital expenditure | 108   | 331   | 997   | 2 004 |
| Overall balance     | -95   | -96   | 170   | 890   |

Source: Burundi, Ministry of Planning.

Ordinary expenditure has closely followed revenue. Between 1970 and 1977 such expenditure rose by 13.1 per cent a year on average or less than the rate of revenue increase so that it has been possible to develop a surplus on recurrent account; this surplus reached FBu 554 million in 1977. The 1978 ordinary budget, which totals FBu 6,452 million, allocates 56.9 per cent of estimated expenditures to general services, 28.7 per cent to social services and 14.4 per cent to economic services, in 1971 these proportions were 41.6, 37.8 and 18 per cent respectively.

The extraordinary budget, which covers government capital expenditure, has increased rapidly, rising from FBu 108 million in 1970 to 331 million in 1975 and FBu 2,004 million in 1977. A special development tax on coffee exports was levied in 1977.

### 8. Money and banking

Money and quasi-money increased in total by 55.4 per cent between 1970 and 1975, and then more than doubled between 1975 and 1977. Taking the period 1970 to 1977 money supply including quasi-money rose at an average annual rate of over 20 per cent. The rise in net foreign assets has been the most important factor behind the increase in the money supply; between December 1970 and December 1977 they rose from FBu 658 million to FBu 7.76 billion. Domestic credit has also risen but because in general the Government was not a significant borrower the influence of domestic credit on the money supply has been fairly small. Total credit rose from FBu 1,713 million in 1970 to FBu 2,167 million in 1977, or by an average of only 3.4 per cent a year. Net foreign assets increased by 42.3 per cent a year and money proper by 21.2 per cent.

Since the end of 1975, the Government has introduced several policy measures to ease credit policies and thus help to stimulate economic growth. In 1977 credit ceilings were removed for essential imports, and for medium-term and long-term loans and building loans. At the same time interest rates have been lowered from 7.5 per cent to 6 per cent for short term money, from 9 per cent to 8 per cent for real estate, and from 7.5 per cent to 6 per cent for investments.

Burundi: Table 7. Monetary survey, 1970 and 1975-1977 (millions of Burundi francs)

|                             | December<br>1970 | December<br>1975 | December<br>1976 | December<br>1977 | June<br>1978 |
|-----------------------------|------------------|------------------|------------------|------------------|--------------|
| Net foreign assets          | 658              | 2 135            | 3 827            | 7 760            | 5 637        |
| Domestic credit             |                  |                  |                  |                  |              |
| Net claims on government    | 863              | 1 241            | 1 121            | 156              | 1 066        |
| Claims on official entities | -                | 53               | 16               | 124              | 98           |
| Claims on private sector    | 853              | 997              | 1 518            | 1 887            | 3 415        |
| Money                       | 2 065            | 3 282            | 4 964            | 7 846            | 7 750        |
| Quasi-money                 | 138              | 141              | 165              | 396              | 362          |
| Other items (net)           | 169              | 1 003            | 1 350            | 1 684            | 2 104        |

Source: IMF, International Financial Statistics, vol. XXX, No. 12, December 1977, vol. XXXI, No. 9, September 1978.

## 9. Wages and prices

The main changes in wages were the increases in civil servants salaries in 1976 and 1977. These have been considerable and average remunerations have doubled. Consumer prices rose by 3.4 per cent a year between 1970 and 1973 but then accelerated in 1974 to 15.7 per cent and in 1975 to 15.8 per cent. This rate of inflation fell to 6.8 per cent in each year, 1976 and 1977.

## 10. Employment and unemployment

The population of Burundi is overwhelmingly agricultural, and direct unemployment is small. The real issue is underemployment in the rural areas where the labour force is not fully utilized. Wage employment is minimal and according to the 1976 statistical abstract stood at only 24,078 employees of whom 15,228 were employed in the public sector.

## 11. Other social sectors

(a) Education. Primary enrolment which was 181,000, in 1970 fell to 130,000 in 1976 and in that year the enrolment ratio was only 11 per cent. Secondary education and university education have fared better but in 1976 the numbers studying still represented a very small part of the relevant age groups.

(b) Health. There has been no significant change in the number of medical personnel and in medical facilities between 1970 and 1977. In 1976, there were 93 doctors or one for each 41,045 inhabitants and 830 nurses and other paramedics or one per 4,500 people. There were 4,902 beds and cots in 23 hospitals and 131 health centres, covering the whole country. The health institutions are well developed but since 1970 the over-all health situation has deteriorated to a significant extent because of a lack of sufficient funds to provide the health system with drugs and other medical equipment. According to the Ministry of Health the situation had reached a serious stage in 1976, with hospitals and health centres not being maintained and their equipment deteriorating or in disrepair. Since 1976, vigorous measures have been taken to redress the situation: the health budget has been increased and health centres have been resupplied with indispensable drugs and equipment while repair work has been resumed.

In general terms, the health situation is still characterised by a high mortality rate, a high infant mortality rate and the prevalence of parasitic and infectious diseases.

## B. MAJOR PROBLEMS

The most fundamental issue facing Burundi is probably that of population pressure on limited land resources. This necessitates boosting the level of fixed capital formation in order to accelerate economic development with social justice. The land area is 27,834 square kilometres and the population, which reached 3,817,000 in 1976 is growing at a rate estimated at between 2.2 and 2.6 per cent per year. As a consequence, the size of arable land per capita is shrinking and marginal lands are put under cultivation; trees are being cut down to make way for crops and one result is that soil erosion is making an appearance. There are already signs of declining yields for major crops and an acute firewood and timber shortage in the country, all the timber used for building being in fact imported from neighbouring Zaire.

Its land-locked situation in Central Africa imposes heavy costs on Burundi because of communications distances. Burundi is entirely dependent on the goodwill of its neighbours for some vital supplies, and it can sometimes experience situations like the shortage of gasoline which occurred in the first half of 1977 because of problems on the Kigoma-Dar es Salaam railway line and technical difficulties at the Dar es Salaam oil refinery.

As a least developed agricultural country, Burundi lacks experienced personnel to carry out its development projects and the mass of its population has little knowledge of modern agricultural techniques and methods. The poor level of primary school enrolment makes it difficult for modern methods to be understood and disseminated in the rural areas.

The world inflation beginning in 1974 hit Burundi badly and the country has had to bear much higher import cost and substantially higher transport costs. The position was compounded by the substantial expansion in total money supply.

#### C. INTERNAL DEVELOPMENT POLICIES

The first two plans drawn after independence, those for 1968-1972 and for 1973-1977, were not fully implemented mainly because of practical difficulties and during the years to 1975 the economic growth rate was particularly depressed.

Since 1976 there has been a fundamental change in the strategy of the authorities, which have decided to make a strong push for development. They have been greatly helped in this by the favourable financial situation brought about by the coffee boom, but their determination is particularly evident in the way the third five year plan 1978-1982 has been prepared. The main objectives of the plan are to increase food production, develop manufacturing in order to create employment, and ease the geographical isolation of the country by the development of new transport routes. The emphasis on food production is made within the framework of a general orientation towards rural development. The rate of growth is set at 5.8 per cent a year in real terms, food production growing by 3.1 per cent, commercial crops by 5.8 per cent, industry by 13.2 per cent and services by 5.9 per cent a year. Total investments will reach FBu 67.6 million

In agriculture the main emphasis is to raise productivity through better extension services, better seeds, etc. There are specific programmes for coffee, tea, cinchona, rice and wheat, while cotton production is to be rehabilitated. A sugar cane production project is included in the plan which will raise production to 55,000 tonnes of sugar.

In manufacturing industry the main projects are a sugar mill at Mosso costing FBu 1.5 billion, a flour mill, a textile complex at Bujumbura costing FBu 1 billion, a cloth printing unit and a glass factory. A dam is to be built at Mugeze for hydro-electric power generation.

#### D. PROSPECTS FOR 1978 AND 1979

Now that coffee prices have fallen, Burundi's economic situation is not as favourable as in 1976/1977. But with its accumulated reserves and a high foreign aid inflow, it seems likely that economic growth in 1978 and 1979 will be satisfactory. The revised policy of high development will ensure relatively satisfactory growth in the future.

## CAPE VERDE

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

#### 1. Introduction

The Cape Verde islands, which became independent in July 1975, are suffering the longest and severest drought in their recorded history. Situated off the West African coast in the Sahelian climatic zone, the islands are mountainous and have only a small area suitable for cultivation because of the jagged terrain. Even in normal years, rainfall is insufficient and agricultural production usually falls short of the food needs of the population. Since the drought which began in 1967/1968, agricultural production has been falling seriously and consequently increased food imports became necessary. While in 1967 domestic production satisfied 70 per cent of food consumption, in 1973 it covered only 10 per cent and in 1977 only 4 per cent. The non-agricultural sector of the economy, being small, was unable to generate sufficient exports. The trade deficit has grown considerably and exports, which represented 13.5 per cent of imports in 1966, fell drastically to 5.2 per cent of imports in 1976 and only 2.8 per cent in the first quarter of 1977. In 1973, the current balance-of-payments deficit on goods and services amounted to 64.8 per cent of GDP.

International aid and remittances from Cape Verde migrants working abroad enabled the country to meet the widening balance-of-payments deficits. The year 1977 has been the worst since the drought began with the lowest levels of rainfall ever recorded. Despite the considerable efforts made by the Cape Verde population to limit the consequences of the drought and to build water control facilities, no end is in sight to the drought and Cape Verde will continue to require substantial quantities of food aid.

#### 2. GDP by industrial origin

According to the estimates of GDP made in 1973, out of a total GDP of 1,074.5 million escudos equivalent, at the then prevailing rate of exchange, to 147 United States dollars per capita, agriculture represented 15.9 per cent, mining 0.7 per cent, manufacturing 5.7 per cent, electricity and water 4.4 per cent, construction 20.3 per cent, trade 26.7 per cent, transport and communications 12.6 per cent and other services 13.7 per cent. Compared to the year 1972 GDP had fallen by 14.4 per cent in current terms, and was lower by 1.9 per cent in current terms than the 1970 GDP. The importance of trade in the GDP comes from the geographical position which makes the island a supply point for Portuguese shipping serving the former colonies in Africa. In the years up to 1970 trade had accounted for 50 per cent of GDP but the relative decline in 1973 was due to the struggle for independence then prevailing in former Portuguese possessions. In 1973 the share of the construction sector was inflated because of the opening of relief works.

Since 1973, despite the lack of information on GDP, there is no doubt that agricultural production has decreased in volume and value, so that its share in GDP must have declined further. The gravity of this decline comes into perspective when it is realized that a large proportion of the active population is employed in agriculture. As for the other sectors, no major changes seem to have occurred, the construction sector having however been very active because of the considerable water works undertaken by the Government. Over-all rough estimates indicate a sharp decline in total GDP in real terms since 1973. On a per capita basis the decline must have been much more serious taking into consideration population growth.

Cape Verde: Table 1. GDP by industrial origin (1973) at current prices  
(millions of escudos)

|                                      | Value   | Percentage |
|--------------------------------------|---------|------------|
| Agriculture                          | 171.1   | 15.9       |
| Mining and Quarrying                 | 7.9     | 0.7        |
| Manufacturing                        | 61.7    | 5.7        |
| Electricity, gas and water           | 46.8    | 4.4        |
| Construction                         | 217.5   | 20.3       |
| Trade                                | 287.0   | 26.7       |
| Transport, storage and communication | 135.0   | 12.6       |
| Other                                | 147.5   | 13.7       |
| GDP at market prices                 | 1 074.5 | 100.0      |

Source: ECA

### 3. Selected economic sectors

(a) Agriculture. Traditionally in Cape Verde, cereals (mainly maize) and other food crops have been grown on rain-watered fields, while irrigated fields were reserved for bananas and sugar cane, the former providing some export earnings and the latter being used mainly for the production of alcoholic spirits. Goats were the most important source of meat, followed by pigs and cattle. The principal consequence of the drought has been that rain-fed crops have virtually been eliminated. While in 1967 there was a production of 16,129 tons of maize and beans, the crop fell to only 858 tons in 1973 and in 1977 it is reported that practically nothing was harvested. Bananas and sugar cane crops have been less effected, and in particular sugar cane production has not declined very much, but these crops are now threatened by the progressive drying up of the underground water reserves of the islands as the level of the water table has decreased, leading to some shrinkage of the irrigated area.

Cape Verde: Table 2. Food consumption: Origin of supply, 1976-1977

| Proportion in percentage | 1967  | 1970  | 1971  | 1972  | 1973  | 1977<br>(August) |
|--------------------------|-------|-------|-------|-------|-------|------------------|
| Food consumption         | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0            |
| From domestic production | 69.8  | 21.1  | 8.5   | 5.6   | 10.5  | 3.5              |
| From imports             | 30.2  | 78.9  | 91.5  | 94.4  | 89.5  | 96.5             |

Source: Government of Cape Verde, Praia, October 1977.

As for animal husbandry, if the goat population has not decreased too much (60,000 head in 1976 against 75,000 in 1968), losses have been considerable for cattle with the herds totalling only 15,000 head in 1976 against 41,800 in 1968 and pigs 20,000 head in 1976 against 50,000 in 1968.

Cape Verde: Table 3. Main crops in terms of volume, 1967-1973 (tonnes)

|                      | 1967   | 1970  | 1971  | 1972  | 1973  |
|----------------------|--------|-------|-------|-------|-------|
| Maize and beans      | 16 129 | 1 265 | 1 181 | 1 150 | 858   |
| Cassava and potatoes | 9 381  | 4 963 | 2 536 | 519   | 1 628 |
| Bananas              | 6 470  | 8 371 | 5 409 | 5 187 | 4 690 |
| Sugar cane           | 9 919  | 8 082 | 9 070 | 5 719 | 9 742 |

Source: As table 2.

The Government is now engaged in all-out effort to increase water supplies through the tapping of more underground sources for which it is receiving substantial foreign assistance. At the same time, the peasant population has been mobilized for building water storage facilities such as dams which will be very useful when the rains return. These works are helping to provide jobs and thus incomes for the population, the persons mobilized being paid out of aid funds received from abroad.

For the present the situation remains critical and Cape Verde will need food aid from abroad as long as the drought persists. For the agricultural year 1977/78, the Government has requested food aid consisting of 39,000 tonnes of maize, 9,900 tonnes of beans, 2,400 tonnes of rice, 6,300 tonnes of sugar and 3,460 tonnes of meat.

(b) Fishing. The geographic position of the islands makes fishing a natural option in Cape Verde, it has become especially important in the present drought situation, since it could supply food as well as exports.

Unfortunately, although fishing is a source of income for 5 per cent of the labour force it is still relatively weak in terms of its contribution to GDP. This is explained by the low productivity of most of the 3,000 fishermen who are using traditional methods and producing for the domestic market only. Although the production level is not known reliably, there would appear to have been a down-trend since 1966, probably explained by emigration. Apart from the traditional fishing sector there are a small number of industrial enterprises specializing in tuna fish. The production of these enterprises is estimated at around 5,000 tonnes per year, reportedly some 50 per cent below their maximum capacity. The total catch from traditional fishermen and these industrial enterprises was probably in the region of 11,000 tonnes in 1976.

The Government intends to promote industrial fishing and to modernize traditional fishing gradually. A relatively large firm specialized in cold storage of tuna (CONGEL) has come under government control and its installations are now being repaired. In the longer term, it is projected that fish production could increase to between 30,000 and 40,000 tonnes per year and the cold-storage capacity could be increased to 15,000 tonnes per year, so that Cape Verde would serve not only its own boats but other fishing fleets active along the West African coast.

(c) Mining. Two minerals are extracted in the islands: salt and Pozzolane, a rare earth used in cement production and found in commercial quantities in the island of Sal. Production has been falling and, according to the Ministry of Trade, the value of production was only 1,222,000 escudos in 1976 against 4,065,000 escudos in 1973. In 1973, the sector's contribution to GDP was only 0.7 per cent.

Cape Verde: Table 4. Industrial production, 1973-1976

|      | Manufacturing<br>(millions of<br>escudos) | Mining and<br>Quarrying<br>(millions of<br>escudos) | Salt production<br>(tonnes) | Pozzolane<br>production<br>(tonnes) |
|------|---|---|-----------------------------|-------------------------------------|
| 1973 | 45.0                                      | 4.1   | 38 870                      | 11 900                              |
| 1974 | 34.8                                      | 3.4   | 34 580                      | 4 100                               |
| 1975 | 60.6                                      | 2.3   | 20 941                      | 1 184                               |
| 1976 | 62.0                                      | 1.2   | 13 071                      | 789                                 |

Source: Servicio Nacional de Estadística: Ministry of Trade, Cape-Verde.

(d) Manufacturing. The weakness of the manufacturing sector is demonstrated not only by its small share of GDP (less than 6 per cent) but also by the fact that electricity production and water distribution generate almost as much in terms of value added. In fact the most important industries are the canning and cold storage of fish, bakeries and the production of alcoholic spirit from sugar cane. These industries have suffered relatively less from the drought than other sectors, and according to the Ministry of Commerce the value of production has been increasing, reaching in 1976 a level 38 per cent higher than in 1971, which suggests an average annual rate of increase of 6.8 per cent at current prices.

However, information from other sources is less definite and the general impression would be that production in real terms has fluctuated more or less around a constant level. For the future there are obvious opportunities in fish processing and in providing cold storage for foreign fishermen. There is some scope for the development of industries serving merchant shipping. Moreover, the existence of relatively abundant manpower resources indicates that labour-intensive industries could be developed in the islands which would take advantage of the low cost of labour and the experience of Cape Verdian workers. At the present time however the most important project is a relatively large-scale cement factory.

This factory seems likely to encounter difficulties over water and energy supplies. The question of markets is tied up with the pace of development in West Africa as well as the growth of its cement production capacity.

(e) Energy. All energy needs are covered by oil imports since there is no possibility of hydraulic generation of energy in the islands and no wood is available. Judging from foreign trade statistics, oil imports increased substantially up to 1975 but have dropped slightly in 1976. A similar trend is visible in electricity production statistics with a large increase from 1970 to 1975 and a fall in 1976. Data for 1977 indicate that production has remained at the same level as in 1976.

(f) Construction. The large drought control works undertaken by the Government as well as the construction of new buildings and a new port in the capital have maintained activity in the construction sector. The drought control works are carried out in the framework of the emergency plans. There have been three such plans since 1975-1976, the third one, for 1977-1978, calls for a level of expenditure of 350 million escudos and will employ 1,400 workers. Over-all, imports of cement, which are the best indicator of the activity of the industry, reached a maximum of 28,291 tonnes in 1973, fell sharply to 18,660 tonnes and 13,074 tonnes respectively in 1974 and 1975 and recovered to 20,295 tonnes in 1976, a level which may be compared with 24,325 tonnes in 1970. Imports of cement for the first quarter of 1977 were 20 per cent higher than for the corresponding period in 1976.

(g) Transport. Because of the drought which has hit traditional exports and the end of Portuguese rule in Africa, port activity has declined considerably. In 1976, in the last quarter of the year, goods loaded were 4,558 tonnes compared with 17,835 tonnes in the last quarter of 1973, while goods unloaded in 1976 were 32,938 tonnes against 110,263 tonnes in the corresponding period of 1973. In 1970, 5,194 ships entered the ports of the Cape Verde islands but in the fourth quarter of 1976, there were only 120 ships. Air traffic on the contrary appears to have increased judging from the number of passengers handled on internal flights. There were 267 landings at Sal International Airport in the last quarter of 1973 and 293 in the same period of 1976.

The Government has established two shipping corporations, one for internal transport among the islands and the other for international communications, in joint ownership with Guinea-Bissau. Apart from these, there is substantial private activity in maritime transport, some private boats sailing as far as the United States. In fact, in 1971 there were 5,888 registered sailors and 239 boats in Cape Verde. The national air company established after independence with Portuguese technical assistance maintains regular flights with Dakar in Senegal and Bissau in Guinea-Bissau, as well as internal flights among the islands.

Cape Verde: Table 5. Transport indicators, 1973-1977  
 (figures for three months in each year only)<sup>a/</sup>

|      | <u>Ports</u><br>(Goods handled)<br>(Thousands of tonnes) | <u>Internal flights</u><br>(Passengers handled)<br>(number) |
|------|--|---|
| 1973 | 128.1  | 11 432  |
| 1974 | 73.5   | 16 446  |
| 1975 | 35.6   | 17 403  |
| 1976 | 37.5   | 17 373  |
| 1977 | 38.0   | 25 058  |

Source: Servicio de Estatística, Praia, Cape Verde.

a/ For each fourth quarter, except 1977 (first quarter).

Road transport is a major problem for the islands because of the difficult nature of the terrain. There are islands without any roads and bus services are available only in Praia, the capital, and on the island of San Vicente.

There is a well researched project for the construction of a ship-repair workshop in Mindelo on the island of San Vicente, but the problem of financing is not yet resolved.

#### 4. Expenditure and GDP

Data on the distribution of GDP according to expenditure items in 1973 illustrate the situation in Cape Verde. Total expenditure was equivalent to 164.7 per cent of GDP, Government expenditure took 11.5 per cent of GDP, private consumption 122.1 per cent and gross investment 31.1 per cent. The high figure for gross investment is explained by the drought control works being carried out. Since 1973, despite the lack of figures on GDP, judging from imports and transport figures, it seems that private consumption may have declined in real terms, although food consumption has improved because of international assistance. Government consumption appears to have increased in relative importance since international aid has helped to balance the increased budget. As for capital formation, it has at best remained at the same level and has related mainly to roads, water control facilities, construction of Praia port and some public buildings. Net imports of goods and services have remained at a high level.

Domestic savings are negative, and this is reflected in the huge deficit on current account (64.8 per cent of GDP) which is far in excess of gross investment. The financing of this deficit is largely met from transfer receipts and to a much lesser extent from capital inflows.

Cape Verde: Table 6. Expenditure and GDP, 1973 (millions of escudos)

|   | Value   | Percentage |
|---|---------|------------|
| Government consumption                  | 123.8   | 11.5       |
| Private consumption                     | 1 312.3 | 122.2      |
| Increase in stocks                      | 56.0    | 5.2        |
| Gross fixed capital formation           | 278.4   | 25.9       |
| Domestic expenditure                    | 1 770.5 | 164.8      |
| Less net imports of goods and services  | 696.0   | 64.8       |
| Gross domestic product at market prices | 1 074.5 | 100.0      |

Source: ECA estimates.

Domestic savings are negative, and this is reflected in the huge deficit on current account (64.8 per cent of GDP) which is far in excess of gross investment. The financing of this deficit is largely met from transfer receipts and to a much lesser extent from capital inflows.

#### 5. External trade and the balance of payments

The Cape Verde islands have a structural trade deficit met by migrant remittances and aid receipts. However, the drought of the last decade has meant that imports have grown to very high levels. Imports in 1977 were more than double in value the level of 1970, while the value of exports has dropped. In volume terms imports have grown by 27.3 per cent from 1970 to 1976 while their value increased by 94.2 per cent. Exports have fluctuated since 1970 but in 1977 they accounted for only 60 per cent of the 1970 total. As for volume, the decline has been precipitous, only 38,869 tonnes being exported in 1976 against 104,359 tonnes in 1970.

Since 1970 food, the most important item, has made up between 30 per cent and 41 per cent of total imports, the leading articles being cereals and other vegetable foods. As for exports, agricultural and related products and salt are the most important items.

The country's deficit for goods and services rose from 76.1 million escudos in 1967, the last normal year before the drought, to 1,106.7 million in 1976. As indicated, in terms of domestic resources this deficit was estimated at 65 per cent of GDP in 1976 and has probably been higher in more recent years. The trade figures for the first quarter of 1977 indicate in fact an increase of 16.3 per cent in the trade deficit relative to 1976.

Despite its enormous resources gap, Cape Verde has an over-all positive basic balance of payments. This is due first of all to foreign public assistance, first from the Portuguese Government before independence, then from other countries and international organizations. This assistance has been keeping pace with the country's needs and has increased as the resource gap has widened. The most remarkable phenomenon however is the contribution made by Cape-Verdian emigrants who have substantially increased their traditional transfers to their mother country. In 1973 private transfers to Cape Verde were valued at 77.7 million escudos, these transfers rose to 513.6 million in 1976 representing 46.4 per cent of the country's current deficit.

Cape Verde: Table 7. External trade and the balance of payments, 1973-1977  
( millions of escudos)

|                                   | 1973   | 1974   | 1975    | 1976     | First quarter<br>1977 |
|-----------------------------------|--------|--------|---------|----------|-----------------------|
| <u>External trade</u>             |        |        |         |          |                       |
| Imports                           | ...    | 869.3  | 1 010.8 | 911.4    | 258.2                 |
| Exports                           | ...    | 52.7   | 61.3    | 48.0     | 7.2                   |
| Trade deficit                     | ...    | 816.6  | 949.5   | 863.4    | 251.0                 |
| <u>Balance of payments</u>        |        |        |         |          |                       |
| Goods and services (net)          | -642.8 | -644.0 | -628.0  | -1 106.7 | ...                   |
| Transfers (public<br>and private) | 672.2  | 649.7  | 531.0   | 957.6    | ...                   |
| Capital                           | 110.1  | 30.9   | 128.9   | 354.3    | ...                   |
| Reserves and related<br>items     | -139.5 | -36.6  | -31.9   | -205.2   | ...                   |

Source: Servico Nacional de Estatistica, Banco do Cabo-Verde.

The basic balance-of-payments surplus in 1976 was the largest recorded since 1967 and reached 205.2 million escudos. The current deficit of 1,106.7 million was more than covered by transfers amounting to 957.6 million escudos and capital inflows of 350.3 millions. For 1977 information is still lacking, but the over-all situation should be similar.

#### 6. Government revenue and expenditure

Domestic production has declined because of the drought and consequently internal revenue has risen only slowly. For 1974 internal revenue collected was 529.1 million escudos and increased to only 536 million for 1977. The budget for 1978 projects internal revenue at 621.2 million that is 15.9 per cent higher than the actual for 1977 but there is no certainty that such an amount will be effectively collected.

Cape Verde: Table 8. Budget estimates, 1977 and 1978 (millions of escudos)

|      | Total<br>expenditure | External<br>aid | Local<br>resources | Deficit |
|------|----------------------|-----------------|--------------------|---------|
| 1977 | 1 424.5              | 645.3           | 494.8              | 284.4   |
| 1978 | 1 932.1              | 1 274.9         | 621.2              | 36.0    |

Source: As table 7.

Expenditure has had to be raised because of the needs arising at the time of independence for additional administrative services and the transfer to Cape Verde of expenses formerly borne by Portugal. Also the drought has created additional needs in terms of relief to the population at the same time as the Government has initiated a number of development projects. All this has led to an increasing deficit valued at 284.4 million escudos for the 1977 budget. For the 1978 budget total expenditure is estimated at 1,932.1 million escudos, an increase of 35.5 per cent over the 1977 budget.

Foreign aid has been the main element in the financing of the budget deficit. For the 1977 budget, aid was estimated at 645.3 million, that is 45.3 per cent of total expenditure. In 1978, foreign aid is expected to reach 1,274.9 million escudos or 66 per cent of total expenditure.

#### 7. Wages and prices

Monthly average wages vary from a minimum of 37 escudos for a common labourer to 6,000 escudos for a cashier in a commercial enterprise. There is no information on average wages for broad classes of workers or on the evolution of pay scales. The rate of inflation reached its highest level in 1974 with an increase in consumer prices of 51.7 per cent, then declined and was only 1.2 per cent in 1976, partly because of government price controls and certainly also because a large proportion of the food was obtained as food aid. Indications are that in 1977 prices may have fallen, the index for the first quarter of 1977 being lower than the corresponding figure for the last quarter of 1976.

#### 10. Employment and unemployment

High unemployment has been traditional in the Cape Verde islands since cultivable land is scarce and rainfall irregular. The solution has been emigration and it is estimated now that the Cape Verde population living abroad is equivalent to or higher than the population of the islands, the biggest contingent being in the United States. The drought has only worsened the situation, since the complete lack of rain in some years has meant forced idleness for the rural population which accounts for more than 80 per cent of total population. According to the 1970 census, the number of unemployed workers defined as the difference between the total active population and the occupied population was equivalent to 35 per cent of the active population.

The Government has used food aid to pay workers employed on drought control works and this has alleviated the employment problem since in rural areas efforts have been made to give such work to at least one adult per family. But the problem has not been resolved and remains acute. Emigration has therefore intensified and indications are that the population has decreased despite official information to the contrary. This is shown by the shortage of men on construction sites all over the country and the increase in transfers to the islands from migrant workers.

#### 11. Other social sectors

(a) Education. The latest information relative to the school year 1974/75 gives the number of 54,533 students in educational establishments, with 51,488 in primary schools, 2,077 in secondary schools, 508 in vocational training schools and the remainder in teacher training schools and other institutions. Relative to the school age

population, the primary enrolment ratio is about 55 per cent, showing an increase over the 52.5 per cent enrolment rate obtained in 1970/71.

(b) Health. The mortality rate is around 10 per cent, which indicates a generally good health situation, but infant mortality is still very high at 103.9 per thousand as indicated by the latest estimates made in 1975. In 1970 there were 200 people employed in health establishments including 16 doctors, which means one doctor for each 17,000 inhabitants approximately. No quantitative information is available for later years, but it is known that Cape Verde is receiving assistance in the health sector from a number of countries, and in particular from Cuba.

#### B. MAJOR PROBLEMS

The ten-year drought is the major problem of Cape Verde at the present time and other factors like the need for substantial investment capital are secondary and in fact derive from it in a large part. This problem overshadows everything else and even limits industrial development as the shortage of water hampers the establishment of factories. Also, although the islands are ideally suited to tourism, the lack of drinking water will make it difficult to receive large numbers of tourists.

#### C. INTERNAL DEVELOPMENT POLICIES

The Government has concentrated its efforts on increasing water supplies through the greater tapping of underground water, so as to limit the decrease of the irrigated area. It has also launched a programme of water control dams and other facilities which will be very useful when rainfall is restored to its normal levels. The efforts being made by the population on this are really considerable and constitute a remarkable example of national mobilization for development assisted by foreign donors.

As for its long-term policies, the Government intends to exploit the natural advantages of the islands in fishing, ship servicing and small industries. However, in the industrial field the opportunities offered by relatively plentiful and low-cost labour for export zone industries have not yet been fully realized.

A development plan is being prepared but the work is only at the preparatory stages so that no definite objectives can be cited. However as indicated earlier under the various sections policies have already been adopted which will help to overcome the difficulties of these islands. The harnessing of human resources must make up for the very real lack of natural resources.

#### D. PROSPECTS

The rainfall pattern largely determines the future economic development of the islands. A return of the rains will of course improve the situation. However for the present a continuation of the current situation must be expected and with it the dependence of the islands on extensive foreign aid. There is little prospect of any significant increase in economic activity until the rains return to normal but higher total expenditure by the Government can help to hold the position and to a limited extent provide some measure of growth in the present very difficult circumstances.

## CENTRAL AFRICAN EMPIRE

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

#### 1. Introduction

The economy of the Central African Empire has grown marginally since the beginning of the present decade. According to official estimates growth in the 1967-1977 period has been in the order of 2 per cent per year in real terms, which means that there has been a net decline in per capita GDP as the population growth rate is more than 2 per cent a year. In 1976 and 1977, there has been a good recovery from the set backs faced earlier in the 1970s. After the poor results obtained in 1975, when there was a fall in GDP, internal production rose in real terms by 5.9 per cent in 1976 and then again by 6.9 per cent in 1977. These good results have been helped substantially by the recovery in world demand for timber, high prices for coffee, reasonable prices for cotton, high prices for diamonds and a high level of activity in the construction sector. The launching of the 1976-1980 plan also led to high level activity in construction.

The evolution of trade has reflected over-all economic trends. There was a record trade deficit in 1975 of 4.5 billion CFA francs, but this turned into a surplus of CFAF 841 million in 1976, and the surplus rose sharply to CFAF 4.5 billion in 1977. The balance of payments, which had been in deficit for a considerable number of years, recorded a surplus of CFAF 3.7 billion in 1976 owing to the trade surplus and a large inflow of aid and capital. However, there was again a deficit in the basic balance of payments of CFAF 1.88 billion in 1977 apparently because of lower aid receipts.

Inflation has been at a comparatively high level since 1973 and in that year wholesale prices rose by 17.2 per cent against 6.3 per cent in 1972. For the period 1970-1976, wholesale prices rose at an average annual rate of 8 per cent and first results for 1977 indicate a further increase of more than 8 per cent.

For 1978, the Ministry of Planning is expecting a high GDP growth rate of 7.5 per cent. However, while some indicators, such as growth of electricity production in the region of 9 per cent, would confirm this forecast, the sluggishness in agricultural output and in particular the considerable fall in cotton production accompanied by transport difficulties would suggest that the actual growth may be lower than that projected. Also despite the growth in construction activities, the level of investment achieved in the two first years of the 1978-1980 plan is below that projected.

#### 2. GDP by industrial origin

Available data refer to gross internal production instead of GDP (gross domestic product), the difference being that public administration is not included in gross internal production. In the period 1967-1977, the share of agriculture has increased from 36.3 per cent of gross internal production to 40 per cent, while the share of services has declined from 41 per cent to 38.2 per cent; industry's contribution is virtually unchanged with a slight fall from 22.6 to 21.9 per cent. This indicates that agriculture has grown faster than total production.

However, the exclusion of public administration from gross internal production has the effect of reducing the importance of services in the total. If public administration were included it would probably have the effect of both increasing the GDP growth rate and raising the share of services in GDP between 1967 and 1977.

Central African Empire: Table 1. Gross internal production at 1967 market prices, 1967 and 1975 to 1978 (billions of CFA francs)

|                                   | 1967        | Percentage   | 1975        | 1976        | 1977 <sup>a/</sup> | Percentage   | 1978 <sup>b/</sup> |
|-----------------------------------|-------------|--------------|-------------|-------------|--------------------|--------------|--------------------|
| Agriculture, forestry and fishing | 14.6        | 36.2         | 18.6        | 19.3        | 19.7               | 40.3         | 20.6               |
| Mining                            | 2.1         | 5.2          | 1.4         | 1.2         | 1.0                | 2.0          | 0.9                |
| Manufacturing                     | 5.1         | 12.7         | 4.4         | 4.5         | 5.3                | 10.7         | 5.6                |
| Electricity and water             |             |              | 0.7         | 0.7         | 0.8                | 1.6          | 0.8                |
| Construction                      | 1.9         | 4.7          | 2.1         | 2.9         | 3.7                | 7.5          | 4.5                |
| Wholesale and retail trade        | 12.2        | 30.3         | 11.4        | 12.4        | 13.3               | 26.9         | 15.0               |
| Transport, etc.                   | 1.0         | 2.5          | 1.0         | 1.2         | 1.3                | 2.6          | 1.3                |
| Other services                    | 3.4         | 8.4          | 4.0         | 4.1         | 4.3                | 8.7          | 4.4                |
| <b>Total</b>                      | <b>40.3</b> | <b>100.0</b> | <b>43.6</b> | <b>46.3</b> | <b>49.4</b>        | <b>100.0</b> | <b>53.1</b>        |

Source: Central African Empire "Plan quinquennial 1976-1980, Programme operationnel pour l'année 1978" Ministry of Planning, Bangui, January 1978.

a/ Estimate.

b/ Plan projections.

Since 1975, with the higher over-all growth noted earlier, both industry and services have grown faster than agriculture and total production. The most dynamic sectors have been construction and transport with increases of 76 and 30 per cent respectively from 1975 to 1977 while in manufacturing the rate of increase was 20 per cent. In 1978, according to the Ministry of Planning projections, construction should remain the fastest growing sector with a 21.6 per cent increase over 1977, while manufacturing should grow by 5.7 per cent.

### 3. Selected economic sectors

(a) Agriculture, forestry and fishing. This sector provides occupation for at least 90 per cent of the total population of the Central African Empire and contributes 40 per cent of total production. These facts show clearly that the level of productivity in agriculture is still very low. National accounts data are provisional but all indications are that little progress was made in increasing productivity up to 1975. The last agriculture census taken in 1972/1973 shows

that production is carried out mainly on smallholdings, with few implements used, a large reliance on female labour, and little use of draught animals. The most important food crop is cassava, cereals crops being less important and grown mainly in the north-eastern regions of the country where millet and sorghum are cultivated. After tubers and cereals the next most important crops are groundnuts and then sesame seed. According to the Ministry of Agriculture, cassava production has increased by an average of 2.4 per cent per year in the years 1970-1977, or more or less in line with the population increase. For 1977, the total figure is given as 286,000 tonnes of dried and cut cassava, or 156 kgs per capita which seems enough to ensure the supply of vegetable nutrients. Cereal production amounts to 90,000 tonnes and is consumed mainly in the north-eastern region. Imports of cereals are not very important and amounted to only 7,187 tonnes in 1976, which shows that tuber and grain production is sufficient for current demand. Industrial crops include cotton which is second only to cassava in terms of cultivated area, coffee and tobacco. In recent years there have been a number of changes in the way the cotton crop is marketed and in the system of assistance to cotton growers. At the same time, prices do not appear to have been sufficiently attractive. According to the Ministry of Agriculture, the growing area now protected against pests has fallen to only 20 per cent and the area benefiting from fertilizers has fallen to only 10 per cent of the total area. In these conditions, cotton production, which peaked in 1969 with 58,743 tonnes, was down to only 27,960 tonnes in the 1977/1978 season. Coffee production has fluctuated around 13,000 tonnes a year since 1970. The rise of coffee prices in 1977 has had a stimulating effect and appears to have resulted in some shift from cotton production to coffee production. Tobacco production has been steadily increasing mainly because of excellent conditions for marketing. Production has grown from 1,030 tonnes in 1970 to 2,753 tonnes in 1977.

Central African Empire: Table 2. Agricultural production 1970 and 1974 - 1977  
(thousand tonnes in agricultural seasons)

|                          | 1970  | 1974  | 1975  | 1976  | 1977  |
|--------------------------|-------|-------|-------|-------|-------|
| Seed cotton              | 53.6  | 47.7  | 33.1  | 41.0  | 28.0  |
| Coffee                   | 13.0  | 11.7  | 14.2  | 14.0  | 13.4  |
| Tobacco                  | 1.0   | 1.7   | 1.9   | 2.4   | 2.8   |
| Cassava <sup>a/</sup>    | 261.6 | 287.4 | 272.0 | 280.0 | 286.0 |
| Millet and sorghum       | 42.6  | 42.7  | 41.5  | 42.0  | 46.3  |
| Maize                    | 48.0  | 45.7  | 41.0  | 42.0  | 32.9  |
| Rice paddy <sup>b/</sup> | 7.0   | 12.6  | 11.7  | 12.0  | 10.9  |
| Groundnuts <sup>b/</sup> | 74.0  | 112.5 | 132.4 | 133.0 | 88.2  |
| Sesame seed              | 13.0  | 12.9  | 12.4  | 13.0  | 10.8  |

Source: Central African Empire: Direction de l'Agriculture.

a/ Dried and sliced cassava.

b/ These figures are much higher than FAO estimates and it is difficult to understand how these large crops are disposed of.

The 1976/1980 plan gives a high degree of priority to agriculture and a total of CFAF 22,158 million has been allocated to this sector equal to 17.6 per cent of the total planned investment. There are a series of programmes to help to boost production including more extension services, the provision of agricultural inputs, and improved marketing. According to the plan, the greatest efforts will be directed towards cash crops, with a concentration on the most promising areas. Generally speaking the promotion of agriculture will be undertaken through specialized agencies. Several specialized agencies are already operating including one for cotton and another for tobacco, while a third is directing over-all agricultural development in the Ouham-Pendé region. However, the agricultural programme is impeded by the inadequate funds in the national budget for recurrent expenditure on agriculture so that basic inputs are not provided to the farmers; lack of road maintenance has made the roads difficult and this also is a serious obstacle to the marketing of products.

Since 1970, the development of animal husbandry has been favourable, and 50 per cent of meat requirements are now covered by the local production. The cattle herds rose from 500,000 in 1970 to reach 900,000 head in 1976. The growth of the pig population has been even more remarkable from only 50,000 head in 1970 to 262,000 head in 1976. For cattle, the favourable result has been achieved through a policy of nomad settlement and an emphasis on the control of animal diseases. At the same time, the cattle population has grown because of movement from neighbouring countries where drought has been severe.

In 1976 there were also 68,000 sheep, 786,000 goats and 1,400,000 poultry.

Central African Empire: Table 3. Production and export of forest products, 1970 and 1974 - 1977 (thousands of cubic metres)

|                   | 1970 | 1974  | 1975  | 1976  | 1977  |
|-------------------|------|-------|-------|-------|-------|
| <u>Production</u> |      |       |       |       |       |
| Logs              | .... | 330.9 | 225.0 | 321.5 | 321.0 |
| Sawn wood         | 66.6 | 95.8  | 72.4  | 76.2  | 90.5  |
| <u>Exports</u>    |      |       |       |       |       |
| Logs              | 80.2 | 131.2 | 49.6  | 105.3 | 136.0 |
| Sawn wood         | 21.9 | 55.0  | 25.8  | 35.9  | 43.9  |

Source: Central African Empire, Ministry of Planning: Conseil National du Credit.

The country has large wood resources, whose exploitation was for a long time hampered by the heavy costs of transport. Production of logs increased steadily to reach a maximum of 400,000 m<sup>3</sup> in 1973 but then fell to 225,000 m<sup>3</sup> in 1975. There has since been a marked recovery of log production with the recovery in the world market, and production in 1977 was back to 321,000 m<sup>3</sup>. For sawn wood, the trends have been similar to those for log production, and the level of production obtained in 1977 (90,500 m<sup>3</sup>) although still lower than the 1973 maximum (100,600 m<sup>3</sup>) was 18.8 per cent higher than in 1976. The Government is directing its efforts towards the rational exploitation of the forest areas to avoid the depletion of the country's wood resources.

(b) Mining. Several ore deposits have been located in the Central African Empire and in particular the uranium deposit in Bukouma, but for time being the only mineral production is diamonds. The production of diamonds is important since it provides export revenues and fiscal receipts to the budget. Production reached 484,314 carats in 1970, but has decreased since and was less than 300,000 carats in 1977.

Central African Empire: Table 4. Diamond production and exports 1970 and 1974 - 1977

|                                  | 1970  | 1974  | 1975  | 1976  | 1977                |
|----------------------------------|-------|-------|-------|-------|---------------------|
| Production (in thousand carats)  | 487.3 | 337.8 | 338.9 | 286.0 | 292.0 <sup>a/</sup> |
| Exports (millions of CFA francs) | 5115  | 3344  | 2869  | 3398  | 5442                |

Source: Central African Empire, Ministry of Planning: Conseil National du Credit.

a/ Estimate based on 10 months' production.

There is continuing prospecting for mineral deposits in the country. A limestone deposit has been found at Fatima and another at Bobassa sufficient for a project for a cement factory to be drawn up. The reserves are estimated at more than 8 millions tonnes and the cement factory could produce up to 100,000 tonnes a year for an investment of CFAF 7.7 billion. Studies are continuing on the exploitation of the uranium deposit at Bakouma. The investment required is considerable and is estimated at CFAF 57,050 million. New prospecting efforts are planned for other minerals in particular on the magnetic anomaly discovered in 1973.

(c) Energy. Energy needs are covered by electricity generated at the dam at Boali or by petroleum imports. Since 1970 electricity production has grown only slowly: in 1976 it was only 13.5 per cent higher than in 1970. For 1977, the Ministry of Planning has estimated that production increased by 2.4 per cent, while the projected increase for 1978 is 9 per cent. Installed capacity was 21,700 Kw. in 1977, after the completion of a second hydroelectric station at Boali. Major current projects are the construction of a new dam on the Lobaye river to raise production to 260 million kWh, the development of the electricity distribution system of Bangui, and the supply of electricity to new provincial towns.

Central African Empire: Table 5. Production of selected industrial item, 1970 and 1974 - 1976.

| Item                              | 1970  | 1974  | 1975  | 1976  |
|-----------------------------------|-------|-------|-------|-------|
| Electricity (millions of kWh)     | 46.7  | 54.0  | 52.7  | 53.0  |
| Beer (thousands of hl)            | 110.2 | 165.7 | 132.0 | 140.0 |
| Cigarettes (thousands of packets) | ..... | 16104 | 14728 | ..... |
| Bicycles (number)                 | 8852  | 6231  | 4034  | 4130  |
| Autocycles (number)               | 6375  | 4170  | 4700  | 4980  |

Source: As table 4.

(d) Manufacturing. This sector made little progress up to 1975, but since that date significant gains have been made. After growing by 2.3 per cent in 1976, value added in manufacturing grew by 18 per cent in 1977. The sector contains four main branches: wood processing industries, agro-industries, textiles and food industries. The two most important industrial plants are the Mocaf beer factory, and the ICAT textile complex. Beer production increased up to 1974 then fell to some extent but its output in 1976 was 140,000 hl. New industrial units have been and are being completed, among them a diamond cutting factory, a plywood factory, an abattoir whose construction has been financed by EDF, a watch-making workshop and a cigar factory which is already exporting the larger part of its production. A number of new plants and some extensions were projected for 1978 including a car assembly factory for light vehicles, a new plywood factory and a large saw mill. Under the plan, there are further projects which are being studied such as the cement factory in Bangui, a pharmaceuticals factory, a glass factory, a sugar factory and sugar plantation at Batengafa and a cassava starch factory. A steel factory is also under study which will transform the iron ore deposits of Bogoin but this will cost some CFAF 10 billion.

(e) Construction. This sector has been the fastest growing sector in the economy since 1975. In 1976 it grew by 38 per cent and in 1977 by a further 28 per cent according to national accounts estimates. It has benefited from road construction, investment in new industries, construction of hotels and a higher level of activity in the construction of dwellings.

(f) Transport. Transport is one of the main constraints to economic development. Not only do imports and exports become more expensive as transport costs rise but there are interruptions in the supplies of essential goods from abroad from time to time. The capacity of the transport system also imposes limits on the export of products such as logs. In recent years, there has been a marked deterioration in transport services. The road system is now in a dangerous state of disrepair because of lack of maintenance and this is increasingly felt in the marketing of agricultural products and the distribution of manufactured goods inside the country. The state of the road system has prevented the Central African Empire from taking full advantage of the completion of the trans-Cameroonian railway which shortens the transport time to the coast.

Bangui and Solo handle the largest share of the country's import-export trade and their traffic has not increased since 1970. According to the port authority of Brazzaville, traffic to and from Bangui which reached 321,765 tonnes in 1970 declined regularly every year to reach 198,272 tonnes in 1976 and 193,310 tonnes in 1977. This is confirmed by data from the Ministry of Planning which show traffic declining from 337,000 tonnes in 1970 to 271,000 tonnes in 1976, and further in 1977. This evolution is due among other factors to some diversion of traffic in favour of the trans-Cameroonian railway, to a decline in exports from the Congo to the Central African Empire and Chad, and finally to transport problems on the railway between Brazzaville and Pointe Noire.

Central African Empire: Table 6: Selected transport indicators, 1974 - 1977

|  | 1974  | 1975  | 1976  | 1977               |
|--|-------|-------|-------|--------------------|
| <u>River ports freight</u> (thousands of tonnes) | 282   | 216   | 271   | 245 <sup>a/</sup>  |
| <u>Roads freight</u> (thousands of tonnes)       | 65    | 113   | 111   | ...                |
| <u>Airports passengers handled</u> (thousands)   | 30.75 | 32.50 | 29.15 | 33.4 <sup>a/</sup> |

Source: Central African Empire: Ministry of Planning.

a/ Estimates based on 11 months traffic.

Road transport grew rapidly up to 1975 but appears to have developed little since then, owing to the state of the roads and also to the losses incurred by transport firms where rates are not adjusted fast enough to meet rising costs.

The main objective pursued by authorities in the field of transport is to try to ease the international links of the country and there is a project to link the country with other railway systems to the coast. A project to link Bangui to the Gabonese railway under construction is being studied. However, for the immediate future, the improvement of the road system both internally and its links with the United Republic of Cameroon to the trans-Cameroonian railway are the most important priorities. Expenditure included in the 1976-1980 plan to this effect amounts to over CFAF 40 billion. At the same time the repair and maintenance of the roads is becoming more and more urgent, and is being made a condition for external sources of finance. The Bangui-Bossembelé road towards the Cameroonian border is expected to be surfaced at a total cost of CFAF 6.5 billion but the World Bank is making its financing conditional on the creation of a road fund (Fonds Routier) to which the Government should make its contribution.

(g) Tourism. There are definite tourist attractions including large areas where wild life abounds. The Government is making strong efforts to encourage tourism and forest and game reserves have been established in the country. Several hotels have also been built in the capital Bangui. A park has been equipped in the Gounda area with financing from French development assistance. However, the over-all activity in tourism remains at a low level and is not yet a significant contributor in the economy.

#### 4. Expenditure and GDP

There are no recent official data on domestic expenditure and its composition. According to guess-estimates by ECA, however, since 1970, domestic expenditure has grown faster than real output with the external deficit growing from 7.7 per cent of GDP in 1970 to 10.4 per cent in 1977. The high growth of expenditure has been due to the rise of Government consumption and investment, as private consumption has actually declined as a proportion of GDP. Since 1970 there has been a small increase in the share of GDP going on public consumption while investment, including changes in stocks, has risen from 18.1 to 22.5 per cent of GDP. However, a word of caution is required as these estimates of investment expenditure may in fact overstate the actual out-turn in 1977 by a substantial margin. Based on table 7 there appears to have been some increase in the domestic savings ratio between 1970 and 1977 from 10.4 per cent to 12.1 per cent of GDP. With the share of fixed capital formation during the 1970s averaging about 20 per cent of GDP and real GDP rising modestly at around 2 per cent yearly, it seems that the incremental capital output ratio is high in the Central African Empire ranging around 10 to 1. This suggests that efforts are needed to increase substantially the efficiency of capital investment if future growth of GDP is to be accelerated substantially over the record of recent years.

Central African Empire: Table 7. Expenditure and GDP, 1970 and 1975 - 1977  
(billions of CFA francs)

|   | 1970 | Per cent | 1975  | 1976  | 1977  | Per cent |
|---|------|----------|-------|-------|-------|----------|
| Private consumption                               | 40.2 | 70.5     | 64.8  | 65.3  | 73.8  | 68.5     |
| Public consumption                                | 10.9 | 19.1     | 16.1  | 17.8  | 20.9  | 19.4     |
| Gross fixed capital formation                     | 8.2  | 18.1     | 17.6  | 19.9  | 22.3  | 22.5     |
| Change in stocks                                  | 2.1  |          | 2.1   | 2.4   | 2.0   |          |
| Exports <u>less</u> imports of goods and services | -4.4 | -7.7     | -16.8 | -10.9 | -11.2 | -10.4    |
| GDP at current market prices                      | 57.0 | 100.0    | 83.8  | 94.5  | 107.8 | 100.0    |

Source: ECA estimates.

#### 5. External trade and balance of payments

Exports at current prices grew fairly regularly up to 1975, when they fell steeply under the impact of world recession. The exports of the four main products, diamonds, coffee, wood and cotton which contribute more than 90 per cent of exports all declined in that year. There was an increase of 38.4 per cent in 1976 mainly because, with the rise of coffee prices, coffee exports almost doubled. There was also a recovery in world demand for logs and timber and more favourable prices for cotton and diamonds. In 1977, exports rose again this time by 43.1 per cent particularly as a result of increasing coffee prices. Coffee exports in 1977 were valued at approximately CFAF 9 billion compared with 1.9 billion in 1970. Imports grew more than exports up to 1975, but in 1976 and 1977 they rose less rapidly than exports. In 1977 imports were valued at CFAF 15,540 million, 63.7 per cent more than in 1970 and 18.1 per cent more than in 1976, and the value of exports was 138.2 per cent more in 1977 than 1970. There seems to have been little real increase in volume, the quantities imported remaining at around 60,000 tonnes while their structure was practically constant.

The trade balance was most of the time in deficit in the first half of the decade, the largest deficit being recorded in 1975, at CFAF 4.5 billion. Since then the position has improved, and in 1977 the trade surplus had risen to CFAF 4.5 billion. Despite the trade deficit, large deficits were avoided in the balance of payments as a whole because of substantial and increasing external public aid and in some years a high rate of capital inflow.

Reserves have fluctuated and in recent years the only substantial build up was in 1976 when the continuous deficit of net foreign assets was turned into a small surplus. Unfortunately these net foreign assets were again negative at the end of 1977.

Central African Empire: Table 8. External trade and balance of payments  
1970 and 1974 - 1977 (millions of CFA francs)

|                            | 1970   | 1974    | 1975    | 1976   | 1977   |
|----------------------------|--------|---------|---------|--------|--------|
| <u>External trade</u>      |        |         |         |        |        |
| Exports                    | 8,434  | 11,622  | 10,112  | 13,996 | 20,033 |
| Imports                    | 9,492  | 11,090  | 14,614  | 13,154 | 15,540 |
| Balance                    | -1,058 | +532    | -4,502  | +842   | +4,493 |
| <u>Balance of payments</u> |        |         |         |        |        |
| Goods and services (net)   | -4,971 | -11,255 | -16,269 | -8,675 |        |
| Private transfers (net)    | -500   | -746    | -364    | +287   |        |
| Government transfers (net) | +2,277 | +8,538  | +8,637  | +9,792 |        |
| Capital (net)              | +555   | +3,415  | +7,308  | +2,055 |        |
| Reserves and related items | +1,194 | -746    | -150    | -3,680 |        |
| Errors and omissions       | +1,444 | +794    | +838    | +311   |        |

Source: IMF, International Financial Statistics, vol. XXX, No. 12 December 1977 and vol. XXXI, No. 9 September 1978. Balance of payments figures converted from United States dollars.

#### 6. Development aid

External assistance was provisionally estimated at 84.5 million dollars in 1976 equal to more than CFAF 20 billion. Estimates of net transfer receipts by the Government based on the balance of payments give lower figures, and in 1976 the total of net transfers was CFAF 9.7 billion and the capital inflow was 2 billion. External assistance has grown significantly since 1970 and in 1977 the volume of aid is reported to be equal to that obtained in 1976. It is expected that aid will increase in the future in line with the greater development effort being attempted.

#### 7. Government revenue and expenditure

The information available refers only to the budget estimates which are all in equilibrium and do not necessarily reflect actual developments. However, the data show a large increase of budgetary expenditures between 1970 and 1977, the total expenditure growing from CFAF 12 billion to around 22 billion, the largest increase being recorded in development expenditure which has risen from CFAF 0.86 billion to 4.34 billion while current expenditure has increased more modestly from CFAF 11.22 billion to 17.63 billion or by 57.1 per cent. The average annual growth rates are 6.7 per cent for current expenditure and 26 per cent for capital expenditure.

There have been serious difficulties in financing budgetary expenditures, and the net claims on the Government by the banking system have risen from CFAF 710 million at December 1970 to 10,770 million at December 1977. A combination of austerity and better economic performance has led to a better budgetary balance and, after growing by only 5.4 per cent in 1977 from CFAF 20.85 to 21.97 billion, total expenditure is reported to be 15 per cent higher in 1978.

### 8. Money and banking

Total money supply including quasi-money rose between 1970 and 1977 at an average annual rate of 14.3 per cent. For money proper the average rate of increase was 13.8 per cent a year. As the real growth of the economy has been modest during this period the substantial rate of increase in the money supply has accentuated the rate of price increases. Net claims on the Government have risen substantially between December 1970 and December 1977, the total increasing from CFAF 710 million to 10,770 million. Most of the growth in credit to the Government occurred in the period to December 1975. In contrast to this rapid growth in credit to the Government, claims on the private sector actually fell in the period to December 1976 but there was a substantial increase of 52 per cent in 1977.

As can be seen from table 9, in all the years except 1976 and 1978, the Central African Empire showed a negative total of net foreign assets. The change-round in 1976 from CFAF -4.81 billion to +890 million occurred as a result of a combination of a small trade surplus and large inflow of aid and capital receipts. The rise in net foreign assets in the period January to April 1978 has led to a continuing increase in the domestic money supply. The estimated rise in the four months to April 1978 is 12.1 per cent for money proper and 13.9 per cent including quasi-money.

Central African Empire: Table 9. Monetary survey, 1970 and 1974 - 1978

(billions of CFA francs)

|                          | December<br>1970 | December<br>1974 | December<br>1975 | December<br>1976 | December<br>1977 | April<br>1978       |
|--------------------------|------------------|------------------|------------------|------------------|------------------|---------------------|
| Net foreign assets       | -2.44            | -3.00            | -4.81            | 0.89             | -0.99            | 3.21                |
| Domestic credit          |                  |                  |                  |                  |                  |                     |
| Net claims on Government | 0.71             | 7.36             | 9.07             | 9.76             | 10.77            | 10.83               |
| Claims on private sector | 12.65            | 11.29            | 11.60            | 10.63            | 15.62            | 15.02               |
| Money                    | 7.33             | 12.26            | 12.10            | 16.64            | 18.11            | 20.30 <sup>a/</sup> |
| Quasi-money              | 0.80             | 1.09             | 1.35             | 2.22             | 2.64             | 3.33                |
| Other items (net)        | 2.78             | 2.34             | 2.42             | 2.42             | 4.64             | 3.60 <sup>a/</sup>  |

Source: IMF, International Financial Statistics, vol. XXX, No. 12 December 1977 and vol. XXXI, No. 9 September 1978.

a/ Estimates.

## 9. Wages and prices

There is no up-to-date information on wages; for prices, the only indicator is for wholesale prices and this shows that inflation accelerated after 1973 but slowed down considerably in 1976, only to flare up again in 1977. For the period 1970-1977 the average annual rate of increase in wholesale prices was around 8 per cent, with a low figure of 4.8 per cent in 1976, but indications are that the rate of increase in 1977 was higher than the average.

## 10. Employment and unemployment

The total population is approximately 2 million, with a growth rate in the region of 2.4 per cent a year. The bulk of the population is engaged in agricultural pursuits and the urban economy employs only 70,000 people or about 10 per cent of the total active population. The capital, Bangui, whose population is now nearing 200,000 acts as a point of attraction and it is possible that the movement to this city of persons from the rural areas is leading to some unemployment, the extent of which is not measurable at this stage.

## 11. Other social sectors

(a) Education. Recent data on education are not available. In 1974, the primary school population was 11.2 per cent of total population, suggesting an enrolment ratio of about 45 per cent. Secondary education was growing rapidly at this stage but vocational and technical education was still relatively small.

Despite the lack of figures, it is evident that progress has been made in the field of education. A teacher training institute has been established, the university has been opened in Bangui to which has recently been added a school of medicine, a technological institute and a geology institute. However, it seems likely that difficulties are being experienced in building enough primary schools to meet the needs in the rural areas.

(b) Health. In 1973 there were 59 medical doctors or 32,000 inhabitants per doctor. The same year there were 892 nurses or 2,118 people per nurse. Since then the situation is unlikely to have altered significantly. According to the Ministry of Planning, the infant mortality ratio is high and parasitic and tropical diseases are still a major threat. In July 1977 for example there were still 15,296 lepers under treatment in the country. However definite progress has been made in health since 1970 and according to the World Bank the over-all mortality rate had fallen by one quarter up to 1975. There is a continuing effort to increase the number of hospital facilities and train more doctors. In 1977 the University Hospital was built in Bangui, as well as a new maternity centre in the countryside. Among the projects to be started in 1978 is a UNICEF protection of family health project which will cover 90 per cent of the pregnant women in Bangui, 60 per cent in regional centres and 40 per cent in four of the country regions. There is an active preventive medicine service. In the first seven months of 1977, this service is reported to have examined 282,262 people or 14 per cent of the estimated population. This service also carried out 217,502 vaccinations.

## B. MAJOR PROBLEMS

The country has fertile and varied soils but at present these are far from being fully utilized (the cultivated area is less than 8 per cent of the total area). Forests cover an area of 2.7 million hectares and contain large quantities of exploitable timber. Mineral deposits already discovered include uranium. The Central African Empire is among the least developed countries in Africa, with a per capita income of only 162 United States dollars in 1976. Major factors preventing development are the lack of modern production techniques, a shortage of domestic capital, shortages of trained personnel and inadequate infrastructure. Another important element is the geographical position of the country situated as it is in the centre of Africa, with access to sea only through other countries by long and costly transport routes. The economic recession in the world in 1975 had a particular impact on the country especially on the timber industry. In recent years continuous difficulties have arisen over the transport lines through the Congo.

With such a large agricultural sector the economy has only a limited monetary sector and it is especially difficult in such circumstances to bring about fast economic development.

## C. INTERNAL DEVELOPMENT POLICIES

Since 1970, two development plans have been launched, one covering the years 1971-1975 and the current (third plan) which runs from 1976 to 1980. The objectives of the plan for 1971 to 1975 were not fully achieved in particular in agriculture where growth was disappointing. The current plan is intended to accelerate growth through a large increase in investment. A major effort is being made to improve the economic infrastructure and ease the geographic isolation of the country. The main objective is to improve the road system and to link up the country's road system with the trans-Cameroonian railway. Such a development should considerably decrease the cost of transport. After transport, the main priorities are in agriculture with an emphasis on cash crops and in manufacturing and mining.

## D. PROSPECTS FOR 1978 TO 1980

The year 1978 seems to be less favourable than the two preceding ones. Coffee prices have fallen and cotton production has continued to decline. The poor state of the roads is hindering the development of agriculture in particular and this sector is also adversely affected by a shortage of Government services. With world demand continuing to grow, the timber sector should continue to increase its exports. In the longer term the development of uranium production could have a particularly favourable impact on the economy.

CHAD

A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

1. Introduction

The development of Chad has been seriously affected this decade by drought in the years to 1974 leading to heavy losses of cattle, one of the country's main resources. The continuing security problem in the northern areas has also forced the diversion of scarce resources to military expenditures. As a result, the real growth of GDP has been less than the rate of population growth which is estimated at 2.3 per cent per year. For the period 1971-1977, GDP growth is estimated by the Chad Ministry of Planning at only 1.4 per cent per year, which means that GDP per head has declined by 0.9 per cent per year. The basic cause of this poor economic performance has been the very low overall growth rate of the agricultural sector. The important gains in productivity made in cotton cultivation during the period have not been able to offset the large cattle losses and the stagnation of cereal production. Industrial production has grown at only 3.1 per cent per year while services which contribute almost a half of GDP have grown by 2.0 per cent a year.

The relative lack of progress, combined with growing needs for government consumption including defence expenditure has led to serious budget deficits. Chad has been unable to generate the revenue necessary to finance its government consumption expenditure let alone expand capital formation. In 1977, GDP declined in real terms by 3 per cent. This result was due basically to lower crops resulting from unfavourable weather. The cotton crop for the 1976/1977 season was only 147,384 tonnes against the record 174,062 tonnes of 1975/1976. Cereals crops were down by 6 to 12 per cent. However large projects like the sugar complex at Banda have been started. An austerity policy has been continued over budgetary expenditure although foreign aid has helped contain the deficit. The balance of payments returned to deficit in 1977 after a favourable outcome of 1976, while inflation accelerated again after the relative lull in 1976.

For 1978, overall economic results seem likely to be reasonable compared with the recent past. Although the cotton crop has dropped again and for 1977/1978 season latest estimates give a figure of 125,000 tonnes, the cereal crop has been good, as shown by the drop in retail prices of millet and sorghum in Ndjamena. Investment prospects are also good, since CFAF 21.7 billion has been obtained for various projects including a cement factory, an oil refinery, a soap factory and the sewerage scheme for Ndjamena.

2. GDP by industrial origin

The rates of growth of the main economic sectors between 1971 and 1977 are only 0.2 per cent for agriculture (the primary sector) 3.1 per cent for industry (the secondary sector) and 2.0 per cent for services (the tertiary sector) during 1971-1977. The result has been an overall growth rate of total GDP of 1.4 per cent

and there has been a relative decline in the share of agriculture in GDP from 42.5 per cent in 1971 to 39.6 per cent in 1977; the share of industry has risen from 11.8 to 13.1 per cent and of services from 45.7 to 47.3 per cent. The considerable weight of services in the economy is due mainly to the importance of commerce which contributes 27.9 per cent of GDP according to detailed statistics available for the year 1975. The land-locked position of Chad whose trade with the outside world goes over long lines of communications through its neighbouring countries has an important bearing on the relative importance of commerce in the economy.

Chad: Table 1. GDP by Source, 1971 and 1975 to 1977  
(billion CFA francs at 1977 prices)

| Sector    | 1971  | Per cent | 1975  | 1976  | 1977  | Per cent |
|-----------|-------|----------|-------|-------|-------|----------|
| Primary   | 60.2  | 42.5     | 57.9  | 63.4  | 60.9  | 39.6     |
| Secondary | 16.7  | 11.8     | 17.9  | 19.8  | 20.1  | 13.1     |
| Tertiary  | 64.8  | 45.7     | 70.6  | 75.4  | 72.8  | 47.3     |
| Total     | 141.7 | 100.0    | 146.4 | 158.6 | 153.8 | 100.0    |

Source: Republique du Chad, Project du Plan Quadriennal, 1978-1981.

### 3. Selected economic sectors

(a) Agriculture. It is estimated in 1977 that 84 per cent of the population was living in the rural area, while agriculture represented roughly 40 per cent of GDP. According to 1975 data, crop production accounts for 58.0 per cent of value added in agriculture; animal husbandry and fishing contribute respectively 25.2 per cent and 13.2 per cent with hunting and forestry contributing 3.6 per cent. The degree of commercialisation is still low, marketed products accounting for only 30 per cent of gross crop production in 1975. The growth record since 1970 has been very poor, because of drought during 1970-1974 which inflicted heavy cattle losses and greatly diminished cereal production. The impact of cattle losses is best judged if one considers that in 1975, the gross value of cattle and other animals was around CFAF 120 billion while GDP at factor cost was estimated at CFAF 141 billion.

Chad: Table 2. Crop production, 1970/71 and 1974/75 to 1977/78

|  | 1970/71 | 1974/75 | 1975/76 | 1976/77 | 1977/78 |
|--|---------|---------|---------|---------|---------|
| Cereals (thousand tonnes)                  | 640     | 612     | 674     | 600     | 621     |
| Groundnuts (thousand tonnes)               | 80      | 91      | 95      | 87      | 101     |
| Cotton ( " " )                             | 95      | 144     | 174     | 147     | 125     |
| Value of crop production<br>(CFAF billion) | 24.35   | 32.69   | 43.16   | 50.66   | ...     |

Source: National data from Chad.

On a regional basis, most of crop production is concentrated south of the Chari river, the remainder of the country being more suitable for animal husbandry and being also more prone to drought. In the south, apart from cereals one finds sizeable crops of starchy roots which are an important part of the diet. Cereal production has made a strong recovery since the drought, but has not yet regained its pre-drought level. In 1977/78 the crop is estimated at 621,000 tonnes, that is 3.5 per cent higher than in 1976/77 but still under the 640,000 tonnes of 1970/1971. This means that availability of locally produced cereals per head has been reduced. In contrast to cereals, the situation of cotton has improved despite the lower crops obtained in the last two seasons. This is the result of the development programme which has been followed in a consistent way throughout the years. Producers prices have been increased, inputs provided to the farmers and encouragement given to cultivation with oxen. In 1975/1976 there was a record crop of 174,000 tonnes. However, peasant incomes have not kept pace with the rise in the prices of industrial goods. According to the Ministry of Planning while the income from a hectare of cotton increased by 67 per cent during 1971-1978, prices of industrial goods grew by 115 per cent. The rise in consumer prices was 70 per cent.

During the drought which reached its highest intensity in 1973, Chad lost a third of its cattle herds but herds of sheep and goats were less affected. Meat production has therefore decreased as herders have given priority to replenishing the herds. By 1977 cattle herds were 4,056,000 compared with 4,690,000 in 1971. The increased demand for beef in Nigeria has led to increased beef prices in Chad, forcing a shift to local consumption of sheep and goat meat. An attempt by the Government to control prices by banning live cattle exports has led to a large trade in smuggled-out animals, while deliveries of animals to slaughter-houses have dropped because of the unattractive prices offered. At the large Farcha slaughter-house the weight of slaughtered animals dropped from 10,994 tonnes in 1974 to 5,631 tonnes in 1977. This led to the loss of some markets for Chad's meat in the region like the Congo to whom exports in 1977 were only 1,390 tonnes compared with 2,045 tonnes in 1976. In 1977 47,232 cattle were exported live, this represents a substantial improvement on the previous three years but was much less than the 69,414 exported in 1973.

During 1972 and 1973, because of the drought there was rather intensive fishing in Lake Chad and the rivers, so that fish resources were diminished. The lower water levels restricted production in any event and production declined. In 1977 there was a recovery but the low level of rivers and of the Lake Chad in 1978 is again making for lower production. This fall in supply when demand has increased in Chad and in neighbouring countries like Nigeria has resulted in a considerable rise in prices.

(b) Mining. The only mineral produced to date in Chad is natron or soda ash from the evaporation of Lake Chad's waters. Since 1975, no information is available on the quantities produced but the firm which had the monopoly of production has ceased its activities. Apart from natron, oil deposits have been found after several years of prospecting. Presently five deposits have been identified with reserves estimated at 300 million barrels, which is still insufficient to make exports profitable. But this oil can be exploited for Chad's own consumption. In fact the

project for an oil refinery is already at the implementation stage and oil from Chad's own deposits is expected to be available in 1979. In the meantime oil prospecting is continuing and new discoveries were made in 1977.

(o) Energy. Energy consumption is very low and was estimated in 1976 at only 23 kgs of coal equivalent. The average for Africa is 397 kgs of coal equivalent. A sizeable part of the energy supply comes from wood, which is used for cooking mainly in the rural areas. In the modern sector, energy needs are covered by oil imports for the production of electricity. In 1977, consumption of all oil products reached 77,105 cubic metres a rise of 13.3 per cent over 1976.

Chad: Table 3. Petroleum products and electricity production, 1970 and 1975 to 1977

|  | Unit | 1970  | 1975  | 1976  | 1977  |
|--|------|-------|-------|-------|-------|
| Consumption of petroleum (thousand m <sup>3</sup> ) products |      | ...   | 58.69 | 68.07 | 77.11 |
| Electricity production (mn kWh)                              |      | 41.88 | 56.37 | 54.85 | 58.41 |

Source: National data from Chad.

Electricity production is entirely dependent on oil imports. During the period 1970-1977 the average rate of growth has been 5 per cent per year with higher rates up to 1974, followed by a drop in production up to 1976 and a recovery (6.6 per cent) in 1977. In 1978, frequent interruptions of electricity supply were experienced because equipment was not properly maintained.

(d) Manufacturing. No major change has occurred in manufacturing since 1970 as most of the industries date from the 1960's and few major investments have been made. The most important industries are those related to cotton ginning, the production of cotton oil, and cotton cloth, beer production, sugar production, cigarette production and animal slaughtering. For the first type of industry, the trend in the production of the raw materials has been the major determining factor; cotton ginning has benefitted from the rise in seed cotton production which has necessitated investments to increase cotton ginning capacity. Meat production on the other hand has suffered from rising costs in Chad while prices were down on international markets, at the same time as large scale smuggling of live animals to Nigeria affected the supply of live animals for local slaughtering. Consumer-goods factories have been affected by the unfavourable economic conditions prevailing in Chad during much of the period 1970-1977. Demand has been low and at the same time competition from Cameroon and Nigeria has been severe. In particular the competition of smuggled products from Nigeria, has been important. One exceptions is beer production which has increased considerably, growing by 11.8 per cent per year in 1970-1977.

Chad: Table 4. Production of selected manufactures, 1970 and 1975 to 1977

| Item            | Unit                        | 1970   | 1975   | 1976   | 1977   |
|-----------------|-----------------------------|--------|--------|--------|--------|
| Flour           | (tonnes)                    | 700    | 3 143  | 4 419  | ...    |
| Meat            | "                           | 14 399 | 6 693  | 6 546  | 5 631  |
| Cotton seed oil | (thousand litres)           | 951    | 402    | 433    | 542    |
| Sugar           | (tonnes)                    | 13 000 | 15 401 | 13 411 | 15 936 |
| Beer            | (thousand hecto-<br>litres) | 71     | 147    | 144    | 155    |
| Fabrics         | (million metres)            | 15.13  | 14.96  | 17.05  | 15.39  |
| Cigarettes      | (million packets)           | 11.8   | 15.6   | 17.5   | 16.8   |
| Radios          | (thousand)                  | ...    | 13.35  | 42.66  | 46.46  |

Source: National data from Chad.

Overall, growth for the period 1970-1977 has been only moderate. In 1977 however there seems to have been a favourable trend in industrial production. According to the "Conseil National du Credit" in its report on the 1977 year, the turnover of major manufacturing firms grew by 8.7 per cent in 1977. A number of projects have been started such as the sugar complex while others have been completed like the oil mill at Moundou which cost CFAF 1.9 billion.

(e) Construction. Construction activities are directly dependent on the volume of investments and thus suffered up to 1974 from the fall in the real value of capital formation. Since then there seems to have been a strong recovery. In 1976 to 1978 there has been much more building activity with some large projects completed.

(f) Transport services. Road transport is the most important means of transportation in Chad. However the road network is in a poor condition and is heavily concentrated in the southwest region where cotton is produced; many of the roads are impassable during the rains. Of 7,340 km of classified roads, only 250 km are paved.

Chad: Table 5. Selected transport indicators, 1970 and 1975 to 1976

|   | 1970              | 1975 | 1976 |
|---|-------------------|------|------|
| <u>Road transport with Nigeria</u>      |                   |      |      |
| Freight <sup>a/</sup> (thousand tonnes) | 61.6              | 97.9 | 97.0 |
| <u>Air transport</u>                    |                   |      |      |
| Traffic units (thousand)                | 358 <sup>b/</sup> | 234  | 212  |

Source: National data from Chad.

a/ Freight from Nigeria.

b/ 1971.

Statistics relating to the check point of Kousséri through which transport to and from Nigeria passes indicate declining activity in 1975 and 1976, after a high point in 1974. This may be due in part to a growing practise of smuggling, but the number of vehicles available in Chad is apparently insufficient to handle all traffic and this resulted in 1977 in an acute shortage of oil products which lasted two months. As for air transport, data show a declining level of activity from 1971 to 1977 linked with the adverse economic conditions in the country.

#### 4. Expenditure and the GDP

Chad: Table 6. GDP by end use 1970, 1975 and 1976 (billions of CFA francs)

|  | 1970 | Per cent | 1975  | 1976  | Per cent |
|--|------|----------|-------|-------|----------|
| Private consumption                        | 77.1 | 85.2     | 133.2 | 135.4 | 87.1     |
| Public consumption                         | 10.2 | 11.3     | 13.0  | 12.6  | 8.1      |
| Gross capital formation                    | 9.6  | 10.5     | 27.8  | 28.8  | 18.5     |
| Domestic expenditure                       | 96.9 | 107.0    | 174.0 | 176.8 | 113.7    |
| Exports less imports of goods and services | -6.4 | -7.0     | -25.4 | -21.3 | -13.7    |
| GDP at current market prices               | 90.5 | 100.0    | 148.6 | 155.5 | 100.0    |
| Domestic savings                           | 3.2  | 3.5      | 2.4   | 7.5   | 4.8      |

Source: Chad: Ministère de l'Économie, Sous direction de la Statistique.

Data on expenditure are not strictly comparable to those used earlier for GDP growth, but they give useful indications on the trends in the structure of expenditure. What these data show mainly is the surge of investment after 1974 so that in 1976 capital formation represented 18.5 per cent of GDP against 10.5 per cent in 1970, while the share of private consumption grew from 85.2 to 87.1 per cent of GDP between 1970 and 1976 and that of public consumption declined from 11.3 to 8.1 per cent. Though domestic savings have increased from 3.5 per cent of GDP to 4.8 per cent in 1976, external resources have provided the bulk of capital formation. In 1976 out of a total capital formation of CFAF 28.8 billion, only CFAF 7.5 billion was financed domestically.

#### 5. External trade and the balance of payments

There are great difficulties in accurately measuring trade flows in Chad because smuggled goods are not recorded although estimates of their extent are made from time to time. It is a fact however that trade is greatly unbalanced, with much higher imports than exports. Since 1970, exports have been affected by the drought which reduced animal slaughtering and exports, but the good cotton crops and the high prices

obtained in later years have helped maintain and even increase the value of exports. World inflation has pushed up the value of imports although they have remained more or less constant in volume. Table 7 gives available data on imports and exports and the balance of payments. There has been a growing deficit on the goods and services account of the balance of payments which has been matched by an equivalent rise in transfers and capital flows. In 1976 there was a large surplus of CFAF 5.0 billion due to a high level of transfers and capital to Chad, but figures for 1977 indicate an overall deficit of CFAF 1.3 billion because of a substantial rise in imports which led to a high deficit on goods and services account not fully covered by transfers and capital.

Chad: Table 7. External trade and balance of payments, 1970 and 1975 to 1977  
(billions of CFA francs)

|                               | 1970  | 1975   | 1976   | 1977   |
|-------------------------------|-------|--------|--------|--------|
| <u>External trade</u>         |       |        |        |        |
| Exports                       | 8.21  | 10.10  | 13.88  | ...    |
| Imports                       | 17.22 | 28.33  | 28.11  | ...    |
| Balance                       | -9.01 | -18.23 | -14.23 | ...    |
| <u>Balance of payments...</u> |       |        |        |        |
| Goods and services (net)      | -7.91 | -27.63 | -21.34 | -30.56 |
| Private transfers (net)       | 0.53  | 1.82   | 3.87   | 1.60   |
| Government transfers (net)    | 7.83  | 12.88  | 16.25  | 21.91  |
| Capital                       | 0.94  | 6.56   | 7.05   | 7.44   |
| Reserves and related items    | -0.78 | 4.87   | -5.04  | 1.30   |
| Errors and omissions          | -0.61 | 1.50   | -0.79  | -1.69  |

Source: IMF, International Finance Statistics vol. XXX No.12 December 1977, vol. XXXI No. 11 November 1978.

#### 6. Development aid and external debt

As shown by the national accounts and the balance of payments the volume of external resources available to Chad has been growing steadily since 1970 so that in 1976 net imports of goods and services reached 13.7 per cent per cent of GDP or double the 1970 level. The goods and services deficit in 1977 is equivalent to 20 per cent of GDP. Net government transfer receipts were CFAF 21.9 billion in 1971 nearly three times as high as in 1970. An exact measurement of development aid to Chad suffers from an absence of detailed information. For the year 1976, however, the UNDP estimated external aid to Chad at CFAF 26 billion or equal to 16.7 per cent of GDP; the aid being distributed as to 38.4 per cent for technical assistance and

studies, 21.8 per cent for infrastructure building, 19.1 per cent for food aid, and 20.7 per cent in financial assistance. The main aid donors are France, the European Economic Community through its investment and aid funds and the United Nations. Saudi Arabia has lately become an important aid donor to Chad, while the USSR made a large contribution in food aid in 1976. External debt has grown to ~~US~~ 95.4 million (disbursements) in 1976 from 18.3 millions in 1972, according to the World Bank. The Chad Ministry of Planning quotes a figure of CFAF 11 billion at the end of 1977. The external debt burden is not heavy and in fact in 1976 service payments on the external public debt were equal to 4.1 per cent of earnings from exports of goods and services.

### 7. Government revenue and expenditure

In the first half of the decade there was virtually no growth in revenue and at the same time expenditure demands were constantly increasing. This situation was mainly due to the drought conditions which had a serious impact on the economy as a whole.

Chad: Table 8. Government revenue and expenditure, 1970 and 1975 to 1978  
(billions of CFA francs)

|                       | 1970   | 1975 <sup>a/</sup> | 1976 <sup>a/</sup> | 1977 <sup>a/</sup> | 1978 <sup>a/</sup> |
|-----------------------|--------|--------------------|--------------------|--------------------|--------------------|
| Revenue               | 13.75  | 19.28              | 15.79              | 16.18              | 17.08              |
| Recurrent expenditure | 13.42) |                    | 14.23              | 16.18              | 17.08              |
| Capital expenditure   | 0.64)  | 19.28              | 1.56               | ...                | ...                |

Source: National data from Chad.

a/ Budget estimates only, actual revenue for 1975 is reported to be CFAF 13.70 billion.

After 1975, measures were taken to correct the situation by adjusting expenditures to revenues, but a deficit amounting to CFAF 25 billions had been accumulated and the elimination of this deficit remains a major constraint on Chad's economy. As shown in table 8 the 1977 and 1978 budgets have been presented in equilibrium but there is in fact each year a gap between expenditure and internal revenues, so that the estimated deficits were respectively CFAF 2.2 billion in 1977 and CFAF 3.3 billion in 1978. These deficits have been covered by external aid. The low growth of revenue has led the government to eliminate direct investment expenditures, to decrease government participation in the economy through transfers and subsidies while current expenditure on wages and supplies has been allowed to grow only slowly. On the other hand, due to the security situation the Government has been forced to raise defence expenditures. In 1978 these have been raised by 18.4 per cent against a rise of 5.6 per cent for the total budget, and they have reached a level equal to 46 per cent of total expenditures. Indirect expenditure on investment by the Government is financed from foreign aid and capital inflows which as shown earlier have increased significantly over the last few years.

### 8. Money and banking

From 1970 to 1977, the supply of money has more than doubled. Money proper (currency and demand deposits) has multiplied by 2.66 and including quasi-money by

2.62. The average annual growth rate of money proper is 15.0 per cent. Net foreign assets have fallen over the period concerned so the major factor in the money growth rate has been the rise in domestic credit. Net claims on the Government by the banking system have grown from CFAF 1.19 million to CFAF 8.48 billion from December 1970 to December 1977 equal to an annual growth rate of 32.4 per cent. Claims on the private sector rose from CFAF 11.37 billion to CFAF 23.45 billion or by 10.9 per cent a year.

Chad: Table 9. Monetary survey, 1970 to 1978 (billions of CFA francs)

|                          | End<br>1970 | End<br>1975 | End<br>1976 | End<br>1977 | April<br>1978 |
|--------------------------|-------------|-------------|-------------|-------------|---------------|
| Foreign assets           | -0.51       | -5.28       | 0.56        | -2.27       | -6.83         |
| Domestic credit          |             |             |             |             |               |
| Net claims on government | 1.19        | 5.54        | 7.32        | 8.48        | 7.97          |
| Claims on private sector | 11.37       | 20.40       | 17.39       | 23.45       | 27.54         |
| Money                    | 8.45        | 15.58       | 19.77       | 22.51       | 23.60         |
| Quasi-money              | 0.58        | 1.18        | 1.33        | 1.20        | 1.43          |
| Other items (net)        | 3.00        | 3.89        | 4.09        | 5.97        | 3.66          |

Source: IMF, International Financial Statistics, Vol. XXX No. 12 December 1977 and Vol. XXXI No. 11 November 1978.

In 1977 money proper grew by 13.9 per cent, half the growth rate of 1976. Claims on the private sector increased by 34.8 per cent a much faster rate than that of 15.8 per cent for credit to the government.

In the first four months of 1978 net foreign assets fell particularly heavily to record a negative total of CFAF 6.83 billion at April. This fall has helped contain the increase in the money supply even though credit to the private sector rose by a further 17.4 per cent. There was a reduction in net claims on Government in this period.

## 9. Wages and prices

From 1970 to 1976 no official change was made in minimum wage rates though private enterprises periodically readjusted the salaries of their employees. The minimum wage remained at CFAF 5,200 per month until June 1977 when it was raised to CFAF 8,318 an increase of 60 per cent. This just compensates for inflation since 1970 which has been 60 per cent up to March 1977 according to available price indexes. Inflation had its biggest impact in Chad in 1974 after the multiplication of oil prices, the increase of import prices from industrialized countries and the drop in supply of food products provoked by the drought. Between 1973 and 1974 prices rose on average by 11.3 per cent and there was a further rise of 15.7 per cent in 1975. Afterwards the rate of inflation declined to 3.4 per cent in 1976, but it rose again to 8.4 per cent in 1977. At May 1978 the index was 3.7 per cent higher than at December 1977 and was still rising.

#### 10. Employment and unemployment

In 1977 total active population amounted to 1,554,000 people out of a total population of 4,200,000. The overwhelming proportion of the labour force, approximately 84 per cent is employed in the rural areas and the number of wage earners in 1977 was 180,000 or less than 12 per cent of the labour force. Unemployment is estimated at 5.2 per cent by the Ministry of Planning and is confined to the urban economy, the main problem in the rural areas being underemployment. Available statistics do not permit an evaluation of the employment trends since 1970. What is known is that the number of government employees has grown steadily.

#### 11. Other social sectors

(a) Education. There was in 1977 an enrolment of 231,912 Chadian students and pupils of whom 1,159 were studying abroad. The primary enrolment was 210,882 representing only 21 per cent of the eligible age group. There were also 18,382 secondary school pupils and 889 in technical institutes. Chad has still a long way to go before being able to provide basic education to everyone.

(b) Health. The government health services consist of 200 medical centres some of them mobile and there are also 54 private medical establishments. The total number of beds available in the country is 4,200 or 1 for each thousand people, a good rate for such an underdeveloped country. In fact according to the Ministry of Planning 81 per cent of the population has access to medical centres. Both curative and preventive medical services are available. A very important effort is being made to protect the people's health. Foreign aid is important for the health services and in 1977 financed CFAF 1,171 million out of the total of CFAF 2,176 million spent on health.

#### B. MAJOR PROBLEMS

A land-locked country, Chad has suffered from irregularities on its lines of communications and has taken the full impact of transport cost increases since 1974. Also the very long frontiers make it impossible to control smuggling of goods in and live animals out which has particular repercussions on government revenues and prices. According to official estimates smuggling could amount for 29 per cent of imports and 50 per cent of exports.

The 1970-1974 drought inflicted heavy losses on the economy which are being recouped only slowly especially in terms of rebuilding the cattle herds.

Until the security situation improves the heavy defence expenditure is imposing its own problems and is being felt by a restriction in growth of services of all kinds.

#### C. INTERNAL DEVELOPMENT POLICIES

In the first part of the decade the authorities were confronted by the concomitant crises of drought, insurgency and internal debt and these urgent problems took priority over longer range development issues. However a consistent policy was followed in the field of cotton which has produced positive results in terms of

increased output. At the present time, though continuing to tackle the debt problem and trying to end the insurgency, the authorities have been preparing for a revival of development efforts in Chad. A plan has been prepared for the 1978-1981 period which provides for an annual growth of 4 per cent against the virtual stagnation in the year 1970 to 1977. A major effort will be made in agriculture which is expected to grow by 4.6 per cent per year and in industry which will grow by 9 per cent. To finance the plan a sum of CFAF 227 billion will be required. The greatest allocations of funds will go to rural development (28.7 per cent) and for the infrastructure (24.1 per cent). As for the sources of finance, CFAF 151 billion will come from official aid and CFAF 42 billion from private foreign or domestic capital, the remainder being supplied by the public sector (18 billion) and rural households (15 billion).

One of the major objectives of the plan is to give the State its normal role in development after the problems experienced since 1970 in this respect. The balancing of the budget is a major priority and the Government will ensure the free functioning of the markets so as to minimize recourse to smuggling on the part of private traders. The strengthening of the transport network is among the major objectives as dictated by geographical realities. In the agriculture field, efforts will be made to improve the food supply, to increase productivity in cotton cultivation and to diversify production.

#### D. PROSPECTS FOR 1978 to 1980

For 1978 economic result will be less favourable than in 1977 because of the smaller cotton crop. But as remarked earlier, food crops have been good and Chad has benefitted from a high level of foreign aid. Over the longer period to 1980 if security problems are solved, there are strong reasons to believe that development will pick up with better results achieved in the last years of this decade than earlier. Strong points are the programmes for cotton development being followed by the authorities, and the discovery of oil deposits. This latter development means that Chad will become independent in its energy supplies.

CONGO

A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970 - 1978

1. Introduction

In the seven-year period to 1977 GDP at current factor cost increased at an average annual rate of 14.6 per cent. In real terms the rate of growth was about 4.4 per cent a year with the implicit GDP deflator averaging 9.8 per cent. In 1977 GDP rose by 8.2 per cent at current prices. At constant prices there was a decline of 0.5 per cent.

In 1974/75, there was a sharp rise in crude oil production which coincided with substantial increases in the world price for oil. Public revenues were raised significantly and the Congo was able to reduce its budgetary deficit, expand administrative resources and discharge a large part of its public debt obligations. Oil output has, however, fallen in the past few years as deposits have become exhausted and new reserves are not being discovered and tapped rapidly enough to maintain levels of production. The recent period has therefore been characterized inter alia by a large gap between income and expenditure which was covered mainly by external resources.

Value added in agriculture increased at an average annual rate of 9.2 per cent in current terms and manufacturing by 10.9 per cent between 1970 and 1977. Mining rose by 339 per cent in 1974 but averaged only 7.8 per cent per annum between 1975 and 1977. Estimates of GDP by expenditure indicates that in 1970 savings amounted to 18.6 per cent of GDP but since 1975 total consumption has exceeded total output. Gross capital formation which amounted in 1978 to 21.4 per cent of GDP at market prices fell to 16.8 per cent in 1976 and further to 16 per cent in 1977.

The value of exports rose from CFAF 8,563.7 million in 1970 to CFAF 44,767.2 million in 1977 or by 26.6 per cent yearly. The value of imports increased at an average annual rate of 17.6 per cent to reach CFAF 49,338.3 million in 1977 from CFAF 15,909.2 in 1970. Despite this larger relative increase in exports than imports, a trade deficit had reappeared in 1977 after substantial surpluses in the preceding two years. The gap in the goods and services account of the balance of payments has remained wide and the large inflows of capital indicate that the external debt has been rising.

Austerity has characterized recent Government budgets as efforts have been made to cope with the tight resource situation.

The outlook for 1978 is for a fairly good performance in export crop production and particularly timber. This should bring about some measure of real growth. A two-year action programme to redress the economy and rehabilitate State enterprises was announced in 1978. Exploitation of the new oil-fields at Loango was also expected to start shortly. There are therefore good prospects for economic expansion in the years to 1980.

## 2. GDP by industrial origin

The significant changes in the structure of GDP during the period under review have mainly concerned agriculture, forestry and fishing and mining. As shown in table 1 the proportionate share of agriculture, forestry and fishing in total value added declined from 43.7 per cent in 1970 to 31.3 per cent in 1977. At the same time the share of mining rose from only 1.5 per cent in 1970 to 13.4 per cent in 1977. Apart from the slight decline in the share of construction, contributions of the other sectors to total GDP have remained virtually unchanged comparing 1970 and 1977.

Congo: Table 1. GDP by source, 1970 and 1975 - 1977 (millions of CFA francs)

| At current prices                 | 1970   | %     | 1975    | 1976    | 1977    | %     |
|-----------------------------------|--------|-------|---------|---------|---------|-------|
| Agriculture, forestry and fishing | 28 741 | 43.7  | 45 764  | 48 103  | 53 345  | 31.3  |
| Mining                            | 979    | 1.5   | 19 637  | 22 370  | 22 782  | 13.4  |
| Manufacturing                     | 4 356  | 6.6   | 6 462   | 7 710   | 8 991   | 5.3   |
| Electricity and water             | 1 627  | 2.5   | 2 530   | 2 900   | 3 398   | 2.0   |
| Construction                      | 2 604  | 4.0   | 5 691   | 4 298   | 4 806   | 2.8   |
| Commerce                          | 10 963 | 16.7  | 26 701  | 28 542  | 29 295  | 17.2  |
| Transport and communications      | 5 352  | 8.2   | 15 322  | 16 665  | 17 291  | 10.2  |
| Public administration             | 10 409 | 15.8  | 21 438  | 24 968  | 28 353  | 16.7  |
| Other services                    | 669    | 1.0   | 1 583   | 1 701   | 1 931   | 1.1   |
| GDP at current factor cost        | 65 700 | 100.0 | 145 128 | 157 257 | 170 192 | 100.0 |
| Indirect taxes less subsidies     | 10 324 |       | 22 872  | 22 724  | 25 641  |       |
| GDP at current market prices      | 76 024 |       | 168 000 | 179 981 | 195 833 |       |
| GDP at 1970 factor cost           | 65 700 |       | 88 873  | 89 068  | 88 600  |       |

Source: Official data and ECA estimates.

## 3. Selected economic sectors

(a) Agriculture, forestry and fishing. There are no direct estimates of food crop production but the rise in the food import bill in recent years tends to confirm that traditional agriculture which provides most of the food crops has stagnated if not declined in the recent period. The rise in food prices and the occasional shortages of basic foodstuffs such as cassava in urban markets are further evidence that food crop production has stagnated or declined.

As regards industrial crops, data on marketed output shown in table 2 indicate that the production of paddy rice and palm products has declined steadily since 1970. The production of cocoa has expanded substantially but has been fluctuating in recent years. Coffee and tobacco production has also fluctuated but output in 1977 was below that of 1970 in each case.

Congo: Table 2. Commercial agricultural production, 1970 and 1975 - 1977

| Tonnes      | 1970  | 1975  | 1976  | 1977  |
|-------------|-------|-------|-------|-------|
| Coffee      | 1 984 | 753   | 1 835 | 1 517 |
| Cocoa       | 1 457 | 2 723 | 2 375 | 2 693 |
| Paddy rice  | 2 685 | 1 609 | 1 526 | ...   |
| Palm oil    | 3 332 | 2 211 | 2 191 | 1 057 |
| Palm kernel | 1 487 | 800   | 600   | 200   |
| Tobacco     | 737   | 1 014 | 1 008 | 479   |

Source: Congo, Office Nationale pour la Commercialisation des Produits Agricoles; (L'ONCPA)

Livestock holdings have increased steadily for all categories. The estimated herds in 1977 were 70,300 cattle, 184,600 sheep, 118,100 goats, 82,700 pigs and one million poultry. This compares with 36,300 cattle, 120,300 sheep, 58,500 goats, 59,000 pigs and 640,000 poultry in 1970. However, substantial quantities of live animals and meat are still imported to supplement domestic supplies.

Industrial fishing has declined since tuna fishing stopped in 1976. The output of deep-sea trawler fishing has remained at about 11,000 tonnes during this decade.

The forest industry was once the most dynamic export sector. There was a 107.1 per cent rise in the exported output of timber in 1977 but the total of 144,740 tonnes realized was still much below the level of 326,100 tonnes attained in 1970. The decline in the industry has been attributed to a number of factors namely: transportation bottlenecks on the Congo-Ocean railway, the exhaustion of the stands of limba and Okoume near the main routes, and difficulties in exploiting the potential in the north of the country.

(b) Mining. The output of crude petroleum rose rapidly to reach a peak level of 2,454,000 tonnes in 1974 from 19,000 tonnes in 1970. In 1975 production fell by about 20 per cent but rose slightly in 1976 before falling again in 1977 to record 1,801,000 tonnes. The value of crude petroleum exports amounted to CFAF 37,900 million or 81 per cent of the total value of exports in 1974 when production was at peak and prices had risen substantially. The lower output level in 1975 brought the value of crude oil exports down to CFAF 28,024 million in that year. There was a rise in 1976 to CFAF 32,598 million but in 1977 the value fell by about 26 per cent to CFAF 24,273 million. The production of natural gas and also been declining since the peak level of 18,833 cubic metres recorded in 1974.

Potash production which started in 1970 expanded to a peak of 475,000 tonnes in 1974. Production of this mineral was stopped at the end of the first half of 1977 when technical difficulties and a complete flooding of the mines forced the liquidation of the potash mining company. Of the other minerals produced only copper and gold recorded increased output in 1977. Table 3 gives details as mineral production during this decade.

Congo: Table 3. Production of major minerals, 1970 and 1974 - 1977

|                                   | 1970   | 1974   | 1975   | 1976   | 1977   |
|-----------------------------------|--------|--------|--------|--------|--------|
| Crude petroleum (thousand tonnes) | 19     | 2 454  | 1 970  | 2 002  | 1 801  |
| Natural gas (cubic metres)        | 10 148 | 18 833 | 16 748 | 15 254 | 9 410  |
| Potash (thousand tonnes)          | 106    | 475    | 462    | 445    | 135    |
| Lead and zinc ore (tonnes)        | ...    | 11 002 | 13 272 | 16 958 | 15 785 |
| Copper and zinc ore (tonnes)      | ...    | 1 978  | 2 181  | 972    | 2 407  |
| Gold (kg.)                        | 83     | 21     | 16     | 8      | 17     |

Source: Bulletin de l'Afrique noire, No. 964, 28 June 1978.

(d) Manufacturing. Details of the output of the manufacturing sector since 1972 are given in table 4. Some of the most important manufacturing plants have been operating at much below their respective capacities in recent years. Sugar production for instance, had fallen in 1977 to only one-sixth of the average pre-1970 level of over 90,000 tonnes per annum. Textile production was started in 1975 and output has more than doubled reaching 11,634,000 metres in 1977 from 5,500,000 in 1975. Good results have also been recorded in other industries such as beverages, tobacco and cigarettes and groundnut milling for oil.

Congo: Table 4. Production of selected manufactures, 1972 and 1975 - 1977

|                                 | 1972  | 1975  | 1976  | 1977   |
|---------------------------------|-------|-------|-------|--------|
| Raw sugar (thousand tonnes)     | 40    | 29    | 34    | 16     |
| Refined sugar (thousand tonnes) | 37    | 20    | 23    | 10     |
| Flour (thousand tonnes)         | 16    | 21    | 15    | 5      |
| Palm oil (tonnes)               | 3 100 | 2 201 | 2 189 | 2 408  |
| Groundnut oil (tonnes)          | 1 500 | 564   | 948   | 1 849  |
| Soft drinks (thousand hl)       | 70    | 132   | 154   | 156    |
| Beer (thousand hl)              | 201   | 343   | 375   | 417    |
| Tobacco and cigarettes (tonnes) | 1 070 | 1 192 | 1 235 | 1 262  |
| Soap (tonnes)                   | 5 099 | 4 462 | 5 050 | 5 068  |
| Shoes (thousand pairs)          | 749   | 805   | 712   | 714    |
| Cement (thousand tonnes)        | 83    | 55    | 52    | 45     |
| Textiles (thousand metres)      | -     | 5 500 | 9 300 | 11 634 |

Source: Congo: Centre Nationale de la Statistique et des Etudes Economiques.

(e) Electricity. Total electricity produced rose from 76.5 million kWh in 1970 to 104.6 million kWh in 1975. In 1976 it increased by a further 8.8 per cent to 113.8 million kWh but fell by 8.7 per cent in 1977 to 103.9 million kWh.

(f) Construction. Value added in the construction sector rose by about 43 per cent in 1975 at current prices when public capital expenditure was greatly expanded following substantial increases in oil revenues. Since then there has been a decline in the volume of output. There was an actual decline in construction value added at current prices in 1976 but a recovery occurred in 1977. Measured at constant prices the sector's contribution to GDP would have fallen in both 1976 and 1977.

(g) Transport services. Table 5 provides some details on traffic developments in the transport sector between 1970 and 1977.

Congo: Table 5. Selected transport indicators, 1970 and 1975 - 1977

|                                    | 1970   | 1975    | 1976    | 1977    |
|------------------------------------|--------|---------|---------|---------|
| <u>Port of Point Noire:</u>        |        |         |         |         |
| Freight loaded (thousand tonnes)   | 2 354  | 2 715   | 2 269   | 3 084   |
| Freight unloaded (thousand tonnes) | 518    | 642     | 720     | 629     |
| <u>Railways:</u>                   |        |         |         |         |
| Freight (million tonne/km)         | 517    | 450     | 502     | 499     |
| <u>Airports:</u>                   |        |         |         |         |
| Passengers handled (number)        | 82 153 | 132 988 | 132 378 | 142 104 |

Source: Congo: Centre Nationale de la Statistique et des Etudes Economiques.

There was a substantial rise in freight loaded and unloaded at the Port of Point Noire between 1970 and 1977 and also in the number of passengers handled at airports. Railway freight figures show a small decline but the characteristic imbalance between inward and outward traffic on the Congo-Ocean Railway has diminished somewhat since 1975. Up to 1974 outward traffic, which consisted mainly of wood and manganese ore accounted for over 60 per cent of total rail traffic. This proportion was 50.7 per cent in 1975, 52.7 per cent in 1976 and 57 per cent in 1977. Inward traffic consists mainly of petroleum products being distributed by the national petroleum company HYDROCONGO.

Work on the realignment of railway system has continued. In July 1978, agreement was reached for the African Development Bank to provide about CFAF 142 billion towards the financing of the second phase of the project.

Total traffic on the river Congo rose from 77,215 tonnes in 1975 to 86,030 tonnes in 1976. There was a 3 per cent fall in 1977 to 83,404 tonnes.

#### 4. Expenditure and the GDP

Consumption expenditure increased at a much faster rate than GDP during the period 1970 to 1977. The greater part of the increase took place in private consumption. Savings were 18.6 per cent of the GDP in 1970 but since 1975 total consumption has exceeded total output.

Capital formation was equal to 24.9 per cent of GDP at market prices in 1970, 21.4 per cent in 1975 and fell to 16.8 per cent in 1976 and 16 per cent in 1977. The total resource gap was 6.3 per cent of GDP in 1970, 25.1 per cent in 1975, 21.2 per cent in 1976 and 20.3 per cent in 1977.

Congo: Table 6. Expenditure and the GDP, 1970 and 1975 - 1977 (millions of CFA francs)

| At current prices                          | 1970   | %     | 1975    | 1976    | 1977    | %     |
|--|--------|-------|---------|---------|---------|-------|
| Private consumption                        | 46 272 | 60.9  | 143 250 | 154 029 | 167 508 | 85.5  |
| Public consumption                         | 15 600 | 20.5  | 31 000  | 33 976  | 36 876  | 18.8  |
| Gross domestic capital formation           | 18 952 | 24.9  | 36 000  | 30 154  | 31 195  | 16.0  |
| Exports less imports of goods and services | -4 800 | -6.3  | -42 250 | -38 178 | -39 746 | -20.3 |
| Total GDP at market prices                 | 76 024 | 100.0 | 168 000 | 179 981 | 195 833 | 100.0 |

Source: Official data and ECA estimates.

Gross domestic investment at current prices rose at an average annual rate of 13.1 per cent during the five years 1970 to 1975. In 1975 alone it rose by over 30 per cent as increased oil revenues were used to finance higher capital expenditures. In 1976 there was a sharp fall of 16.2 per cent and in 1977 capital formation was only slightly higher than in 1976.

The negative savings figure in 1977 was equal to -3.3 per cent of GDP, it had been -3.7 per cent in 1975 and -4.5 per cent in 1976.

#### 5. External trade and balance of payments

Congo's external trade was traditionally in deficit until 1974 when the rise in the volume of oil exports and the substantial increase in oil prices brought about a surplus of CFAF 17,050 million. In 1975 as shown in table 7 this surplus was reduced to CFAF 5,301.7 million. It rose to CFAF 6,463.6 million in 1976 but turned into a deficit of CFAF 4,571.1 million in 1977. During the period 1970 to 1977 exports increased at an average annual rate of 26.6 per cent at current prices and imports by 17.6 per cent.

Congo: Table 7. External trade and balance of payments, 1970 and 1975 - 1977  
(millions of CFA francs)

|                              | 1970      | 1975      | 1976      | 1977      |
|------------------------------|-----------|-----------|-----------|-----------|
| <u>External trade</u>        |           |           |           |           |
| Exports including re-exports | 8 563.9   | 38 239.3  | 43 570.4  | 44 767.2  |
| Imports                      | 15 909.2  | 32 937.6  | 37 106.8  | 49 338.3  |
| Balance                      | -7 345.3  | +5 301.7  | +6 463.6  | -4 571.1  |
| <u>Balance of payments</u>   |           |           |           |           |
|                              | 1971      |           |           |           |
| Goods and services (net)     | -19 281.3 | -55 616.0 | -57 642.0 | -54 194.8 |
| Private transfers (net)      | -2 105.4  | -4 865.1  | -5 472.6  | -7 394.7  |
| Government transfers (net)   | 2 908.8   | 6 729.6   | 8 770.6   | 11 693.9  |
| Capital                      | 20 167.8  | 43 507.0  | 40 005.3  | 43 336.2  |
| Reserves and related items   | 83.1      | 2 228.9   | 191.2     | 2 088.2   |
| Errors and omissions         | -1 773.0  | 8 015.6   | 14 147.5  | 4 471.2   |

Source: National data for external trade and IMF, International Financial Statistics, vol. XXX, No. 11, November 1977 and vol. XXXI, No. 10, October 1978 (for balance of payments converted from United States dollars).

The value of crude petroleum exports declined by 25.5 per cent in 1977 and its share in the total value of exports fell to 54.2 per cent from 74.8 per cent in 1976. Exports of agricultural commodities on the other hand benefitted from both increased quantities exported and favourable prices. The value of exports in 1977 rose by 197.7 per cent for coffee, 515.9 per cent for sugar and 98.6 per cent for cocoa. A decline of 7.7 per cent was recorded for tobacco. The value of wood exports rose by 120 per cent in 1977.

Food imports accounted for the largest increase in the value of imports in 1977. They rose by 55 per cent and represented about 20 per cent of total imports compared to 15.8 per cent in 1976. The proportionate share of imports of machinery and electrical equipment dropped from 21.8 per cent in 1976 to 15.3 per cent in 1977.

Congo has been running high deficits in the services account of the balance of payments. The gap in goods and services has consequently remained very wide. Net private transfers have also been consistently negative and have tended to increase since 1971. Net government transfers receipts have however risen at a high rate since 1971 and the capital inflows have been at a high level particularly since 1975. These inflows notwithstanding, there were declines in the external reserves in each of the three years 1975 to 1977. The fall in reserves was sharp in 1975 when it amounted to CFAF 2,228.9 million. In 1976 the reduction was only CFAF 191.2 million but in 1977 it increased to CFAF 2,088.2 million.

6. Development aid and external debt

There has been a heavy call on external financial resources this decade. As shown in the balance of payments, grant aid receipts by the Government (net government transfers) totalled CFAF 27,194 million in the three years 1975 to 1977 and were 14,845 million in the four years 1971 to 1974. The substantial capital inflow this decade indicates that the level of external debt has risen substantially. The public debt service burden was CFAF 4,015.8 million in 1977. It rose to CFAF 9,251.2 million in the 1978 budget estimates. Service payments on external debt were estimated at 11.8 per cent of earnings from goods and services in 1975 and 6.5 per cent in 1976.

7. Government revenue and expenditure

Current revenues rose substantially between 1970 and 1978. In 1974 and 1975 they had risen by 73.3 and 25.9 per cent respectively following the substantial increase in oil receipts in those years. In 1976 revenues fell by about 6 per cent but there was a slight recovery in 1977 when they reached CFAF 48,433 million. The forecast for 1978 was a total of CFAF 60,294 million. The increase in current revenues in 1974 and 1975 were allocated to both the current and capital accounts. Current expenditure rose less rapidly than revenue between 1970 and 1975 so an important current surplus was possible. In 1975 capital expenditure in the budget reached the high figure of CFAF 15,503 million but has fallen sharply since then.

Congo: Table 8. Government revenue and expenditure, 1970 and 1975 - 1977  
(millions of CFA francs)

|                     | 1970   | 1975   | 1976   | 1977   | 1978 <sup>a/</sup> |
|---------------------|--------|--------|--------|--------|--------------------|
| Current revenue     | 16 687 | 48 278 | 48 122 | 48 433 | 60 294             |
| Current expenditure | 16 560 | 42 899 | 47 103 | 55 115 | 57 294             |
| Capital expenditure | 1 001  | 15 503 | 5 805  | 1 200  | 3 000              |
| Total expenditure   | 17 561 | 58 402 | 52 908 | 56 315 | 60 294             |
| Financing required  | 874    | 10 124 | 4 786  | 7 882  | ...                |

Source: National data from Congo.

a/ Budget estimates.

Between 1970 and 1975 current revenue rose by 189.3 per cent or 23.7 per cent yearly on average; current expenditure rose by 21 per cent a year and capital expenditure by more than 70 per cent a year.

However the much slower growth in revenue since 1975 has meant a smaller rate of expansion of current expenditure and a large reduction in budgeted capital expenditure.

External borrowing financed much of the overall budgetary deficits which as shown in table 8 widened to CFAF 7,882 million in 1977 after a fall to CFAF 4,786 million in 1976.

The 1978 budget has been balanced at CFAF 60,294 million which represented an increase of 12.4 per cent over the original estimates for 1977.

#### 8. Money and banking

Money proper rose steadily at an average annual rate of 16.6 per cent between 1970 and 1976. In 1977 there was a small decline of 1.5 per cent. Quasi-money grew continuously during the entire period 1970 to 1977. Its average rate of increase was 23.5 per cent a year.

The rise in money supply was due to increase in domestic credit to both government and private sectors. Net claims on government rose sharply in 1975, only moderately in 1976 but sharply once again in 1977. Between 1974 and 1977 the average rate of increase was more than 50 per cent a year. Private sector credit increased at an average annual rate of 15.6 per cent between 1970 and 1977. Net foreign assets have fallen continuously since 1974 and at December 1977 were minus CFAF 7.11 billion. The sharp rise in the deficit in 1977 was largely responsible for the drop in money proper in that year. Table 9 provides details on these developments.

Congo: Table 9. Monetary survey, 1970 and 1975 - 1977 (billions of CFA francs)

|                             | End<br>1970 | End<br>1975 | End<br>1976 | End<br>1977 | April<br>1978 |
|-----------------------------|-------------|-------------|-------------|-------------|---------------|
| Net foreign assets          | 1.63        | -0.85       | -2.64       | -7.11       | -8.56         |
| Domestic credit             |             |             |             |             |               |
| Net claims on government    | -0.08       | 10.12       | 11.67       | 16.86       | 17.19         |
| Claims on private sector    | 14.13       | 29.19       | 37.74       | 38.93       | 38.42         |
| Money                       | 12.36       | 26.86       | 31.10       | 30.62       | 30.20         |
| Quasi-money                 | 0.88        | 2.14        | 2.60        | 3.87        | 4.46          |
| Long-term foreign borrowing | 0.23        | 2.71        | 3.95        | 4.98        | 5.29          |
| Other items (net)           | 2.20        | 6.72        | 9.20        | 9.20        | 7.09          |

Source: IMF, International Financial Statistics, vol. XXX, No. 11, November 1977 and vol. XXXI, No. 11, November 1978.

In the first four months of 1978 net foreign assets continued to fall while domestic credit was unchanged. There was a further fall in the money proper in this period which should have beneficial consequences on the rate of inflation in the Congo.

9. Wages and prices

With effect from January 1975, the guaranteed minimum wage was raised by 70 per cent to CFAF 13,500 per month. Wage zones were abolished so that minimum wages are now uniform throughout the country. Increases of between 7 per cent for the highest paid civil servants and 60 per cent for the lowest paid were granted at the same time.

The consumer price index rose by an average of 7.9 per cent per annum during the five-year period to 1975. In 1976 there was a rise in this index of only 5.1 per cent and in the first quarter of 1977 the index was 8.7 per cent higher than the same period of 1976. Since this time no data on the index have been published.

10. Employment and unemployment

The total active population is estimated at about 500,000 persons. About 20 per cent of these are believed to be wage earners and a further 12 per cent are unemployed. Judging from the rise in Government expenditure on personnel, the increase in employment in the public sector could have been substantial in recent years.

11. Other social sectors

(a) Education. Primary school enrolments rose from 228,578 in 1970 to 319,101 in 1976. The enrolment rate is one of the highest in Africa and is near 100 per cent. Secondary enrolments were 25,228 in 1970 and rose sharply to reach 94,276 in 1976. There were also 5,775 students in technical and higher education in 1977 compared to 2,275 in 1970.

(b) Health. The health infrastructure in the Congo is relatively well developed. The number of persons per hospital bed was about 209 in 1977. There was also one doctor for every 8,000 inhabitants and the number of nurses and midwives was 2,621 for a total population estimated at 1,442,000 in 1977.

B. MAJOR PROBLEMS

A major economic problem has been created by the fall in the level of oil production. Production has fallen because of the drying-up of a number of wells and the difficulty in exploiting new areas. As already noted the Congo embarked on expansionary policies following the rise in oil revenues in 1974 and 1975. The administration was expanded significantly and wages and salaries were increased by large margins. The three-year development plan launched in 1975 assumed a large measure of domestic financing. It provided for a total capital expenditure of CFAF 75.9 billion but its level of execution has been poor.

As oil revenues have fallen, Government has had to make increasing use of deficit financing and its net borrowing from the banking system rose from CFAF 4.64 billion at the end of 1974 to CFAF 17.19 billion at April 1978. There has also been an increased recourse to external borrowing and the net foreign assets are now negative to the extent of CFAF 8.56 billion.

Since independence, there has been increased State participation in industry. A number of enterprises have been nationalized including sugar and cement production and timber marketing. The effective operation of most of the nationalized industries is being greatly compromised by among other things problems of management, staffing, technical difficulties arising from the lack of spare parts and faulty pricing policies. In early 1978, 60 State enterprises were reported to be owing CFAF 11 billion.

The state of agriculture has also been a cause for concern. Production and productivity in the sector particularly the output of foodstuffs needs to be reviewed.

#### C. INTERNAL DEVELOPMENT POLICIES

A programme of action to redress the economy has been established for the biennium 1978-1979. Priority within the programme is specifically directed to the rehabilitation of State enterprises in industry and agriculture. A total sum of CFAF 3,165 million has been allocated to forestry development and the improvement of the performance of the State timber enterprises. A "National Solidarity Fund" has also been established for use solely in rural development. The fund will consist of a 10 per cent monthly levy on all wages and salaries below CFAF 30,000 and 20 per cent for wages and salaries above CFAF 30,000.

#### D. PROSPECTS FOR 1978 TO 1980

Increased cutting of timber for export and increased output of some industrial crops such as coffee, sugar and cocoa should help the growth rate of the economy in 1978.

The economic outturn in the next few years will depend on the degree of success in the 1978-1979 Action Programme. Congo has succeeded in contracting a number of external loans recently. The higher level of capital expenditure envisaged from these sources should give the economy a much needed boost in the immediate future. There is also optimism that production could start from the recently discovered Loango oil deposits. Exploitation of these reserves could bring total oil output back to the 2 million tonnes level and thereby ease the current difficult financial situation.

## ETHIOPIA

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

#### 1. Introduction

The period 1970-1977 is of historical significance to Ethiopia. The revolution of February 1974 introduced fundamental changes in the economic system.

In 1970 to 1974 there occurred the serious drought years which claimed the lives of many Ethiopians. The revolution culminated with the Declaration of Socialism and subsequent ownership by the State of the commanding heights of the economy.

In order to consolidate the gains of the revolution, implement the various proclamations and above all to maintain law and order and territorial integrity in the country - which was at stake in the aftermath of the revolution - defence expenditure increased substantially. It is in the context of these changes that the economic and social development of Ethiopia during the period 1970-77 must be viewed.

Under such circumstances, national account estimates are not necessarily the best indicators of over-all development trends. The estimates fail to take note of the economic and social measures taken in order to lay a foundation for a higher and equitable economic growth in the future. Unfortunately such other indicators are lacking at the present time.

GDP at constant factor cost grew at an average annual rate of 2.5 per cent during 1970-77, the same as the rate of population growth. This means that the per capita income has remained unchanged during the period under review. The growth of the agriculture sector was only 0.9 per cent per annum primarily due to the drought years, and the hostilities in different parts of the country. The manufacturing sector, which had been one of the fastest growing sectors of the economy in the 1960s has experienced in the 1970s a modest growth rate of 3.5 per cent per annum. So far in the 1970s services showed the highest growth rate of 5.1 per cent per annum chiefly due to an increase in government activities of all kinds.

The expenditure accounts - at current prices - show a high growth rate of 11.1 per cent per annum for government consumption including defence expenditure. Gross fixed investment on the other hand has declined and the level previously attained in 1972 was not reached until 1976 even in monetary terms. The ratio of gross fixed investment to GDP was 12.3 per cent in 1970 and fell to 10.6 per cent in 1975/76. With the average share of gross fixed investment during the 1970s being about 11.5 per cent of GDP and real average annual increase in GDP of about 2.5 per cent, the implicit incremental capital output ratio was about 4.6 to 1.

The aggregate consumption estimates do not reflect the impact of the nationalization of rural land upon peasant consumption. It has, however, been evident from the shortages of locally manufactured goods that have emerged after the Land Reform Proclamation that an additional demand has been generated as a result of income redistribution in favour of the masses.

World prices of pulses and oil seeds which rose to unprecedented levels in 1973 enabled the country to enjoy a balance of payments surplus for the first time in more than a decade. This surplus had been maintained until 1976 being helped by the high rise in the prices of coffee. In 1977, however, a deficit of Br. 133.8 million was recorded due mainly to the accelerated increase in import procurement.

Economic prospects for 1978/79 appear better. Good weather conditions prevailing at the time of planting are believed to have raised agricultural production. The resumption of operations by the Ethiopian Railway, and of industries in the Eritrean Administrative Region, etc. are expected to raise output. In addition, the promulgation of the Proclamation on the National Revolutionary Development Campaign and Central Planning could ultimately contribute to the raising of production.

## 2. GDP by industrial origin

During the period 1970-77 the gross domestic product at constant factor cost grew at an average annual rate of 2.5 per cent. Since the agriculture sector accounts for half total GDP, the movement of GDP is highly influenced by the level of agricultural output.

As indicated earlier, the agriculture sector grew at a modest rate of 0.9 per cent per annum during the period 1970-77. In the first half of the 1970s, the growth rate was only 0.7 per cent per annum due to the prevalence of drought in many parts of the country. The improved growth during the past two years has been helped by the good weather conditions prevailing in the country.

The other commodity sectors, i.e. manufacturing and mining registered growth rates of 3.5 per cent and 1.7 per cent respectively. The decline in investment and the security problems in the province of Eritrea are some of the explanations for the decline in the rate of growth in manufacturing compared with the 1960s.

Mines were nationalized under the Declaration of Socialism and the security problem in the regions where gold was mined had some effect on the rate of growth recorded.

The service sectors, excluding trade, transport, and communication, registered the highest growth rate of 8 per cent per annum, mainly due to the increased expenditure on defence.

Construction accounted for only 4.6 per cent of GDP in 1969/70 and 4.1 per cent in 1976/77. The growth rates for this sector have varied over the period under review. Now despite high building material prices, there are signs of recovery and further growth in the construction sector as many building and construction projects are underway to improve the social and economic infrastructure.

As a result of the different growth rates in individual sectors, agriculture contributed 49.3 per cent of GDP in 1976/77 compared with 56 per cent in 1969/70, manufacturing increased its share of GDP from 9 to 10.4 per cent, wholesale and retail trade from 8.4 to 10 per cent and services from 16.7 to 20.3 per cent.

Ethiopia: Table 1. GDP by source, 1969/70 and 1974/75 - 1976/77 (millions of birr)

| At current prices                 | 1969/70 | %     | 1974/75 | 1975/76 | 1976/77 | %     |
|-----------------------------------|---------|-------|---------|---------|---------|-------|
| Agriculture, forestry,<br>fishing | 2 327.2 | 56.0  | 2 423.4 | 2 767.8 | 2 880.4 | 49.3  |
| Mining                            | 9.8     | 0.2   | 12.6    | 11.0    | 11.0    | 0.2   |
| Manufacturing                     | 372.3   | 9.0   | 569.4   | 572.8   | 604.9   | 10.4  |
| Electricity and water             | 29.9    | 0.7   | 40.5    | 41.4    | 43.2    | 0.7   |
| Construction                      | 190.0   | 4.6   | 232.3   | 229.8   | 237.9   | 4.1   |
| Wholesale and retail trade        | 350.6   | 8.4   | 522.7   | 558.3   | 583.2   | 10.0  |
| Transport and communications      | 183.5   | 4.4   | 272.9   | 288.1   | 291.0   | 5.0   |
| Services                          | 691.5   | 16.7  | 1 029.4 | 1 118.9 | 1 182.9 | 20.3  |
| Total GDP at factor cost          | 4 154.8 | 100.0 | 5 103.2 | 5 588.1 | 5 834.5 | 100.0 |
| Indirect taxes less subsidies     | 287.6   |       | 421.3   | 454.4   | ...     |       |
| Total GDP at market prices        | 4 442.4 |       | 5 524.5 | 6 042.5 | ...     |       |
| <u>GDP at 1960/61 factor cost</u> |         |       |         |         |         |       |
| Agriculture, forestry,<br>fishing | 1 833.3 |       | 1 902.6 | 1 964.4 | 1 951.3 |       |
| Industry - manufacturing          | 139.9   |       | 170.6   | 167.4   | 177.5   |       |
| Industry - other                  | 398.9   |       | 453.7   | 438.6   | 443.8   |       |
| Services                          | 1 071.1 |       | 1 412.6 | 1 477.2 | 1 515.8 |       |
| Total                             | 3 443.2 |       | 3 939.5 | 4 047.6 | 4 088.4 |       |

Source: Ethiopia: Central Planning Commission Office, Department of Macro - Planning.

### 3. Selected economic sectors

(a) Agriculture. Reliable data are available only since 1974/75. Production of major food crops declined from 4,821,700 tonnes in 1974/75 to 4,747,400 tonnes in 1977/78. Year to year analysis of production estimates reveals that in 1975/76 crop production went up by 14.6 per cent over the previous year while 1976/77 production showed a decline of 5.9 per cent. Estimated area under crops also declined from 5,602,400 hectares in 1974/75 to 5,489,900 hectares in 1977/78. A number of factors which include adverse climatic conditions, crop diseases and security problems in certain areas help explain the decline in area and output.

As far as cash crops are concerned the most important one is coffee. In 1977/78, total production was estimated at 190,000 tonnes of which 110,000 tonnes was locally consumed. Coffee exports as shown later were 70,900 tonnes in 1970 and 68,000 tonnes in 1976. A sharp reduction of 29 per cent was recorded in 1977 with the preliminary total reaching 48,200 tonnes.

There had been a major problem in the distribution and marketing of food crops. The problems are believed to have emerged from (a) an inadequate supply of manufactured items to the farmer; (b) hoarding and speculation by the farmer; (c) inadequate transport facilities and (d) high costs of production in relation to the fixed farm-gate prices.

In order to stabilize producer and consumer prices, handle output of State farms and ensure adequate food supply in all parts of the country, the Agricultural Marketing Corporation was established. The Corporation is not currently exercising a major influence on prices because of its limited capacity. The marketing problems which were still severe in 1978 are thus far from being solved.

(b) Mining. The mining sector is one of the least developed of the economic sectors of Ethiopia. Its contribution to GDP was only 0.2 per cent in 1976/77 or virtually the same as in 1969/70.

Mineral exploitation consists mainly of gold, platinum, salt and copper. The value of gold, the most important mineral produced amounted to Br. 2.6 million in 1977/78, showing an improvement of 18 per cent over 1976/77 but still only one-third of the 1975/76 production. The decline is due to some extent to the security problems in the region where gold is mined.

Detailed investigations of various other minerals are underway in Ethiopia.

(c) Manufacturing. This sector had been one of the fastest growing in the economy in the 1960s and early 1970s. Although the average annual growth in volume for the 1970-77 period had been 3.2 per cent, output has continued to fall since 1974, i.e. since the revolution. The decline in output had been chiefly due to the worsening of the security situation in the province of Eritrea, the poor condition of machinery and equipment nationalized, limited availability of raw materials, shortages of spare parts, and transportation problems.

In 1976/77, the manufacturing index remained at the same level attained a year earlier and this has been due to the improved capacity utilization of firms outside the Eritrea Administrative Region.

The textile sub-sector is the largest accounting for 32 per cent of the total gross output of the manufacturing sector; food production accounts for a further 20 per cent of output. Table 2 provides details of the volume of production by various subsectors of industry.

Ethiopia: Table 2. Index of manufacturing output, 1969/70 and 1974/75 - 1976/77  
(1969/70 = 100)

| Subsector                        | 1969/70 | 1974/75 | 1975/76 | 1976/77 |
|----------------------------------|---------|---------|---------|---------|
| 1. Food                          | 100     | 144.6   | 126.8   | 129.8   |
| 2. Beverages                     | 100     | 144.4   | 152.9   | 163.4   |
| 3. Tobacco                       | 100     | 130.9   | 143.7   | 128.1   |
| 4. Textiles                      | 100     | 120.7   | 127.5   | 118.2   |
| 5. Leather                       | 100     | 127.1   | 173.9   | 155.9   |
| 6. Footwear                      | 100     | 173.0   | 223.8   | 226.8   |
| 7. Wood                          | 100     | 98.3    | 78.1    | 75.3    |
| 8. Chemicals                     | 100     | 125.0   | 113.9   | 121.0   |
| 9. Non-metallic mineral products | 100     | 104.8   | 66.7    | 87.9    |
| 10. Metal products               | 100     | 93.9    | 76.5    | 86.6    |
| 11. All manufacturing            | 100     | 127.0   | 124.4   | 124.4   |

Source: Ethiopia: Central Statistical Office.

(d) Electricity. Electricity production has risen from 367.6 million kWh in 1969/70 to 493.3 million kWh in 1975/76. Thermal generation accounted for 27.8 per cent of the total production in 1975/76. The average growth rate in these six years was 5 per cent a year.

#### 4. Expenditure and the GDP

As shown in table 3 the share of total consumption (private and public) in GDP had been fluctuating during the period under review being 88.8 per cent in 1969/70, 93 per cent in 1974/75, and 91.8 per cent in 1975/76. Since private consumption accounts for 85 per cent of total consumption, consumption is strongly influenced by the level of agricultural production especially as subsistence consumption is still particularly important.

Government consumption grew at an average annual rate of 11.1 per cent during the period 1969/70-1975/76. This is more than twice as fast as the growth rate of the GDP as a whole of 5.3 per cent at current prices. Over the past three years the growth has been substantial due to the huge defence spending. Private consumption also grew faster than GDP at an annual rate of 6.1 per cent.

Domestic savings remain a major area of concern. The domestic saving ratio fell from 11.2 per cent of GDP in 1969/70 to 8.2 per cent in 1975/76.

Ethiopia: Table 3. Expenditure and the GDP, 1969/70 and 1974/75 - 1975/76  
(millions of birr)

|                                    | 1969/70 | %     | 1974/75 | 1975/76 | %     |
|------------------------------------|---------|-------|---------|---------|-------|
| Private consumption                | 3 500.9 | 78.8  | 4 405.9 | 4 711.0 | 78.0  |
| Public consumption                 | 443.4   | 10.0  | 730.1   | 832.4   | 13.8  |
| Gross domestic capital formation   | 549.0   | 12.4  | 579.7   | 594.1   | 9.8   |
| Exports of goods and services      | ...     | ...   | ...     | ...     | ...   |
| Less imports of goods and services | -50.9   | -1.2  | -191.2  | -95.0   | -1.6  |
| Total GDP at market prices         | 4 442.4 | 100.0 | 5 524.5 | 6 042.5 | 100.0 |

Source: Ethiopia: Central Planning Commission Office, Department of Macro - Planning.

Gross fixed capital formation grew by 1.3 per cent per annum during the period 1969/70 to 1975/76. A scrutiny of the year to year movements, however, reveals that the level attained in 1971/72, i.e. Br. 603.1 million has not yet been equalled. Moreover, if one considers the increasing cost of capital goods, at constant prices there has undoubtedly been a decline in the volume of capital formation in the period under review. In fact capital formation was equal to 12.4 per cent of GDP in 1969/70 but only 9.8 per cent in the period 1975/1978.

It should be noted that investment started falling two to three years before nationalization and in fact the revolution has contributed substantially to its revival. However, in an economy spending substantial sums on defence it is not possible to achieve high rates of capital formation.

#### 5. External trade and balance of payments

During the 1970-77 period, the value of exports grew at an average annual rate of 12.8 per cent while imports grew by 9.5 per cent. The trade deficit, however, worsened from Br. 121.8 million in 1970 to Br. 338.8 million in 1977. Despite high growth rates registered in the services account, the overall balance also deteriorated. As far as prices are concerned, the price index of imported commodities grew at an average annual rate of 6 per cent while that of exports grew at 9.1 per cent per annum during the period under review. It should be noted however that while export prices were subject to year to year fluctuations, import price indices showed continuous growth.

The value of exports has been growing at a rapid rate since 1973 - due to high prices for pulses and oil seeds - and particularly since 1975 due to the unprecedented high world prices for coffee. Coffee accounted for 75.4 per cent of the total value of domestic exports in 1977 compared with 61.5 per cent in 1970.

The quantity of coffee exported dropped from 70,900 metric tons in 1970 to 48,200 metric tons in 1977. The value, however, increased from Br. 181.3 million in 1970 to Br. 520 million in 1977. It should also be noted that the value of coffee exported increased by 60.2 per cent in 1977 over that of 1976 despite a fall of 29.1 per cent in its volume. The first quarter of 1978, however, saw a decline of 15.7 per cent in earnings from coffee compared with the corresponding period in 1977. Volume was also down by 8.4 per cent.

Ethiopia: Table 4. External trade and balance of payments, 1970 and 1975 - 1977  
(millions of birr)

|                            | 1970   | 1975   | 1976   | 1977 <sup>a/</sup> |
|----------------------------|--------|--------|--------|--------------------|
| <u>External trade</u>      |        |        |        |                    |
| Exports and reexports      | 305.8  | 497.8  | 580.5  | 689.9              |
| Imports                    | 429.1  | 644.9  | 729.5  | 810.9              |
| Balance                    | -123.3 | -147.1 | -149.0 | -121.0             |
| <u>Balance of payments</u> |        |        |        |                    |
| Goods and services (net)   | -98.9  | -178.8 | -199.7 | -287.7             |
| Private transfers (net)    | -6.6   | 30.0   | 45.3   | 29.2               |
| Government transfers (net) | 26.6   | 52.7   | 85.7   | 84.8               |
| Capital (net)              | 45.0   | 129.7  | 111.8  | 72.4               |
| Reserves and related items | 42.3   | -7.6   | -32.4  | 133.8              |
| Errors and omissions       | -8.4   | -26.0  | -10.7  | -32.5              |

Source: National data from Ethiopia.

a/ Provisional.

Earnings from hides and skins, the second largest export, grew by 10.2 per cent a year during the period under review despite a fall in the quantity exported. Oil seed and pulse exports, albeit showed extraordinary growth during the first half of the 1970s, have fallen in recent years. The performance of oil seeds and pulses in the first quarter of 1978 does not appear encouraging with substantial falls recorded compared with the same period in 1977.

During the period 1970-77, the value of imports grew at an average rate of 9.5 per cent. Fuel which accounted for 15.8 per cent of total value of imports in 1977 showed the highest annual growth rate of 21 per cent. Raw material imports also grew by 13.8 per cent per annum.

The share of capital goods (machinery and transport equipment) imports in the total import bill declined from 33.2 per cent in 1970 to 27.8 per cent in 1977, which is prima facie evidence of a lower level of investment.

During the first quarter of 1978, all import commodities with the exception of non-durable consumer goods declined compared to that of the same period in 1977.

The total value of exports in the first quarter of 1978 fell from Br. 226.9 million to Br. 166.9 million compared with the first quarter of 1977; imports also fell from Br. 225.1 million to Br. 174.8 million.

The balance of payments had been a major constraint on economic growth in the 1960s and early 1970s. Since 1973, however, due to the high export prices, particularly of pulses and oil seeds in 1973 and 1974 and of coffee subsequently a balance of payments surplus was registered in the years to 1976.

In 1977, however, the balance of payments was marked by a deficit of Br. 133.8 million. Major factors responsible for this were a relatively slow growth rate of exports and an accelerated increase in imports while lower net receipts were recorded for services, private transfers and particularly for capital compared with 1976.

As far as services are concerned, there had been a decline in receipts from government transactions, travel and investment income. As indicated in the previous issue of this report, a substantial deficit was recorded in investment income following nationalization in early 1975. Despite a slight recovery in 1976, the situation worsened in 1977 due to lower interest earnings on foreign reserves.

The balance of payments deficit in 1977 led to fall in net foreign assets of Br. 94.6 million over the year as a whole.

#### 6. Development aid and external debt

In his speech marking the fourth Anniversary of the Ethiopian Revolution, the Chairman of the Provisional Military Government of Socialist Ethiopia, Lt. Colonel Mengistu Haile Mariam, stated that "the foundation for our long-term economic development is the full participation and contribution of the broad masses in the building of Revolutionary Ethiopia by making the full use of the country's natural resources."

To supplement these efforts, Ethiopia receives loans and grants from various countries and international organizations. Ethiopia's indebtedness is largely to the developed industrial market economy countries despite the recent heavy inflow of aid from socialist countries.

Details of net government transfer (aid) receipts have been given for 1970 and 1975 to 1977 in the section on the balance of payments. These receipts have been increasing at a fast rate and in 1975 to 1977 net capital receipts were also much higher than in 1970. Total net long-term capital to the public sector from abroad was Br. 16.9 million in 1970, Br. 113 million in 1975 and Br. 131.4 million in 1976; there was a fall to Br. 66.5 million in 1977.

During the period 1971-77, the external public debt grew by 10.8 per cent a year raising the outstanding indebtedness to Br. 949.4 million in 1976/77. The average terms of new debts however, showed significant improvements compared with those of earlier loans. The average terms and conditions negotiated in 1976/77 came to a maturity period of 47 years, a grace period of 9.4 years and interest rate of 0.72 per cent compared with 30.3 years, 7.2 years and 4.72 per cent respectively in 1968/69.

The ratio of foreign loans to GDP had been 14.4 per cent in 1976/77 compared to 11.8 per cent in 1971/72 which shows the country's increasing dependence on external assistance. The external debt-service ratio, however, was only 6.7 per cent of exports of goods and services in 1976/77 having been as high as 11.3 per cent in 1970.

#### 7. Government revenue and expenditure

Recurrent revenue grew by 13 per cent per annum during the period 1969/70-1976/77 with indirect taxes growing somewhat faster than direct taxes. The major factors for the higher growth of indirect taxes include improved administrative efficiency, the upward revision of some taxes (including a coffee surtax) and increased exports and imports. Indirect taxes accounted for 75.5 per cent of the total tax revenue in 1976/77.

As far as direct taxes are concerned, there had been significant growth as a result of increases in wages and salaries as well as in business incomes. The relative contribution of direct taxes to total tax revenue has declined due to the abolition of rental income taxes following the nationalization of urban land and extra houses.

Fixed income earners appear to be more heavily taxed than the non-fixed income earners. Education tax and the drought surtax, were levied only on fixed incomes and more recently the contribution for the call of the Motherland had also come from wage incomes. These factors coupled with the current inflationary situation have led to a redistribution of income in favour of the non-wage earners. It should be noted apart from ease of collection of taxes, there is no conscious policy penalizing the fixed income earners.

The new Income Tax Proclamation made effective starting October 1978, in addition to being highly progressive has removed many anomalies and inequities that existed in the previous schedule. This Proclamation has abolished the 2 per cent education tax, raised the tax exemption level from Br. 25 per month to Br. 50 per month and tax is levied progressively on marginal incomes with rates ranging from 10 per cent upwards to 89 per cent on higher levels of income.

Recurrent expenditure of the Central Government increased from Br. 384 million to 972.7 million from 1969/70-1976/77. Substantial growth was noted after 1974 due to heavy outlays on defence and security. Despite this the over-all growth rate of recurrent expenditure was 14.2 per cent a year, a little higher than the growth of recurrent revenue. Recurrent spending on sectors other than defence and security grew at a lower pace than revenue.

The balance between recurrent revenue and expenditure has been variable in the years shown in table 5. There were recurrent budget surpluses in 1969/70 and 1976/77 but deficits in 1974/75 and 1975/76.

Ethiopia: Table 5. Government revenue and expenditure, 1969/70 and 1974/75 - 1977/78  
(millions of birr)

|                                | 1969/70 | 1974/75 | 1975/76 | 1976/77             | 1977/78 <sup>a/</sup> |
|--------------------------------|---------|---------|---------|---------------------|-----------------------|
| Recurrent revenue              | 428.4   | 711.4   | 773.9   | 1 005.1             | 1 136.3               |
| Recurrent expenditure          | 384.0   | 731.3   | 850.1   | 972.7               | 1 149.0               |
| Balance                        | +44.4   | -19.9   | -76.2   | +32.4               | -12.7                 |
| Capital expenditure            | 92.0    | 205.6   | 257.4   | 301.2               | 451.9                 |
| Total expenditure              | 476.0   | 936.9   | 1 107.5 | 1 273.9             | 1 600.6               |
| <u>Increase in public debt</u> |         |         |         |                     |                       |
| External (net drawings)        | 59.2    | 101.1   | 106.3   | 92.9 <sup>b/</sup>  | 464.6 <sup>b/</sup>   |
| Internal                       | 19.6    | 133.9   | 222.2   | 175.9 <sup>b/</sup> |                       |

Source: Ethiopia Ministry of Finance.

a/ Budget estimates.

b/ Balancing item.

Total capital expenditure which was only Br. 92 million in 1969/70 increased by more than three fold to reach Br. 301.2 million in 1976/77 and the implementation of capital expenditure programmes has improved during the last four years. The growth rate of capital expenditure in the seven years to 1976/77 was 18.5 per cent a year.

The 1977/78 capital budget was set at Br. 451.9 million. The actual figure will be below this total because of shortages of qualified manpower, limited construction capacity, and transportation problems which continue to act as major constraints in the implementation of programmes under this budget.

Due to the various commitments of the Government and revenue shortfall, there had been an increasing dependence upon domestic and external borrowing. Domestic borrowing which was Br. 19.6 million in 1969/70 appears to have been in the region of Br. 176 million in 1976/77 having been Br. 222.2 million in 1975/76. For external borrowing the net drawings were Br. 59.2 million in 1969/70 and Br. 92.9 million in 1976/77.

The primary instrument of internal borrowing has been the sale of bonds. The major subscriber to these bonds is the National Bank of Ethiopia. The legal limit for bonds is set at 50 per cent of the revenue collected during the previous year while for the short-term instruments, i.e. direct advances and treasury bills, the limits are 25 per cent and 20 per cent respectively.

8. Money and banking

Total money supply including quasi-money grew by 13.1 per cent a year from December 1970 to December 1977. Foreign exchange reserves played a dominant role in influencing monetary expansion in the 1960s and early 1970s. Since 1975, however, because of the Government's increasing reliance upon domestic borrowing in financing its expenditure, domestic borrowing has become a major determinant of monetary expansion. Money proper increased at an annual rate of 12.6 per cent in the 1970s, quasi-money by 14.2 per cent.

The net foreign assets rose from Br. 169.3 million to Br. 671.4 million between December 1970 and December 1976 and then fell to Br. 576 million in 1977.

Total domestic credit outstanding increased at an annual rate of 14.4 per cent during the period 1970-71. The growth rate of net credit to the Government was 27.8 per cent a year and for the remainder of the economy was 8.6 per cent a year.

In the year to June 1978, total domestic credit rose by 53.7 per cent to reach Br. 1,668.2 million. Net claims on Government increased by 72.9 per cent to Br. 766.3 million and credit to the rest of the economy rose by 40.3 per cent to Br. 901.3 million. Although net foreign assets fell by Br. 260.5 million over this period, money proper increased by 19.2 per cent and quasi-money by 4.9 per cent.

Ethiopia: Table 6. Monetary survey, 1970 and 1975 - 1978 (millions of birr)

|  | End<br>1970 | End<br>1975 | End<br>1976 | End<br>1977 | June<br>1978 |
|--|-------------|-------------|-------------|-------------|--------------|
| Net foreign assets                     | 169.3       | 645.3       | 671.4       | 576.0       | 547.4        |
| Domestic credit                        |             |             |             |             |              |
| Net claims on Government               | 109.4       | 259.4       | 445.1       | 605.7       | 766.3        |
| Claims on private sector               | 386.9       | 464.3       | 466.7       | 568.2       | 681.3        |
| Claims on other financial institutions | 27.7        | 112.9       | 135.3       | 171.0       | 220.6        |
| Money                                  | 428.0       | 883.0       | 809.6       | 985.0       | 1 187.1      |
| Quasi-money                            | 186.5       | 301.8       | 449.9       | 473.2       | 494.0        |
| Other items (net)                      | 78.9        | 297.1       | 458.9       | 462.5       | 533.4        |

Source: IMF, International Financial Statistics, vol. XXX, No. 12, December 1977; vol. XXXI, No. 1, November 1978.

9. Wages and prices

The only available quantitative information regarding cost of living is that of the Central Statistical Office's monthly retail price index for Addis Ababa where 40 per cent of the country's urban population is concentrated.

During the period 1970-77, the retail price index grew at an average rate of 8.6 per cent per annum. The rate of increase since 1975, however, has been very high with an increase of 28.6 per cent in 1976 and 16.6 per cent in 1977. The major factors responsible include production shortfalls and distribution problems.

Based on 1970 the index reached 119 in 1975, 152.9 in 1976 and 178.4 in 1977. At May 1978 the index was approximately 15 per cent higher than a year earlier.

Information on wage developments is scanty. Recently, however, a Wages Board has been established within the Ministry of Labour and Social Affairs to develop standard position classifications and rationalize wages.

#### 10. Other social sectors

(a) Education. The education system consists of a six year primary course, a second level with a two-year junior and four year senior cycle and a tertiary level of university and non-university courses. Total enrolment in 1975/76 was 1,333,039 to be compared with 871,916 in 1971/72. Of the total enrolment in 1975/76, 907,306 were males. The number of schools increased from 2,249 in 1969/70 to 4,370 in 1975/76. Despite all these efforts, and as is explained later, the majority of the school age population still do not have educational opportunity. In fact the primary enrolment rate is probably less than 25 per cent.

(b) Health. Despite considerable efforts made in the past to provide medical facilities to the broad masses health problems such as malaria, intestinal infections and parasites, eye and skin infection, etc., remain a major area of concern. The rate of mortality of those below one year of age is 200 out of a thousand, there is only one doctor for every 80,000 people and one hospital bed for every 3,000 population.

Of the total population only 15 to 20 per cent are estimated to benefit from some kind of health service. This problem has been aggravated by the mal-distribution of health services. Of the total number of medical doctors 45 per cent are in Addis Ababa and Asmara but these cities account for only 5 per cent of the total population.

During the period 1970/71 to 1976/77, although there had not been any change in the number of hospitals, beds increased by 494 and the number of clinics went up from 539 to 1,086.

#### B. MAJOR PROBLEMS

The Chairman of the Provisional Military Administrative Council in his speech delivered on September 12, 1978 marking the fourth Anniversary of the Ethiopian Revolution, succinctly outlined the major economic and social problems that the country is facing. These include:-

(1) Shortages of food. A number of factors are responsible. The first is the insufficient quantity of crops produced. Crop production continued to decline since 1975/76 both as a result of poor weather conditions as well as reduced acreage.

The second and probably the most important cause of the shortage is the inability to distribute whatever is available to the urban population. This had been due to the limited government participation in marketing. The distribution system has continued to be controlled by the non-supporters of the revolution.

The third cause for the shortage is the war opened against Ethiopia. Over and above the damage done to crops, there has been looting. The farmers in the war-affected regions have been driven out from their farms. This situation has forced the country to import grains.

The fourth contributor to the shortage is individualism on the part of the peasant farmer. This has been manifested in the form of producing what is sufficient for one's own family, to refuse to bring crops to the market until prices rise, etc. As 98 per cent of the crops produced originate from the peasant sector, this problem unless tackled urgently through political education and making available industrial commodities that the peasants require, is bound to remain a major area of concern.

(2) Reconstruction and rehabilitation of the war-affected regions. Farm and industrial machinery, bridges, buildings, etc. have been destroyed and put out of use. Replacement, repair and reconstruction is a formidable task that awaits the Government and people of Ethiopia.

(3) The low level of industrial development and current problems. Ethiopia's industry is dominated by the manufacturing of consumer goods such as food, textiles, beverages, etc. and the manufacturing sector accounts for 10 per cent of GDP. The situation has been aggravated by the destruction of a number of factories. It should be noted that 30 per cent of the country's factories are located in the province of Eritrea. Some are shut down and others are operating at low capacity.

(4) Port congestion. Ethiopia has three outlets to the sea, namely, Massawa, Assab and Djibouti. But because of the war the Addis-Djibouti railway link was cut and trade via Massawa has been made impossible. Thus Ethiopia was forced to use only the port of Assab. Apart from the congestion, this led the country to incur heavy costs in terms of foreign exchange. In addition, raw materials to industries did not reach the factories in adequate quantity and at the required time.

(5) Housing shortages. Both as a result of the natural population increase and rural-urban migration, the urban population growth rate is estimated to grow at 6.6 per cent per annum. In addition to meeting their housing requirements, obsolete buildings have to be replaced and over-crowded areas need to be eased. Thus during the next five years 111,200 houses will have to be built.

(6) Relief and rehabilitation of those affected by natural disasters. Natural calamities to which Ethiopia is exposed to range from drought to locusts. Combating all these requires enormous financial and material resources.

(7) Inadequate social services. In this category fall educational and medical facilities. In February 1974, only 21.2 per cent of children between seven and twelve years of age were in school. Only 6 per cent of the total population is estimated to be literate. As far as medical facilities are concerned, only 15 to 20 per cent of the people benefit from some kind of health services. There is one doctor for every 80,000 people and one bed for every 3,000 of the population.

#### C. INTERNAL DEVELOPMENT POLICIES

It is believed that the problems highlighted in the preceding pages will only be solved if attacked in a co-ordinated and integrated manner.

Proclamation No. 156 of 1978 issued on October 29, 1978 has thus established the National Revolution Development Campaign and Central Planning Supreme Council which will be headed by the Chairman of the Provisional Military Administrative Council.

The responsibilities of the Supreme Council will be to work out solutions on a priority basis to major pressing and outstanding economic and social problems on the one hand, and to establish the country's development strategy on the basis of which short, medium and long-term plans will be prepared on the other.

The Development Campaign will focus on agriculture, industry and trade.

Other specific development policies include:

(a) Encouraging collective farming through the provision of fertilizers, lower taxes, long-term loans.

(b) Expansion and development of state farms.

(c) Establishing additional food, sugar, textile, and cement factories costing Br. 600 million.

(d) Controlling the prices of basic goods which are in short supply and ensuring their fair distribution. This will be effected through raising the number of government distribution agencies and co-operative shops.

#### D. PROSPECTS FOR 1978 TO 1980

It is difficult to discuss the medium-term prospect of over-all economic development for Ethiopia because of several uncontrollable factors. First and foremost is weather. Close to 50 per cent of GDP originates from the agriculture sector which is largely subsistence. The level of agricultural output depends heavily upon climatic conditions.

The second important factor beyond the control of Ethiopia is the prices of its export commodities. As indicated in the preceding pages coffee exports accounted for 75 per cent of the total exports in 1977. But prices of coffee have been subject to extreme fluctuations. The other exports of Ethiopia, i.e. oil seeds, pulses, hides and skins, etc. have also experienced substantial price fluctuations.

There are, however, encouraging policies pursued domestically. The most important one, which has been indicated earlier, is the establishment of the National Revolution Development Campaign and Central Planning Supreme Council. Resources, i.e. material, financial and human that hitherto were channelled towards defending its borders will now be increasingly used to raise economic development. The objectives of the Development Campaign include (a) raising production of food grains to make Ethiopia self-sufficient within a very short time, (b) enlarging foreign exchange reserves through export promotion and reduction of imports, (c) increasing the production of mass consumed manufactured commodities and (d) improving domestic distribution of commodities.

In the light of all these, prospects for 1978 to 1980 appear to be brighter and there are ground for expecting some increase from the average GDP growth rate achieved in the years 1970 to 1977.

## GABON

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-78

#### 1. Introduction

During the 1970-1977 period, Gabon's economy has undergone very substantial changes and the value of its GDP rose at current prices at an average annual rate of 31.6 per cent. The major instigator of growth was the rise in crude petroleum prices which started in 1973; the GDP increased by 48.5 per cent in 1973 and then by an exceptional 130.7 per cent in 1974. Up to 1973, Gabon had benefitted from a rapidly growing output of crude petroleum, manganese ore and uranium as well as a high output of tropical timber. The rate of expansion of GDP tapered off after 1974 to an average of 25 per cent a year in 1975 and 1976 and a mere 9.3 per cent in 1977. The large increases in revenue accompanying the dramatic rises in the GDP enabled the Government to spend large sums on investment and its capital expenditure multiplied 10 times between 1970 and 1975. Government investment expenditures which were estimated at only 14.7 billion CFA francs in 1973 before the impact of the oil price increase rose to CFAF 320 billion in 1976. This high level of investment expenditure accompanied by much increased recurrent expenditure produced an exceptional level of economic activity. Large projects were started including in particular the Transgabon railway to open up the interior of the country. However two developments have marred the growth prospects of Gabon since 1975; firstly oil production has stagnated as no new important fields have been discovered since 1973 and secondly the need to continue the investment impetus sparked off by the oil price rise has led to large-scale foreign borrowing with substantial debt service payments now due. The foreign debt was estimated at CFAF 500 billion at the end of 1977 and the high debt servicing requirements because of short-term borrowing are causing some difficulties particularly as they have developed at a time of stagnant oil revenues. In 1977 a large budget deficit appeared and the balance of payments which had already shown a moderate deficit in 1976 recorded the substantial deficit of CFAF 27.1 billion in 1977. The country's international reserves which had reached CFAF 32.7 billion at December 1975 had fallen to only CFAF 2.5 billion at May 1978. The situation was so serious that the Government has had to introduce austerity measures and reduce the level of expenditure both current and capital in order to contain the balance of payments deficit and to curb inflation.

Despite the less favourable current outlook, the 1970-1977 period was extremely favourable for Gabon. Income per head was estimated at US\$ 670 in 1970 but had risen to more than US\$ 4,000 in 1977. The growth of GDP at current prices was 31.6 per cent a year and at constant prices after allowing for the terms of trade effect, the growth in real terms has probably averaged between 15 and 20 per cent a year. However, in 1977 itself the GDP growth rate at constant prices was probably negative.

Considerable efforts have been made to develop the country's resources and in particular the Transgabon railway when completed will open up the interior. Its route is through rich areas of standing tropical timber and it will finally reach a rich iron ore deposit. The country has other mineral deposits as yet unexploited which will eventually substitute for crude petroleum. The immediate

outlook for 1978 and 1979 is not particularly favourable and it is probable the GDP at constant prices will decline once again in 1978. The recently announced oil price increases for 1979 will certainly help Gabon to overcome some of its current problems, but the programme of austerity seems likely to lead to lower investment expenditure giving the possibility of stagnation of the economy in that year.

## 2. GDP by industrial origin

Up to 1973 the major economic activity was shared between agriculture and forestry and mining. Agriculture itself was not particularly well-developed and in 1970 it represented only 7.2 per cent of GDP at factor cost compared with about 10 per cent from forestry, mining's share of GDP in that year was about 32 per cent, i.e. twice as high as agriculture and forestry combined. Since 1973 the weight of mining in total production has increased and in 1977 it contributed about 40 per cent of GDP compared with only 6.5 per cent from agriculture and forestry. A sector to record particular growth between 1970 and 1977 was construction and in 1977 its share of GDP was 15.8 per cent against only 6.3 per cent in 1970. The growth of the manufacturing sector was less rapid related to total GDP but its share in GDP was 7.5 per cent in 1977 compared with about 6 per cent in 1970. Manufacturing industry has thus grown much more rapidly than the target of 8 per cent a year set for the second UN Development Decade. In contrast to the growth in mining and construction, the share of commerce fell from 16.1 per cent of GDP in 1970 to only 6.8 per cent in 1977 while that of services and transport increased slightly from 21.2 to 22.5 per cent. Construction has been the fastest growing economic sector since 1973 because of the large volume of investments undertaken.

Gabon: Table 1. GDP by source, 1970 and 1975 to 1977  
(billions of CFA francs)

| At current prices                      | 1970 | Percentage | 1975  | 1976  | 1977  | Percentage |
|--|------|------------|-------|-------|-------|------------|
| Agriculture, forestry,<br>fishing      | 13.4 | 17.3       | 30.6  | 35.4  | 37.7  | 6.5        |
| Mining and petroleum                   | 24.9 | 32.0       | 186.7 | 241.9 | 233.1 | 39.9       |
| Manufacturing <sup>a/</sup>            | 5.5  | 7.1        | 32.2  | 40.1  | 49.9  | 8.5        |
| Construction                           | 4.9  | 6.3        | 55.9  | 90.7  | 92.7  | 15.8       |
| Wholesale and retail trade             | 12.5 | 16.1       | 29.1  | 40.0  | 40.0  | 6.8        |
| Transport and other services           | 16.5 | 21.2       | 72.2  | 67.9  | 94.2  | 16.1       |
| Administrative services                |      |            | 23.9  | 26.8  | 37.3  | 6.4        |
| Total GDP at factor cost <sup>b/</sup> | 77.7 | 100.0      | 430.6 | 542.8 | 584.9 | 100.0      |

Source: Gabon, Ministère du Plan for 1975 to 1977, ECA estimates for 1970.

a/ Includes electricity and water.

b/ Estimates at market prices less customs duties.

### 3. Selected economic sectors.

(a) Agriculture. Only a very small part of the land area of the country is presently cultivated. The physical conditions and difficult communications have not encouraged commercial agriculture. There is some limited production of cocoa, coffee and sugar cane. Food production is mainly for producers' own consumption. As the climate is unsuitable for cattle, most livestock are small animals. The agricultural industry is a neglected sector of the economy and the boom based on petroleum has encouraged even larger numbers to move into the urban areas and to work on the large scale construction projects elsewhere.

The main food crops are tubers, roots and plantains. In 1974 according to the Gabon Development Bank, total root production amounted to 186,462 tonnes while output of plantains was 77,703 tonnes. The FAO production index numbers show that agricultural production has grown by 12.6 per cent between 1970 and 1977 or by an average of 1.7 per cent a year. However, the output of commercial crops has fallen, cocoa from 5,176 tonnes to 3,573 tonnes and coffee from 486 tonnes to 338 tonnes between 1970 and 1977. Sugar cane output has risen and in 1977, 3,713 tonnes of sugar were produced.

Gabon is heavily dependent on food imports to feed its urban population, and the cost of living is high in the urban areas. To combat the pull of the urban areas the Government is giving a high priority to rural area development in its Third Development Plan running from 1978 to 1982. A number of agro-industrial projects have been started; in the Estuaire region where the capital is situated, there is a project to produce 6,000 tonnes of bananas; in the Port Gentil - Lumbarene area there are projects to produce fruit and vegetables. The most important of the agricultural projects is the sugar complex near Franceville started in 1976 and which will cost CFAF 17 billion and produce 30,000 tonnes of sugar a year when in full production.

(b) Forestry. The cutting of rich stands of Okoume and Ozigo has played a particular role in Gabon's economic development. Gabon still has large forest areas and its wood species are highly appreciated. Log production had increased steadily up to 1974, but then the recession in Western Europe sharply reduced the demand for timber. In 1975, the production of Okoume dropped to 676,302 tonnes after reaching a maximum of 1,145,451 tonnes in 1973. Ozigo production fell to 86,803 cubic metres after 134,196 m<sup>3</sup> in 1973. Many enterprises were badly hit by the recession. There has been a recovery in the timber demand since 1975 but competition from Asian log producers has become more intense. Okoume production increased by 16 per cent in 1977 to reach 1,273,000 cubic metres but this was below the 1970 production of approximately 1,457,000 cubic metres and well below the record level achieved in 1973. Ozigo production in 1977 was slightly higher than in 1970 but output of other species had fallen to about one half. There are large untapped forest resources in the interior and the new railway is sited to run through the areas concerned. This could have a very marked impact on future production. Gabon is making efforts to diversify its wood industries. It is already an important producer of veneers and plywood, but it will soon be producing paper pulp. This latter project has encountered many difficulties, but was finally underway in 1977. The investment is estimated at CFAF 107 billion for a factory with a capacity of about 250,000 tonnes of wood pulp a year. It will use trees which were not considered suitable for tropical timber sales in earlier years.

Gabon: Table 2. Forestry production, 1970 and 1975 to 1977

(in thousand cubic metres)

| Species            | 1970                | 1975  | 1976  | 1977  |
|--------------------|---------------------|-------|-------|-------|
| Okoume             | 1 457 <sup>a/</sup> | 1 068 | 1 095 | 1 273 |
| Ozigo              | 68                  | 75    | 81    | 70    |
| Other wood species | 178                 | 22    | 40    | 90    |

Source: Bulletin de l'Afrique Noire, No. 958, 17 mai 1978 (for 1975 to 1977 production). 1970 production from other sources.

a/ This may be an underestimate as production is shown as 922,155 tonnes.

(c) Mining, including petroleum. Mining is the leading sector of the Gabon economy, providing most of the foreign exchange earnings and the greater part of government revenues. Since 1970, the multiplication of oil prices has brought an exceptional increase in the value of mining production so that value added to the GDP estimated at CFAF 24.9 billions in 1970 had reached CFAF 233.1 billions in 1977 after reaching a maximum of CFAF 241.9 billions in 1976. The three main products are crude petroleum, manganese and uranium but crude petroleum is by far the most important. Oil production which had reached 5,423,000 tonnes in 1970 increased to 11,315,600 tonnes in 1975, but afterwards it remained stable and dropped in 1977 to 11,267,200 tonnes. Despite intensive research no new field has been identified since 1973.

Gabon: Table 3. Mineral and petroleum production, 1970 and 1975 to 1977

|   | 1970  | 1975   | 1976   | 1977   |
|---|-------|--------|--------|--------|
| Crude petroleum <sup>a/</sup> (thousand tonnes) | 5 423 | 11 316 | 11 325 | 11 267 |
| Manganese ore <sup>b/</sup> ( " " )             | 1 475 | 2 230  | 2 285  | 1 918  |
| Uranium metal <sup>c/</sup> (tonnes)            | 382   | 930    | 965    | 906    |

Source: Bulletin de l'Afrique Noire, No. 958, 17 mai 1978.

a/ There is also natural gas production but most is flared.

b/ Metallurgical manganese mainly.

c/ Metal content of concentrates.

Manganese production increased regularly up to 1976 with 2,203,000 tonnes of metal ore and 62,000 tonnes of manganese bi-oxide produced but the crisis in the steel industry of many countries has curtailed demand and production has dropped to 1,840,000 tonnes of metal ore in 1977; manganese bi-oxide output was 78,000 tonnes. As for uranium, production increased from 382 tonnes of metal in 1970 to 965 tonnes in 1976 but fell to 906 tonnes in 1977. For the whole industry, turnover at current prices increased by only 4.3 per cent in 1977 against an estimated 20.1 per cent increase in 1976.

Despite the current stagnation in the industry, the future prospects could be relatively bright as new deposits such as the high-grade iron deposits at Mekamba are brought into production but here the Transgabon railway must first be completed. However, for the immediate future output from the mining sector will consist largely of petroleum, manganese and uranium and new oil discoveries are crucial for the maintenance of the current level of output. It is not clear what is the present situation regarding such discoveries.

(d) Manufacturing and electricity. Manufacturing has grown at a fast pace since 1970, its value added growing more rapidly than the GDP as a whole. The share of manufacturing which was about 4.5 per cent of GDP in 1970 rose to 7.5 per cent of GDP in 1977. The main industries are wood processing, petroleum refining, food-stuffs, drinks and cigarettes, textiles and construction materials. The wood processing sector has suffered from the lower demand in industrial countries in recent years but all other industries have registered gains; cement production reached 180,000 tonnes in 1977 having risen from 22,900 tonnes in 1970 while the quantity of oil refined reached 1,591,600 tonnes in 1977 against 826,000 tonnes in 1970. Beer production has more than quadrupled reaching 462,000 hl in 1977 against 103,000 hl in 1970. Despite these gains, employment in manufacturing is still small and there are only a limited number of enterprises. The small domestic market means that export industries need to be developed and this is one justification for the paper pulp project which is now finally under construction even though it figures in earlier development plans and the original society was created in 1965. In the Third Development Plan, the policy is to promote industries producing intermediary inputs from raw materials existing in Gabon.

Gabon: Table 4. Output of selected manufactured products 1970 and 1975 to 1977

|                                    | 1970  | 1975   | 1976    | 1977    |
|------------------------------------|-------|--------|---------|---------|
| Flour (tonnes)                     | ...   | 12 531 | 14 926  | 15 655  |
| Sugar (tonnes)                     | ...   | 2 761  | 3 506   | 3 713   |
| Beer (thousand hl)                 | 103.0 | 340.9  | 374.0   | 462.0   |
| Cigarettes (tonnes)                | ...   | 324    | 356     | 302     |
| Plywood (thousand m <sup>3</sup> ) | 72.0  | 63.6   | 74.7    | 73.6    |
| Veneers (thousand m <sup>3</sup> ) | 10.3  | 81.7   | ...     | ...     |
| Cement (thousand tonnes)           | 22.9  | 92.4   | 106.8   | 180.0   |
| Petroleum (thousand tonnes)        | 826.0 | 901.0  | 1 453.6 | 1 591.6 |

Source: Bulletin de l'Afrique Noire, No. 958, 17 mai 1978. Other sources for 1970 data.

Electricity production has followed the high growth rate of the economy and output was four times as high in 1977 as in 1970 with 430 million kWh produced compared with 114 million kWh. The average annual growth rate was 19.6 per cent. During the period under review two hydro-electric dams have been completed the Kinguele dam and the Tchimbelle dam, the latter started producing electricity in 1978.

(e) Construction. There has been a boom in construction because of the enormous increase of investments. Between 1970 and 1976 value added in this sector at current prices rose from CFAF 4.9 billion to CFAF 92.7 billion. The high level of output from this sector was maintained in 1977 when there was a small rise of 2.2 per cent but at constant prices there would have been a fall in output. The Government is now following a policy of retrenchment involving more severe controls on investment which will have its own impact of the construction industry.

(f) Transport services. Exports and imports are virtually all carried by ships at sea but of great importance to Gabon is the Comilog railway which carries manganese ore to the port of Points Noire in the Congo. This railway is completely in the Congo, manganese ore being transported from the mine to the railhead by overhead cable containers. Road transport is mainly used for carrying wood logs to the ports. Other road transport demands are at present small especially outside the coastal belt.

Between 1970 and 1976, the quantity of goods loaded or unloaded at the two ports of Libreville-Owendo and Port Gentil rose from 5,555,000 to 13,224,000 tonnes. Crude petroleum exports were 4,406,000 tonnes in 1970 and 10,592,000 tonnes in 1976 accounting for much of the growth in freight handled. However, imports show a much faster rate of relative increase rising from 311,000 tonnes in 1970 to 1,293,000 tonnes in 1976 and the total may have been higher in 1977.

According to the ASECNA, an interstate agency which manages airports in franco-phone African countries, air traffic in Gabon measured in traffic units trebled between 1972 and 1977. The growth rate of traffic has been high and it is evident that Gabon's new prosperity has greatly stimulated air travel both within and to and from Gabon.

#### 4. Expenditure and the GDP

In the 1960's and 1970's Gabon had a continuous trade surplus and at the same time was investing at a substantial rate. In 1970 net exports of goods and services amounted to 6 per cent of GDP and fixed capital formation for 30 per cent. The balance of GDP available for consumption was consequently small. After the very great increase of GDP starting in 1973, the main change in the expenditure pattern has been the dramatic expansion of fixed capital formation which according to the data in table 4, took 55.9 per cent of GDP in 1975 and 61.8 per cent in 1976. Consumption though increasing rapidly has declined as a proportion of GDP from 46.6 per cent for private consumption and 16.0 for public consumption in 1970 to about 25 per cent and 13 per cent respectively in 1976.

Gabon: Table 5. Expenditure and the GDP, 1970 and 1975 to 1976  
(billions of CFA francs)

| At current prices                          | 1970 | Percentage | 1975  | 1976  | Percentage |
|--|------|------------|-------|-------|------------|
| Private consumption                        | 43.4 | 46.6       | ...   | 220.3 | 37.9       |
| Public consumption                         | 14.9 | 16.0       | ...   |       |            |
| Gross fixed capital formation              | 27.8 | 29.9       | 258.1 | 359.0 | 61.8       |
| Increase in stocks                         | 1.3  | 1.4        | ...   | -6.5  | -1.1       |
| Exports less imports of goods and services | 5.7  | 6.1        | 7.4   | 8.5   | 1.4        |
| Total GDP at market prices                 | 93.1 | 100.0      | 462.4 | 581.3 | 100.0      |

Source: Estimates based on national data.

While investment in Gabon has undoubtedly been very high in 1975 to 1976 the figures equal to 56 to 62 per cent of GDP shown in table 4 seems an overestimate. The particularly low consumption percentages would indicate very high domestic savings ratios but in fact, the external debt figures at the end of 1977 given later show large increases in the amount outstanding. This would suggest that part of the investment has been financed externally.

##### 5. External trade and balance of payments

Exports increased rapidly in value in the period 1970 to 1976 and particularly large rises were recorded in 1974 and 1976. The data for 1977 are conflicting but based on an estimate for exports of about CFAF 290 billion the average increase in the value of exports since 1970 has been 32.8 per cent a year. Over the same period the rise in the value of imports has been about the same and Gabon has been able to record a substantial trade surplus every year this decade.

The gains in exports have arisen largely from the large unit price rise for crude petroleum but as shown earlier the volume of crude petroleum exports more than doubled between 1970 and 1977. Manganese ore production rose by 30 per cent over this same period and output of uranium increased by 137 per cent. The adverse development in Gabon's export market for timber caused exports of wood and products to fall by about 25 per cent in volume between 1970 and 1977. Thus it seems likely that Gabon's total exports rose in volume by an average of 6.6 per cent a year over this seven year period. Imports deflated by the average unit price rise for imports to all developing countries show an apparent annual increase of 18 per cent. The substantial export proceeds realised by Gabon as a result of the rise in oil prices have been partly used to increase imports at a particularly fast rate and although data are incomplete it appears that a large part of the growth in imports has been associated with purchases of capital equipment.

The balance of payments figures show that the surplus on goods and services account has generally been used to pay for the high and increasing level of private transfers. The net inflow of Government transfers increased up to 1976 but fell in 1977. With a net capital outflow in the year 1975 to 1977 due to the short-term capital outflow exceeding the inflow of long-term capital, the balance of payments as a whole moved into deficit in 1976 when reserves fell by CFAF 4.1 billion and there was a particularly large fall in these reserves of CFAF 27.3 billion in 1977.

The net inflow of long-term capital in 1975 to 1977 was equal to CFAF 95.5 billion but the outflow of short-term capital totalled CFAF 124.3 billion.

Gabon: Table 6. External trade and balance of payments, 1970 and 1975 to 1977  
(billions of CFA francs)

|                            | 1970  | 1975                 | 1976                 | 1977                 |
|----------------------------|-------|----------------------|----------------------|----------------------|
| <u>External trade</u>      |       |                      |                      |                      |
| Exports                    | 39.87 | 201.92               | 271.45               | 290.0 <sup>a/</sup>  |
| Imports                    | 22.23 | 115.73 <sup>b/</sup> | 152.95 <sup>b/</sup> | 163.37 <sup>b/</sup> |
| Balance                    | 17.64 | 86.19                | 118.50               | 126.63               |
| <u>Balance of payments</u> |       |                      |                      |                      |
| Goods and services (net)   | -1.81 | +14.45               | 10.28                | 19.56                |
| Private transfers (net)    | -2.03 | -10.52               | -13.91               | -17.22               |
| Government transfers (net) | 3.11  | 8.51                 | 10.25                | 8.11                 |
| Capital                    | 1.89  | -2.25                | -10.20               | -16.24               |
| Reserves and related items | -1.33 | -9.86                | 4.10                 | 27.29                |
| Errors and omissions       | 0.17  | -0.34                | -0.52                | -21.50               |

Source: IMF, International Financial Statistics vol. XXX No. 12 Dec. 1977; vol. XXXI No. 11 Nov. 1978 (Balance of payments converted from US dollars).

a/ ECA estimate.

b/ Derived from IMF D.O.T. publications.

#### 6. Development aid and external debt

Total external aid in 1977 was equal to CFAF 22 billion. Detailed figures are available only for French aid which has grown rapidly since 1970. Such aid is chiefly in the form of technical assistance and in development loans. Technical assistance is very important in the education system, and the number of persons

working in this way in the middle of 1978 was estimated at 850.

Though oil revenues increased considerably in 1973/1974, Gabon contracted some large loans in the money markets so that its external debt at the end of 1977 had reached CFAF 500 billion. Of the total CFAF 500 billion, 145.5 billion is reported to be in short term loans. Such debts have created particular problems for Gabon. The World Bank has estimated that debt service payments on external public debt were equal to 6.7 per cent of earnings from export of goods and services. However, this ratio is an underestimate, for there are also large external private loans to be serviced.

### 7. Government revenue and expenditure

Government revenues increased considerably after 1973 with the large inflow of oil revenues. In 1977 revenue was 12 times as high as in 1970. Although oil revenues have grown rapidly over the period under review, other revenues have grown faster than oil revenues since 1975 and in 1977 made up 54 per cent of the total.

Recurrent expenditure has grown less rapidly than revenue with the total in 1977, 5.6 times that of 1970. However public debt service charges in 1977 were nearly as high as recurrent expenditure and at CFAF 74.8 billion included substantial repayment of short-term debt.

In 1976 capital expenditure reached the extremely high level of CFAF 319.2 billion. This very high capital expenditure was financed by domestic borrowing estimated at CFAF 36.8 billion and foreign sources for CFAF 181.6 billion; the recurrent budget surplus after allowing for public debt servicing provided CFAF 93.4 billion.

There was a marked reduction in capital expenditure in 1977 to CFAF 219.7 billion and consequently a lower requirement for external financing.

Gabon: Table 7. Government revenue and expenditure, 1970 and 1975 to 1977  
(billions of CFA francs)

|                         | 1970 <sup>a/</sup> | 1975  | 1976                | 1977               |
|-------------------------|--------------------|-------|---------------------|--------------------|
| Total revenue           | 20.0               | 155.4 | 199.2               | 244.3              |
| Recurrent expenditure   | 14.2               | 57.2  | 63.2                | 78.1               |
| Public debt servicing   | 1.2                | 27.1  | 42.6                | 74.8               |
| Capital expenditure     | 4.6                | 86.5  | 319.2               | 219.7              |
| Balance                 | Nil                | -15.4 | -225.8              | -128.3             |
| Financed domestically   | ...                | 24.8  | 36.8 <sup>b/</sup>  | 14.9 <sup>b/</sup> |
| Financed externally     | ...                |       | 181.6 <sup>c/</sup> | 83.9 <sup>c/</sup> |
| Change in cash balances | ...                | +9.4  | +2.6                | -29.5              |

Source: Based on National data from Gabon.

a/ Budget estimates.

b/ Change in net claims on Government by the banking system

c/ Balancing item.

8. Money and banking

Between 1970 and 1975 net foreign assets and domestic credit to the private sector both rose rapidly and as a result money proper rose by 36.3 per cent a year and total money including quasi-money by 39.6 per cent a year. These rates of increase undoubtedly had an impact on the rate of inflation in Gabon but this impact was felt particularly in 1975 and 1976.

In 1976 the net foreign assets started to fall but as the Government was spending heavily on development it ceased to have net deposits in the banking system and changed to a net borrower on a substantial scale. The private sector also increased its borrowing very heavily, and the rise in total domestic credit between December 1975 and December 1976 was from CFAF 55 billion to CFAF 127.5 billion.

Gabon: Table 8. Monetary survey, 1970 and 1975 to 1978 (billions of CFA francs)

|                          | End<br>1970 | End<br>1975 | End<br>1976 | End<br>1977 | April<br>1978 |
|--------------------------|-------------|-------------|-------------|-------------|---------------|
| Net foreign assets       | 1.98        | 26.52       | 22.81       | -19.46      | -21.36        |
| Domestic credit          |             |             |             |             |               |
| Net claims on Government | -1.64       | -11.53      | 25.23       | 40.15       | 18.72         |
| Claims on private sector | 18.07       | 66.54       | 102.25      | 122.08      | 137.64        |
| Money                    | 12.52       | 58.97       | 104.05      | 94.10       | 84.76         |
| Quasi-money              | 0.86        | 11.98       | 28.43       | 33.81       | 29.90         |
| Other items (net)        | 5.04        | 10.56       | 17.80       | 14.87       | 20.34         |

Source: IMF, International Financial Statistics vol. XXX No. 12 Dec. 1977, vol. XXXI No. 11 November 1978.

In 1976 the total money supply including quasi-money rose by 87 per cent and for money proper the increase was 76 per cent.

In 1977 the Government increased its borrowing from the banking system and there was also a substantial but lesser rise in private sector credit. However, the very sharp decline in net foreign assets of CFAF 42.27 billion meant that total money supply fell and there was a decline in money proper by 9.6 per cent.

Figures for the first few months of 1978 show a sharp reduction in the level of the Government borrowing and this with a further decline in net foreign assets but a fairly substantial rise in private domestic credit led to a further fall in money supply.

The stabilization plan introduced in 1978 includes control of the money supply by restricting both government and private sector borrowing. These positive movements in monetary policy should help to abate the inflationary pressure in Gabon and to curb the deteriorating balance of payments position.

### 9. Wages and prices

Several adjustments have been made to minimum wages to compensate for the effects of inflation and to allow some of the benefits from the economic growth to be more widely spread. Between 1973 and 1975, total expenditure on wages and salaries grew from CFAF 50.2 billion to CFAF 114 billion. One result, since the income redistribution effects have benefitted mainly the urban areas, has been to increase the gap in incomes of the urban and rural dwellers; recently it was estimated that urban incomes were 5 times as high as rural income.

Consumer prices rose very moderately between 1970 and 1973 averaging only 4.5 per cent a year. In 1974 the rate of increase accelerated to 12 per cent and then further to 28.3 per cent in 1975. Figures have not been published since 1976 but in the second quarter of 1976 consumer prices were 20.2 per cent higher than in the same period of 1975. It seems likely that the rate of increase in consumer prices decelerated in 1977 and 1978 in line with the reduction in money supply and especially as Gabon imports much of its consumer supplies.

### 10. Employment and unemployment

There is a shortage of indigenous labour at all levels in Gabon; many managerial and technical jobs are filled by expatriates and manual labour has to be recruited from other African countries in particular Cameroon and Upper Volta. While unemployment is not a current problem in Gabon, school-leavers tend to prefer non-manual work and this is creating its own problems for the future.

The scaling back of the investment programme in 1977 and 1978 has caused a drop in employment in the construction sector. For 1975 it was estimated that total employment was 103,800 and the plan to 1980 was expecting a minimum growth rate of employment of 5.3 per cent a year. In 1975 construction occupied 33,700 persons, there were 10,800 in manufacturing industry and a further 9,100 engaged in forestry activities.

### 11. Other social sectors

(a) Education. The growth of education enrolments has been rapid in Gabon and the primary enrolment rate is near 100 per cent with about 135,000 pupils in 1977. Secondary and technical education has also been developed, and the numbers enrolled had reached 22,542 in 1975. Higher education takes place at the national university and in specialised technical institutions. The general strategy for education is to train personnel to replace the expatriates at all levels in the economy and generally to improve standards especially in primary schools.

(b) Health. Gabon has built up its institutions at a rapid rate and in 1976 there were 3,691 hospital beds and 144 doctors. There were also 171 dispensaries. There is a concentration of facilities in Libreville but each province has its own provincial hospital and many of these are being expanded. The network of dispensaries tends to favour certain provinces but there are plans to provide a more comprehensive country coverage. The medical infrastructure in terms of institutions is still better than the personnel available and the relative shortage of personnel

has its own impact on the overall level of health services. Rural dwellers often have little access to curative services and tropical diseases are still very prevalent. One public health problem is the low fertility of the population giving a low overall population growth rate. Preventive medicine is now being stressed and at the same time the network of hospitals and other institutions is being strengthened especially in the interior; training of health personnel is also being stepped-up.

#### B. MAJOR PROBLEMS

Gabon has very important natural resources but a relatively small population with a low level of training. It depends heavily on expatriate labour which helps to exploit the forests and the mineral wealth. The growth of mining and manufacturing has so far had only a minimal impact on agriculture which is still very backward.

A particular present problem is that of the external debt especially the repayment of short-term debt negotiated in the years of the petroleum price boom. Government expenditures have multiplied in many directions but more recently oil revenues have not grown as expected. The debt problem in 1978 led to the imposition of the much needed austerity programme. Naturally the programme has the usual initial impact on the rate of investment activity and the construction industry.

#### C. INTERNAL POLICIES

Gabon's economic strategy has been to reinvest the benefits accruing from the exploitation of its forest and mineral resources in the infrastructure to open up more inaccessible parts of the country. The present development of the Transgabon railway is intended to enable new forest areas to be developed as well as a rich iron ore deposit. After 1973 with the exceptional rise of oil revenues, the outlook for the economy was completely changed and this change was reflected in the Third Development Plan for 1976-1980. The main strategy for the country was retained but there was a new emphasis on the development of agriculture and on the elimination of bottlenecks in communications and the training of the local people. The investment programme was considerably increased in comparison with the second plan and was set at CFAF 857.4 billion more than five times the original second plan target. The period of the third plan to 1980 was looked upon as one of developing the facilities required for faster economic growth in the 1980s. With a stagnant oil production, growth would be low in this plan period but the building of the railway and several large scale projects would pave the way for a future rapid rate of GDP increase. The third plan was thus a transition plan between a period when Gabon relied on oil revenues to finance its development to a situation where more of its resources could be developed giving a better long-term base for the economy.

However, the third plan is presently being set aside at least for a while because of the acute problems posed by the servicing of the external debt and

overheating of the economy. The railway is not advancing as rapidly as planned and has so far covered only 145km reaching Ndjole when Booue should have been reached by the end of 1976. A stabilization plan has been introduced to reduce public investments and to control current expenditures and the money supply. The outstanding debt has been consolidated and agreements reached with creditors on a schedule of payments especially for the short-term debt. In the Ministry of Planning a department has been created to study all investment projects so as to determine their economic justification and profitability. At the same time a procedure for better budgetary control has been laid down by the Ministry of Finance. IMF assistance has been requested and this with more specialised expertise should help to create the right conditions for the successful implementation of the stabilisation programme.

#### D. PROSPECTS FOR 1978-1980

In 1978 there may have been a decline in real terms of GDP. However, the indications are that some positive developments have taken place. International reserves appear to have stabilised and the Government debtor situation towards the bank has improved. The reduction in the money supply in both 1977 and 1978 should have had a beneficial impact in reducing inflationary pressures.

It seems that petroleum production in 1978 to 1980 will do well to maintain the 1977 level of output but other mineral output could increase. The position for Gabon sales of logs and wood products is not clear but a continuing improvement of the European economy should enable some advance to be recorded. A lower investment programme will naturally have its own impact on the economy. On balance the best that Gabon can expect in 1978 and 1979 is a stagnant economy with no growth in GDP at constant prices. The year 1980 should see a resurgence of investment expenditure and the resumption of economic growth provided petroleum production can be maintained at its present level.

## THE GAMBIA

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

#### 1. Introduction

The problem of drought has dominated the economic scene in the Gambia in the middle years of this decade and in 1977/1978. Agricultural production has fluctuated widely and this has had a generally dampening effect on the rate of economic progress.

GDP at current market prices rose by an average of 13.8 per cent per annum during the seven-year period to 1977/1978. However high average annual rates of inflation were also registered and when deflated by the rise in the consumer price index for Banjul, GDP at constant factor cost rose by 5 per cent a year up to 1976/1977 but the sharp fall in 1977/1978 wiped out a large part of the gains recorded. Drought conditions were particularly severe in 1977/1978 and total GDP at current market prices fell by 15.9 per cent. Expressed in real terms this fall was about 28.2 per cent.

Estimates of GDP by expenditure indicate that total consumption on average accounted for over 95 per cent of GDP during the period under review. In some years consumption exceeded total output. Investment has risen steadily since 1970 and was boosted in 1975 with the launching of the country's first national development plan. Capital expenditure during the 1975/76-1978/80 plan period is expected to total 253.1 million dalasi and the bulk of this amount is expected to come from external sources on concessionary terms.

Exports rose from D 34.89 million in 1970 at an average annual rate of 17.8 per cent to reach D 110.17 million in 1977 and imports increased by 24.9 per cent on average per annum to reach D 177.72 million in 1977 as against D 37.43 million in 1970. Consequently the visible external trade gap has widened considerably in the recent period, being at its widest in 1976 at D 89.6 million and narrowing somewhat in 1977 to D 67.55 million. The effects of these developments have greatly weakened the over-all balance-of-payments position in the past few years but up to 1975, net foreign assets increased as the inflow of foreign resources more than covered the deficit on goods and services account. In 1976 and 1977 net foreign assets were reduced to help fill the payments gap.

Deficits have begun to appear in the current account of the Government budget and cost overruns have affected the rate of implementing development projects. Government policy in recent years has concentrated on controlling the rise in expenditure.

Rapid rates of urbanization and the rural exodus have accentuated the problems of unemployment, housing shortages and rural-urban disparities.

The outlook for 1978/1979 was for a good groundnut crop following the near-normal rains. The world-market for groundnuts was expected to remain buoyant and a vigorous trade season was expected. The basis for some future growth of the economy could therefore be laid during the year and, provided rainfall is normal in the future, good results could also be obtained up to 1980.

## 2. GDP by industrial origin

Table 1 gives details on GDP by industrial origin. The dominant share of agriculture and related activities in total GDP at current prices has remained virtually unchanged during the period under review. The sector accounted for about 56 per cent of GDP on average. The share of the manufacturing sector in GDP also remained unchanged at about 2 per cent. There was an important drop in the share of the wholesale and retail trade sector from about 20 per cent of GDP in 1970/1971 to about 13 per cent in 1977/1978. This decline was accompanied by increases in the share of the construction and quarrying and public administration and other services sectors. Construction and quarrying and public administration and other services expanded at relatively high average annual rates of 24.5 and 15.6 per cent respectively.

The decline in total GDP in 1977/1978 was reflected in falls in all sectors except public administration and other services, construction and quarrying and finance, insurance and real estate which grew by 19.8, 15.2 and 9.7 per cent respectively during the year. The largest fall was in wholesale and retail trade, 41.3 per cent, followed by manufacturing 37 per cent and agriculture 21.8 per cent.

The Gambia: Table 1. GDP by source, 1970/1971 and 1975/1976-1977/1978 (millions of dalasi)

| At current prices                                   | 1970/71 | Percent-<br>age | 1975/76 | 1976/77 | 1977/78 | Percent-<br>age |
|---|---------|-----------------|---------|---------|---------|-----------------|
| Agriculture, forestry and fishing                   | 47.88   | 55.7            | 113.94  | 129.94  | 101.69  | 56.0            |
| Manufacturing                                       | 1.88    | 2.2             | 3.17    | 6.00    | 3.78    | 2.1             |
| Construction and quarrying                          | 2.22    | 2.6             | 7.47    | 8.94    | 10.30   | 5.7             |
| Electricity and water                               | 0.26    | 0.3             | 1.60    | 1.80    | 1.71    | 0.9             |
| Wholesale and retail trade                          | 17.42   | 20.3            | 30.33   | 40.47   | 23.77   | 13.1            |
| Transport and communications                        | 3.63    | 4.2             | 5.66    | 5.75    | 4.91    | 2.7             |
| Finance, insurance and real estate                  | 0.74    | 0.8             | 1.87    | 2.25    | 2.47    | 1.4             |
| Public administration and other services            | 11.92   | 13.9            | 23.33   | 27.50   | 32.95   | 18.1            |
| Total GDP at current factor cost                    | 85.95   | 100.0           | 187.37  | 222.65  | 181.58  | 100.0           |
| Indirect taxes less subsidies                       | 10.41   |                 | 23.33   | 35.00   | 35.01   |                 |
| Total GDP at current market prices                  | 96.36   |                 | 210.70  | 257.65  | 216.59  |                 |
| Total GDP at constant 1970/71 factor cost <u>a/</u> | 85.95   |                 | 113.76  | 115.48  | 82.95   |                 |

Source: Ministry of Economic Planning and Industrial Development, Central Statistics Department, Banjul, the Gambia.

a/ ECA estimates, current prices deflated by the consumer price index for Banjul.

### 3. Selected economic sectors

(a) Agriculture, forestry and fishing. The marketed output of groundnuts reached a record level in 1975/1976 when total purchases by the Gambia Produce Marketing Board (GPMB) reached 140,092 tonnes compared to 113,344 tonnes in 1970/1971. In 1976/1977, total marketed output dropped by 7.6 per cent to 129,319 tonnes. This drop occurred despite average rainfall and a 7.6 per cent rise in the producer price for groundnuts. The explanation for the decline appears to lie in declining yields per acre because of pest damage and lower standards of husbandry. The 1977/78 season was plagued by drought conditions and an output of not more than 100,000 tonnes has been forecast.

Cotton was introduced in the Gambia in the latter part of the 1960s. Since then both the area under cultivation and output have increased. In 1976/1977 about 2,500 acres were cultivated compared with 1,100 acres in 1975/1976. The marketed output totalled 285 tonnes and 795 tonnes in 1975/1976 and 1976/1977 respectively. Cotton acreage was forecast to rise to 5,000 acres in 1977/1978. A ginning plant with a capacity of 10,000 tonnes was opened at Basse in 1977.

The production of palm kernels is hampered by aging trees and low yields. Output reached 2,332 tonnes in 1971/1972 compared to 2,081 tonnes in 1970/1971. It declined progressively from 1971/1972 to reach 1,396 tonnes in 1974/1975. In 1975/1976 output rose by 18.1 per cent to 1,649 tonnes and further by 14.9 per cent to 1,896 tonnes in 1976/1977.

As regards food crops, rice cultivation has expanded considerably in recent years as consumption patterns shifted to rice. Estimated output of paddy rice was 31,900 tonnes in 1976/1977 which represented a rise of 4 per cent over the previous year. However, some 30,000 tonnes of rice imports are still needed annually to supplement the domestic supply. Government policy is to try to attain self-sufficiency in rice by 1980. The current five-year development plan to 1980 makes provision for the improvement of some 50,000 acres of rainfed swamps and the rehabilitation of 51 km of canals for irrigated rice growing.

The livestock population is estimated to be growing at an average annual rate of 3 per cent. In 1976/77 the total cattle population was 300,000. A Livestock Marketing Board came into operation in July 1977. In its first year of operation the board purchased cattle, sheep and goats valued at D 226,000.

The export of fish and fish preparations rose from 729 tonnes in 1970/1971 to 11,524 tonnes in 1975/1976. It declined slightly in 1976/1977 to 11,180 tonnes but between July 1977 and March 1978 the total volume of fish exported was 27,838 tonnes. The Government has acquired shares in two modern fishing companies - The Gambia Fisheries Ltd. and the Seagull Fishing Company. The two companies have a total fish processing capacity of 65 tonnes a day and a storage capacity of 1,550 tonnes. The expansion of artisanal fishing is promoted through extension staff training schemes and the provision of infrastructure and credit facilities.

(b) Manufacturing. Some progress has been made in the manufacturing sector during this decade but in terms of value added to GDP the contribution of the sector remains relatively small. The Gambia Produce Marketing Board (GPMB) has extended its groundnut shelling and milling activities to rice milling and cotton ginning. Other industries include the bottling of soft drinks, hides and skins processing and factories for the manufacture of steel doors and windows, school furniture, small agricultural implements and fibre-board. A brewery came into operation in 1977.

(c) Electricity. Thermal sources provide all the electricity generated. Installed capacity was 8,000 kw between 1970 and 1972. In 1973 it was raised to 9,000 kw and has remained at that level since. Electricity generated increased from 13 million kWh in 1970 to 31 million kWh in 1977 which represented an average annual rate of increase of 13.2 per cent. In late 1977 the main generating station for the Banjul area suffered extensive damage which resulted in intermittent and sometimes prolonged cuts in electricity supply throughout the first half of 1978. The Gambia Utilities Corporation, which operates all public electricity supplies in the Gambia, has been experiencing management problems and acute shortages of technical staff which have also contributed to difficulties in maintaining a regular supply pattern.

(d) Construction. The share of value added originating from the construction industry including quarrying rose from 2.6 per cent in 1970 to 5.7 per cent in 1977/1978. The expansion in the sector is reflected in the major public works executed during this period at the Port of Banjul, the new airport at Yundum and on roads and hotels.

Cement imports have grown considerably in recent years. In an effort to stem this growth two rural production units were established in 1978 for the production of bricks made from clay. This is conceived as the first step towards the establishment of a semi-mechanized brick plant that will improve rural dwelling standards and the local building industry generally.

(e) Transport services. In the Gambia, road transport complements river transport but there has been a shift towards roads in the recent period following improvement in their condition. Since 1969/1970 a total of 170 miles of new roads have been constructed and some laterite roads have been resurfaced. A feeder road development programme is being implemented to stimulate agricultural activity and trade.

In 1976, the Gambian-Libyan Public Transport Corporation was established to run nation-wide scheduled bus services. The operations of the company has greatly relieved the Kombo-Banjul commuter problem.

Port capacity at Banjul has been expanded substantially in the past few years but traffic has been affected by high freight rates. Large ships are reluctant to call at Banjul because consignments are generally small. The Government acquired its first ocean-going vessel in 1978.

A new passenger terminal and extensive improvements on the runway and technical installations were completed at Yundum airport. Total runway length will reach 3,600 metres when the on-going extension works are completed.

(f) Tourism. Total tourist arrivals rose from 9,875 in 1970/1971 to 23,496 in 1973/1974. In 1974/1975 the number fell to 21,342 before rising to 22,886 in 1975/1976. In 1976/1977 the total was 23,122. The number of hotel beds has increased from 404 to 1970/1971 to 2,147 in 1976/1977. Occupancy rates have tended to decline as the number of beds increased faster than the number of tourists. The average length of stay has also declined somewhat during the period under review. Total receipts from tourism have however expanded and amounted to D 15.5 million in 1975/1976 compared with only D 757,000 in 1970/1971.

The tourist industry currently employs about 1,100 people and provides indirect employment for a further thousand. Measures to stimulate development in this field include the provision of generous tax holidays and other fiscal incentives to investors, training facilities for Gambians in hotel management and operation and the development of tourist infrastructure.

#### 4. Expenditure and GDP

Total consumption has an average accounted for over 95 per cent of GDP during the period 1970/1971 to 1976/1977. In some years total consumption exceeded total output. Gross domestic investment rose steadily at an average annual rate of 27.9 per cent and accounted for 18.2 per cent of GDP in 1976/1977 compared with 11.1 per cent in 1970/1971. The resource gap which rose from 6.5 per cent GDP in 1970/1971 to 15.6 per cent in 1976/1977 was met through grants and foreign loans on concessionary terms.

Domestic savings were 4.4 per cent of GDP in 1970/1971 but only 2.6 per cent in 1976/1977.

The Gambia: Table 2. Expenditure on GDP, 1970/1971 and 1975/1976-1976/1977 (millions of dalasi)

| At current prices                                 | 1970/71 | Percentage | 1975/76 | 1976/77 | Percentage |
|---|---------|------------|---------|---------|------------|
| Private consumption                               | 66.96   | 69.5       | 191.1   | 196.5   | 76.3       |
| Public consumption                                | 25.20   | 26.1       | 40.0    | 54.5    | 21.1       |
| Gross domestic capital formation                  | 10.70   | 11.1       | 23.5    | 46.8    | 18.2       |
| Exports <u>less</u> imports of goods and services | -6.50   | -6.7       | -43.9   | -40.1   | -15.6      |
| Total GDP at market prices                        | 96.36   | 100.0      | 210.7   | 257.7   | 100.0      |

Source: Official data from the Gambia.

#### 5. External trade and balance of payments

Between 1970 and 1977 the total value of exports increased at an average annual rate of 17.8 per cent while imports rose by 24.9 per cent a year. The external trade deficit has widened substantially since 1970 when it was only D 2.54 million. The deficit was widest in 1976 when it amounted to D 89.7 million. In 1977 it narrowed significantly to D 67.5 million thanks to a substantial increase in the world price for groundnuts. During the 1977/78 farming season, drought conditions brought about substantial declines in groundnut production. Export earnings are therefore expected to fall in 1978 and the trade gap is forecast to widen again to a record level of nearly D 140 million.

The Gambia: Table 3. External trade and balance of payments, 1970 and 1975-1977  
(millions of dalasi)

| External trade                | 1970   | 1975   | 1976   | 1977   |
|-------------------------------|--------|--------|--------|--------|
| Exports including re-exports  | 34.89  | 84.63  | 74.67  | 110.17 |
| Imports                       | 37.43  | 108.17 | 164.33 | 177.72 |
| Balance                       | -2.54  | -23.54 | -89.66 | -67.55 |
| Terms of trade (1970 = 100)   | 100.00 | 78.30  | 90.50  | ...    |
| <u>Balance of payments a/</u> |        |        |        |        |
| Goods and services (net)      | -0.45  | 12.48  | -42.85 | -32.84 |
| Private transfers (net)       | 0.54   | -0.41  | 2.81   | -0.69  |
| Government transfers (net)    | 0.85   | 8.26   | 3.03   | 2.50   |
| Capital                       | 3.08   | -2.88  | 7.57   | 17.14  |
| Reserves and related items    | -5.85  | -25.18 | 16.50  | -2.75  |
| Errors and omissions          | 1.83   | 7.74   | 12.93  | 16.64  |

Source: Central Bank of the Gambia, Quarterly Bulletin, January-March 1977 and January-March 1978. IMF, International Financial Statistics, vol. XXX, No. 11, November 1977 and vol. XXXI, No. 8, August 1978.

a/ Converted from United States dollars.

Since 1975 manufactured goods have accounted for about 30 per cent of the total value of imports and food and machinery and transport equipment about 19 and 17 per cent respectively. A substantial part of the increase in the value of imports has been due to the increase in imports of machinery and transport equipment reflecting the increased need for capital goods.

As balance-of-payments data show, receipts of aid by the Government were relatively high at the time the current development plan was launched. Total aid receipts amounted to D 11.33 million in 1974 and D 8.26 million in 1975. In 1976 transfer receipts by the Government declined but the inflow of capital was positive at D 7.57 million. However, despite the net inflow of transfers and capital totalling D 12.91 million, there was a drawing down of reserves of D 16.56 million to help to finance the large deficit of goods and services. In 1977 this deficit was lower, although still substantial, and was met mainly by a particularly large capital inflow.

#### 6. Development aid and external debt

The Gambia relies substantially on external assistance for its development. As shown in the balance of payments, net transfers (grant aid receipts) to the Government totalled D 14 million in the three-year period to 1977. The total external debt has risen from D 10.3 million in June 1970 to D 33.6 million at June 1977 and there appears to have been a fairly large rise in the year ending in June 1978.

In the budget estimates for 1978/79 a total of D 7.9 million is expected from the World Bank to finance projects in rural development, power, sewerage and tourism. A further D 4.5 million is expected from the African Development Bank to finance projects in electricity and cotton production. The African Development Bank and OPEC were to finance the airport runway project with a credit of D 15 million.

7. Government revenue and expenditure

As indicated in table 4, total recurrent revenue rose from D 26.66 million in 1970/1971 to D 66.87 million in 1977/1978. This represented an average annual rate of increase of 14.1 per cent. Indirect taxes constitute about 60 per cent of recurrent revenue, but the shares of direct taxes has been increasing steadily.

The Gambia: Table 4. Government revenue and expenditure, 1970/71 and 1975/76-1978/79  
(millions of dalasi)

|                     | 1970/71 | 1975/76 | 1976/77 | 1977/78 <sup>a/</sup> | 1978/79 <sup>b/</sup> |
|---------------------|---------|---------|---------|-----------------------|-----------------------|
| Current revenue     | 26.66   | 46.21   | 65.51   | 66.87                 | 66.13                 |
| Current expenditure | 25.21   | 44.05   | 60.22   | 72.03                 | 69.42                 |
| Capital receipts    | 2.05    | 13.94   | 11.77   | 53.89                 | 111.14                |
| Capital expenditure | 3.44    | 10.87   | 32.60   | 59.69                 | 107.60                |
| Over-all balance    | 0.06    | 5.23    | -15.54  | -10.96                | 0.25                  |

Source: The Gambia: Estimates of Recurrent Revenue and Expenditure with the Annual Plan, 1977/78, 1978/79.

a/ Revised estimates.

b/ Estimates.

Recurrent expenditure increased from D 25.21 million in 1970/71 to D 72.03 million in 1977/78 which represented an average annual rate of increase of 16.2 per cent. The growth in recurrent expenditure was greater than for recurrent revenue and as a result there was a deficit in the recurrent budget in 1977/78, compared with surpluses in previous years.

Capital expenditure rose from D 3.44 million in 1970/71 to D 10.87 million in 1975/76 but since then the increase has been particularly sharp with the estimates for 1977/78 covering a total of D 59.69 million and for 1978/79 D 107.6 million.

In 1976/77 and 1977/78 substantial deficits were registered in the over-all budgetary balance. This was largely due to administrative delays in contracting and disbursing foreign funds. The cash shortages were met by increased recourse to funds from parastatal organizations and to substantial central bank borrowing.

Estimates of current revenue for 1978/79 amount to D 66.13 million and those for current expenditure total D 69.42 million. A total of D 107.6 is estimated for capital outlay but with large foreign borrowing a small over-all surplus of D 0.25 million is expected.

## 8. Money and banking

Money proper, i.e. currency outside banks plus demand deposits, rose from D 16.47 million in December 1970 to D 89.78 million in 1975. It fell in the following two years to D 82.87 in 1976 and D 70.70 million in 1977. An average annual rate of decline of 12.6 per cent was therefore recorded for money proper between 1975 and 1977 compared with an average rate of increase of about 40 per cent between 1970 and 1975. Quasi-money on the other hand increased steadily during the period 1970 to 1977. It grew at an average annual rate of 33.2 per cent during this period.

The Gambia: Table 5. Monetary survey, 1970 and 1975-1978 (millions of dinars)

|                          | End<br>1970 | End<br>1975 | End<br>1976 | End<br>1977 | May<br>1978 |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Net foreign assets       | 16.31       | 61.07       | 50.56       | 42.41       | 35.76       |
| Net claims on Government | -9.80       | 22.19       | 33.43       | 30.47       | 26.96       |
| Claims on private sector | 17.85       | 22.96       | 39.12       | 53.74       | 50.92       |
| Money                    | 16.47       | 89.78       | 82.87       | 70.70       | 55.44       |
| Quasi-money              | 2.91        | 10.56       | 20.49       | 21.65       | 28.83       |
| Other items (net)        | 4.96        | 5.86        | 19.74       | 34.27       | 29.37       |

Source: IMF, International Financial Statistics, vol. XXX, No. 11, November 1977 and vol. XXXI, No. 9, September 1978.

The decline in money supply since 1975 is largely due to the average annual fall of 20.0 per cent in the level of net foreign assets from D 61.07 million in 1975 to D 42.41 million in 1977. Government was once in a net creditor position with the banking system. In the past few years however, it made significant recourse to general bank borrowing to finance development projects pending receipts from aid-giving agencies. Private sector credit expanded at an average annual rate of 17.1 per cent between 1970 and 1977. The bulk of the credit was for agriculture and the distributive trades.

Drought conditions in the 1977/78 season have led to a large rise in total domestic credit from D 48.64 million at May 1977 to D 77.88 million at May 1978; this rise was accompanied by a fall of D 63.35 million to D 35.76 million in net foreign assets and to a decline in money proper from D 67.31 million to D 55.44 million.

## 9. Wages and prices

The consumer price index for the Banjul and the Kombo St. Mary area is constructed on the basis of a basket of 114 items, 49 of which are imported and 65 domestically produced. Since 1974/1975 the index has risen at a much faster rate than in previous years but a steady deceleration in the annual rate of increase has been registered since 1975/1976. The index rose by 21,16 and 10 per cent in the years 1975/1976, 1976/1977 and 1977/1978 respectively. About two thirds of the increase in prices in these three years has been due to domestic factors; the rest was imported. The average increase from 1970 to 1973 was only 6.2 per cent but from 1973 to 1977 it was 16 per cent giving an over-all average of 11.7 per cent from 1970 to 1977.

The prices of such essential commodities as rice, milk and sugar are subject to control but prices for most other commodities are left free.

Minimum wages remained unchanged during the period 1969 to 1973. Since then increases ranging from 50 to 150 per cent for general workers and from 70 to 150 per cent for dock workers have been granted. The current minimum wages range from D 3.50 a day for general workers to D 8.90 for dock workers.

Salaries also remained unchanged between 1969 and 1973. Since then increases of the order of 30 to 40 per cent for the highest paid civil servants and 90 to 130 per cent for the lowest grades have been made. These wage and salary developments resulted in a reduction in the income gap between the lower and higher paid workers.

#### 10. Employment and unemployment

The total number of persons in wage employment and self-employment was estimated at 140,000 in 1977. The level of employment is subject to seasonal fluctuations, and it is estimated that the level of employment fell by 1.8 per cent compared with 1976.

Urban employment opportunities have not expanded fast enough to absorb the new entrants. Unemployment has thus increased in Banjul and the Kombo St. Mary area. About 25 to 30 per cent of the estimated unemployed are in the 15 to 25 age group.

#### 11. Other social sectors

(a) Education. The school population has risen steadily during the period under review. Primary school enrolment rose from 17,140 in 1970/71 to 27,560 in 1977/78 or by 7 per cent on average per annum. Enrolment in secondary schools was 5,000 in 1970/71 and 6,994 in 1977/78 while in higher education it was 100 in 1970/71 and 593 in 1977/78. The shortage of qualified teachers and a lack of class-rooms continued to hamper the expansion of education. The building of the Gambia College at Brihama was nearing completion in 1978 and this was expected to improve the supply of primary school teachers substantially. The primary enrolment ratio was about 27 per cent in 1977.

(b) Health. The Gambia has two major hospitals, four specialist units, a leprosarium and over 80 health centres, dispensaries and subdispensaries. The number of persons per hospital bed was 890 in 1977 compared with 865 in 1970. The major emphasis in the current plan period is to reduce the rural-urban imbalance in the availability of health facilities.

(c) Housing. There is a severe shortage of housing particularly for the low-income groups in and around Banjul. The shortage manifests itself in overcrowding, high rents and insanitary conditions. The situation is aggravated by a relatively high growth rate of urban population.

#### B. MAJOR PROBLEMS

The wide fluctuation in agricultural output caused by the frequent occurrence of drought has perhaps been the most important problem facing the Gambia this decade. During the drought years, poor performance in agriculture has hindered real economic growth in all sectors of the economy. Drought conditions have also made the rural areas progressively less attractive. This has had the effect of reducing the farm

population and raising the average age of farmers which may have been one of the reasons for the decline in average yields. Food imports remains high and are indicative of a relative lack of progress in moving towards self-sufficiency.

The unemployment problem is becoming more and more acute as the rate of urban growth accelerates and the number of new entrants to the labour market increases annually. The shortage of housing and other social problems associated with rapid urbanization are major areas requiring urgent attention.

On the budgetary front, frequent cost overruns have been experienced in the implementation of development projects. These have been attributed to unrealistic costing at the time projects were prepared, the shortage of executive capacity and delays in the disbursement of finance by some foreign donors. Total capital investment which in the current five-year plan to 1980 was initially planned at D 144.5 million has since been revised upwards to D 253.1 million. This much larger capital expenditure has had to be financed largely from foreign resources.

### C. INTERNAL DEVELOPMENT POLICIES

Development policy in agriculture during the current plan period is concentrated on diversification efforts in cotton, food crops, fish and livestock production. The Government has been strengthening its extension services in these areas quite substantially in the past few years.

Self-sufficiency in rice production is one objective to be attained by the end of the current plan. The World Bank and bilateral aid organizations are involved in projects designed to expand upland rice cultivation through irrigation and swamp reclamation.

An FAO integrated livestock project as well as the recent establishment of the Meat and Livestock Marketing Board are expected to ease the supply situation for meat.

Outside agriculture, development policies have concentrated on the promotion of employment generating activities in tourism and industry. Generous fiscal incentives are being offered to prospective investors in these two sectors. The Government has recently set up the National Investment Board to promote and co-ordinate investment in these and other commercial ventures.

The construction industry was recently given a boost by the Government decision to contract out most public works projects to local contractors. The informal artisanal sector is also being promoted through the Indigenous Business Advisory Service Scheme which was established to provide extension services and limited credit facilities to local artisans.

In the area of finance, a new government unit was established in 1978 entrusted with the task of controlling expenditure.

### D. PROSPECTS FOR 1978 TO 1980

At mid-1978, the market prices for groundnuts and groundnut products were relatively buoyant and were expected to remain so during the 1978/79 trade season. Near-normal rains were also experienced during the growing season and a good crop is expected. These two factors should combine to reverse the negative growth rate of GDP

in 1977/1978. If the budgeted capital outlay for 1978/1979 is realized, economic activity will expand substantially during the coming year and a firm basis could be laid for further real growth in the economy in the period to 1980.

#### E. ECONOMIC CO-OPERATION

The Gambia has entered into a number of co-operative arrangements with Senegal its immediate neighbour. An inter-State secretariat has been overseeing co-operative efforts in the fields of health, livestock development and hydrometeorology. The two countries have now reached agreement on the harnessing of the waters of the River Gambia for transport and agricultural development purposes. The Organization for Development of the River Gambia (OMVG) was established in 1978 to provide the administrative and technical framework for the implementation projects.

The Gambia is also an active partner in the Inter-State Committee for Drought Control in the Sahel (CILSS) and a feeder roads programme and other rural development projects are being executed in the country with the participation of this organization.

GUINEA-BISSAU

A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

1. Introduction

Guinea-Bissau became independent at the end of 1974 after a long struggle for independence, which deeply disrupted its economy. There were large numbers of refugees in neighbouring States, agricultural production fell and a country formerly self-sufficient in food had to import rice. Its traditional exports (groundnuts, cashew nuts, palm kernels, woods, coconuts) decreased sharply, and in 1972 exports accounted for only 8.6 per cent of imports. Since independence, there has been a very large effort to reconstruct the economy amid the difficulties created by the departure of the former Portuguese residents who had provided most of the skilled manpower of the country and by the almost complete lack of trained indigenous people. In 1975/1976 agricultural production recovered, but the low level of rains in 1977 caused heavy crop losses and virtually eliminated the progress made in the two preceding years. The country benefited however from high export prices, and from substantial external assistance, but there was a large trade deficit. Economic prospects for 1978 would depend on the rainfall pattern. The trade balance will have been affected by the poor crops in 1977, and in fact since the last quarter of 1977, serious balance-of-payments difficulties have been experienced. However the food aid requested by the Government will help in softening the impact of the 1977 drought. It is clear anyway that the present level of external assistance to Guinea-Bissau must be increased or else the country will face very difficult conditions.

2. GDP by industrial origin

Information on the distribution of GDP by industry dates back to 1963 but is still relevant. Agriculture contributed 51 per cent of GDP, a high figure even in African conditions, which shows that Guinea-Bissau should be classified among the least developed countries. There is a low level of GDP per capita and the industrial sector contributes only 1 per cent of GDP. According to data available from the 1970 census, the distribution of manpower by industry was as follows: 88 per cent in agriculture, 3 per cent in industry and 9 per cent in services, which points to a low level of productivity for the economy as a whole.

3. Selected economic sectors

(a) Agriculture, forestry, fishing. Agriculture is the most important economic sector. Farming is carried out on small family holdings, using handtools and primitive techniques; one exception is rice cultivation where very sophisticated techniques are used including irrigation and control of salination.

Cereals occupy most of the cultivated area, the most important crop being rice, which is the staple food. Rice is supplemented by sorghum, beans and maize. Groundnuts, grown for internal consumption, also provide a sizable surplus for exports.

Guinea-Bissau: Table 1. Main agricultural exports, 1970-1977 (Tonnes)

| Year | Groundnuts (1) | Coconuts | Cashewnuts | Sawn wood |
|------|----------------|----------|------------|-----------|
| 1970 | 21442          | 6787     | 1191       | 3892      |
| 1971 | 9257           | 7298     | 666        | 3840      |
| 1972 | 17494          | 2981     | 954        | 5138      |
| 1973 | 19898          | 4703     | -          | 7992      |
| 1974 | 13575          | 6655     | 1273       | 3901      |
| 1975 | 13350          | 4425     | -          | 4631      |
| 1976 | 15420          | 4950     | 971        | 3455      |
| 1977 | 25131          | 6325     | ...        | 1320      |

Source: Direccao Geral de Estatistica, Guinea-Bissau.

(1) Shelled equivalent.

For comparison 1962 exports included 51,259 tonnes of groundnuts, 17,638 tonnes of coconuts and 5,303 tonnes of sawn wood.

There are no reliable statistics on production since independence. However export and marketing data from the State corporation "Armazens do Povo" show that there was a definite recovery of production in the years 1975 and 1976, after the disruptions caused by struggle for independence. Unfortunately the poor rainfall of 1977 has set back development efforts. According to official estimates, the rainfall deficit was considerable, amounting to half the normal level. The effect on rice was profound, with half the crop being lost. To avert a severe food shortage, the Government introduced several measures including rationing of basic foodstuffs in the towns where rice is distributed at a subsidized price and requested international assistance. The aid requested was for 65,000 tonnes of cereals enough to feed 325,000 people. An emergency committee has been established to deal with the situation and to co-ordinate the efforts being made. The agricultural potential of Guinea-Bissau is great and it seems likely that the country could quickly achieve self sufficiency in food and build up its exports once again. In fact these are the main directions of Government policy. A start is being made on a programme to stimulate peasant agriculture through better seeds, the provision of extension services and improved marketing. Prices have already been raised to encourage producers, although the lack of some consumer items in the shops is conducive to smuggling from over the border.

Animal production is relatively important, although statistics are lacking to evaluate its dimensions. It is known however that the cattle herds are over 200,000 head. Animal rearing is concentrated in the north-eastern region which is close to the Sahel and particularly suited to animal husbandry.

Fishing is a most promising sector, and known reserves would allow for a yearly catch of many hundreds of thousand tonnes. The development of the industry has started, the Government having established several joint ventures with foreign countries such as the Soviet Union and Portugal. However, the quantity of fish landed is still small (8,224 tonnes only in 1976), but future prospects indicate that fish exports may become a major item in the external trade of Guinea-Bissau.

(b) Mining. There is no mining output at the present time, but indications are that oil deposits are present along the coast. Before independence large sums were spent by the Portuguese authorities in oil exploration, but no definite information is available on the present state of these investigations.

(c) Manufacturing. Manufacturing occupies a very small place in the economy. According to official data, there were 188 firms of an industrial character in 1978, with a workforce of 1833 persons, that is less than 1 per cent of the total labour force. Most of these small manufacturing establishments process agricultural crops (shelling of groundnuts, production of cooking oil, etc.), but the most important activity is the production of alcoholic spirits from sugar cane.

The industrial sector suffers from a shortage of qualified personnel, and as a consequence production is reported to be at a very low level of capacity.

(d) Electricity. Because of the low altitude, there are very few sites suitable for dam construction, and all energy needs are covered from oil imports. In 1977, electricity consumption was estimated to be at around 12 million kWh, somewhat less than before independence. Present plans call for a large increase in electricity production through the construction of a dam on the Rio Cacheu, which will at the same time serve for irrigation. Preliminary studies of this dam site have already begun.

(e) Transport services. On the coast the only port is Bissau, the capital, the swamps preventing port construction elsewhere. Statistical data show that traffic has increased since independence, especially for exports.

Regarding internal transport, which depends partly on the rivers and partly on the roads, there are many difficulties because of the problems encountered in maintaining boats and road vehicles.

Air links are maintained with international assistance, since Guinea-Bissau at present lacks any qualified personnel in the air transport field.

#### 4. Expenditure and GDP

No information is available on the structure and trends in expenditure, but the large deficit on the external account shows that expenditure is greater than GDP as a whole, while the continuous fall in net foreign assets indicates some worsening of the situation.

#### 5. External trade and the balance of payments

Since independence exports have grown rapidly but imports have grown also with the result that the balance-of-trade deficit has not been reduced to any extent. As shown in table 2 the deficit in the years 1975 to 1977 ranged between 808 and 944 million pesos. In 1977 exports rose from 162 million to 428 million pesos owing largely to a higher groundnut crop selling at increased prices. Exports of groundnuts increased in volume by 63 per cent and reached their highest level since 1970, but were still only half the level of 1962. For 1978, prospects are not good because of the drought in 1977 which has considerably reduced the groundnut crop and has led to substantial food imports.

Guinea-Bissau: Table 2. External trade 1975 to 1977 (Millions of pesos)

| Year    | 1975  | 1976   | 1977   |
|---------|-------|--------|--------|
| Exports | 149.9 | 162.4  | 427.6  |
| Imports | 964.5 | 1106.3 | 1235.2 |
| Deficit | 814.6 | 943.9  | 807.6  |

Source: Direccao Geral de Estatistica, Guinea-Bissau.

The balance of payments has been permanently in deficit because of the trade deficit. The reduction of foreign assets, despite sizable foreign assistance, has reached such proportions that the central bank has suspended the granting of import licenses since November 1977. In 1978, balance-of-payments difficulties are likely to increase with an expected lower export volume and higher food import requirements. Foreign assets have fallen from 405 million pesos in 1974 to 165 million in 1977.

6. Development aid and external debt

External aid was high in 1975, the first year after independence, reaching almost 1 billion pesos. Since, then it has decreased and stood at 265 million pesos in 1977. According to the central bank, most of it was from bilateral sources. It is also apparent that the aid is for the most part granted on concessional terms. Therefore it is probable that the external debt is low although information on any inherited debt is not available.

7. Government revenue and expenditure

Government expenditure has increased considerably from 583.3 million pesos in 1974 to 1,161.3 million in 1977. This is due to the development of the administrative structure after independence and at the same time the Government has started a number of economic development programmes. Revenues have not grown in line with expenditure and were 576.8 million pesos in 1977 against 463.7 million in 1974. A very large deficit has therefore developed which reached 584.5 million pesos in 1977. Apart from foreign assistance, most of the financing has come from the central bank, with attendant effects on the money supply and inflationary tendencies.

Guinea-Bissau: Table 3. Government revenue and expenditure, 1974-1977 (millions of pesos)

| Year | Revenue | Expenditure | Deficit |
|------|---------|-------------|---------|
| 1974 | 463.7   | 583.3       | 119.6   |
| 1975 | 529.1   | 776.1       | 247.0   |
| 1976 | 532.6   | 907.3       | 374.7   |
| 1977 | 576.8   | 1 161.3     | 584.5   |

Source: Banco de Guine.

## 8. Money and banking

The only monetary institution is the Banco de Guine which has replaced the former Portuguese "Ultramarino" bank and which performs the functions of a central bank as well as those of a commercial bank. The bank has complete control over foreign exchange transactions and has authority to grant export and import licenses. The currency is on a par with the Portuguese escudo.

Guinea-Bissau: Table 4. Monetary survey, 1974 to 1977 (millions of pesos)

| Year                     | 1974   | 1975  | 1976  | 1977  |
|--------------------------|--------|-------|-------|-------|
| Foreign assets           | 405.0  | 262.2 | 223.9 | 164.8 |
| Net claims on Government | -204.1 | -39.7 | 110.9 | 369.6 |
| Claims on private sector | 333.2  | 323.1 | 345.9 | 293.2 |
| Currency in circulation  | 383.9  | 363.1 | 387.0 | 539.7 |
| Demand deposits          | 114.3  | 125.0 | 237.0 | 195.1 |
| Other deposits           | 35.9   | 52.5  | 56.1  | 92.8  |
| Money and quasi-money    | 534.1  | 545.6 | 680.8 | 827.6 |

Source: Banco de Guine.

In the two years 1976 and 1977 the total money supply has grown rapidly despite the fall in foreign assets, the rates of growth being 24.8 per cent in 1976 and 21.6 per cent in 1977. The growth of the net claims on the Government was substantial and more than counteracted the deflationary impact of the fall in foreign assets.

## 9. Wages and prices

According to the Central Statistical Office wages and salaries in the public service can be broken down as follows: 83 per cent under 4,800 pesos per month, 12 per cent between 4,800 and 7,100 pesos per month, 4 per cent between 7,100 and 10,300 pesos per month, and 1 per cent over 10,300 pesos per month with the average wage around 4,900 pesos per month. In the private sector average wages vary between 1,000 pesos per month in agriculture to over 6,000 pesos in commerce, the banking system and travel agencies. After independence there was a general rise in wage levels but there seems to have been little change since then.

## 10. Employment and unemployment

Wage employment plays a very limited role in the country where over 80 per cent of manpower is engaged in peasant agriculture. For the whole of Guinea-Bissau, the number of wage earners is estimated at only 24,859, 80 per cent of whom are in the capital, Bissau, while 62 per cent is employed by the Government. There is certainly some unemployment in Bissau, but its over-all impact seems likely to be small.

## 11. Other social sectors

(a) Education. In 1970/71, the last year for which statistics are available, there were 32,896 pupils in primary schools, 2,068 in secondary schools and 548 trainees in the teachers' training school. The primary enrolment ratio was therefore only one quarter of the children in the relevant age group. This low level of school enrolment at the primary level and the very small number of pupils at the secondary level, including only 601 students on technical courses, has an important influence on Guinea-Bissau's ability to resolve the present acute shortage of qualified personnel. Since independence there have been disruptions in the school system. However, the foreign teachers who left on independence have now been replaced to some extent.

(b) Health. There is a dearth of information on the numbers of health personnel, although it is probable that the health sector is suffering from a lack of trained personnel at all levels.

## B. MAJOR PROBLEMS

Guinea-Bissau is facing now the problems of transition from colonial status to independence compounded by the departure of many of the qualified personnel at all levels of the economic life including such categories as typists, machine repair men, accountants, etc., etc. The public administration can not function properly because qualified administrators and auxiliaries are not available. Public utilities, like the water and light distribution systems, are operating only imperfectly. Without enhanced external assistance, and especially United Nations technical assistance, the present low level of services could not even be maintained. This is particularly true of the air transport system. As indicated earlier, in some sectors like private industry the lack of trained personnel is leading to heavy losses in production.

The urban population, and in particular that of the capital, has risen alarmingly and one result is that agriculture is not producing a surplus over the subsistence of the rural population. Combined with the fact that agricultural production fell during the years of struggle for independence and the drought which hit the country in 1977, this situation makes it imperative for Guinea-Bissau to increase its food production quickly and to generate more exports.

The low level of productivity in the agricultural sector which is the most important sector of the economy acts as a brake on growth but the institutional framework required to stimulate agricultural production is lacking.

Over and above the problems of economic management there is the high rate of inflation stemming from shortages of goods compounded by deficit financing.

## C. INTERNAL DEVELOPMENT POLICIES.

The Government has sought international assistance to deal with some of the most severe difficulties and this has helped to maintain essential services and provided the country with resources to finance basic imports. At the same time steps have been taken to raise agricultural production and exploit other opportunities. For example, agricultural prices have been raised as an incentive to farmers. With FAO assistance, a start has been made on a seed multiplication programme. Since there is no real agricultural extension service, pilot projects have been launched in the rural areas which will serve as points of growth and will help in encouraging modern methods of production.

The Government has taken control of much of the commerce sector although private traders have not been excluded. Two large State trading firms, the "Armazens do Povo" and the "SOCONI" have been granted the monopoly of trade in certain basic necessities and especially in the marketing of export crops. The "Armazens do Povo" the largest one, controls a large network of shops inside the country which sell imported and other manufactured goods and buy crops from the peasant. Through the Banco de Guine and the control of foreign exchange and trade transactions, governmental control has been extended to imports and exports to reduce the trade gap and limit imports to essential items.

Studies for the preparation of a development plan are under way and the main lines of the government strategy are already apparent. Although a state sector is already in existence and despite the extensive government control over trade and monetary flows, a sizable private sector will be maintained in particular in agriculture where the household farm is the basic production unit. Association with private foreign investors will be sought, and in general, foreign resources will be used to help finance to development since Guinea-Bissau can not generate enough capital from its own savings.

Agriculture will receive first priority, the raising of peasants' incomes being the primary concern, while funds for development will be allocated for commercial crops, fishing, whose prospects are excellent, and the development of a timber industry. The intention is to develop exports large enough to cover the present trade deficit.

In manufacturing, priority will be given to those enterprises catering for agriculture. In the first stage, consumer and export goods will be produced.

#### D. PROSPECTS

The year 1978 has begun in difficult circumstances with the food shortages resulting from the 1977 drought and balance-of-payments problems. As mentioned earlier, these problems are likely to linger on during the year, unless the rains return to normal.

Despite present difficulties future prospects are by no means unfavourable for Guinea-Bissau which enjoys sizable natural resources and can in due course hopefully become an oil producer.

## THE IVORY COAST

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

#### 1. Introduction

In the period 1970 to 1977 the Ivory Coast maintained the high growth momentum of the previous decade. In real terms GDP increased at the high rate of 8 per cent a year, probably one of the highest in Africa. This was achieved despite the upheavals created by the economic recession in 1974-1975 in industrialized countries, a recession which reduced demand for the Ivory Coast's major exports and also reduced the funds available for investment in developing countries. In fact growth in the Ivory Coast slowed down significantly in 1974 and 1975, but the increase in coffee prices in 1976 and 1977 and cocoa prices in 1977 and 1978 restored high growth in the economy and GDP increased at constant prices by an exceptional 12 per cent in 1976 and then again by 8.6 per cent in 1977.

The increase in GDP at current prices has averaged 19.9 per cent a year so the implicit GDP deflator from 1970 to 1977 was 11 per cent which compares with an annual increase in consumer prices of 10.8 per cent.

As in the 1960s, export agriculture was the main instigator of growth in the economy, but other sectors also shared in the rapid increase of the GDP and the development of the manufacturing sector in particular has been extremely rapid. Investment grew faster than GDP over the period under review, with an increasing participation of the public sector in general in capital formation. In 1976 and 1977, the additional resources made available to the public sector because of the rise of coffee and coffee prices resulted in a sharp rise of public investments. Public revenue and expenditure have been growing because of the rising level of economic activity but there has also been this emphasis on a rising level of public investment. One result has been an increase of the public debt and in particular of the external debt as foreign resources have increasingly been used for investment.

The inflationary influence of the increasing money supply has been substantial in recent years and consumer prices have risen by 105 per cent between 1970 and 1977 with a particularly sharp increase in 1977 of 27.4 per cent and a further rise in 1978.

Throughout the period, the Ivory Coast has had a positive balance of trade but the pressure on its balance of payments was such that there was a need to reduce the international reserves in 1971, 1972 and 1975 but on balance the net external assets were higher at August 1978 than at December 1970. The capital inflow has been substantial over the entire period and the trend in this inflow has been upward.

In 1978 GDP growth has been estimated at 7 per cent at constant prices despite lower export earnings from coffee. There appears to have been an increase in the country's international reserves over the year as a whole so the implication is that the over-all balance of payments has been favourable.

#### 2. GDP by industrial origin

While GDP in current terms was 3.6 times higher in 1977 than 1970, the value added by agriculture was 3.1 times higher, that for manufacturing was 3.8 times higher, and in construction the expansion was 3.9 times. The highest growth was recorded in

commerce and marketable services whose value added grew 6.2 times between 1970 and 1977. Here most of the growth occurred in 1977 because of the exceptional export prices.

These different rates of growth produced significant changes in GDP structure. The share of agriculture fell from 35.2 per cent in 1970 to 30.3 per cent in 1977, while the share of manufacturing industry rose from 11.4 per cent to 12.2 per cent, and of construction from 7.6 to 8.2 per cent and the services sectors contributed 48 per cent of GDP in 1977 against 44.3 per cent in 1970. There was an exceptional rise in the share in GDP of commerce and marketable services from 16.5 to 28.7 per cent over the period under review while the share of other services excluding commerce and transport fell from 18.5 to 11 per cent.

The Ivory Coast: Table 1. GDP by source, 1970 and 1975-1978 (billions of CFA francs)

| At current prices              | 1970  | Per-centage | 1975  | 1976    | 1977    | Percentage |
|--------------------------------|-------|-------------|-------|---------|---------|------------|
| Agriculture, forestry, fishing | 116.6 | 35.2        | 235.8 | 272.7   | 358.2   | 30.3       |
| Mining                         | 0.7   | 0.2         | 1.2   | 1.0     | 1.4     | 0.1        |
| Manufacturing                  | 37.7  | 11.4        | 81.1  | 106.9   | 143.9   | 12.2       |
| Electricity and water supply   | 4.3   | 1.3         | 11.0  | 11.3    | 14.7    | 1.2        |
| Construction                   | 25.0  | 7.6         | 48.9  | 63.2    | 97.1    | 8.2        |
| Wholesale and retail trade a/  | 54.6  | 16.5        | 151.8 | 175.2   | 339.0   | 28.7       |
| Transport and communications   | 30.9  | 9.3         | 68.7  | 79.5    | 97.5    | 8.3        |
| Other services                 | 61.2  | 18.5        | 86.3  | 104.3   | 129.9   | 11.0       |
| GDP at factor cost             | 331.0 | 100.0       | 684.8 | 814.1   | 1 181.7 | 100.0      |
| Indirect taxes (net)           | 83.9  |             | 149.7 | 299.8   | 400.8   |            |
| GDP at market prices           | 414.9 |             | 834.5 | 1 113.9 | 1 582.5 |            |

Source: ECA estimates for 1970.

The Ivory Coast: Direction de la statistique; Les Comptes de la Nation, Comptes Provisaires 1977.

a/ Including marketable services.

### 3. Selected Economic Sectors

(a) Agriculture, forestry and fishing. Agriculture has remained the dynamic element behind the growth of the Ivory Coast economy providing the export revenues necessary to finance growth. The FAO has estimated growth in volume terms at 4.1 per cent per year which is exceptional compared with the performance of most other African countries. This result has been achieved through a number of favourable factors among them the very active policy pursued by the Government to increase the

productivity of agriculture and diversify its production. Other factors that have helped have been the continuing availability of relatively inexpensive migrant labour from neighbouring Sahelian countries, and the positive response of farmers to the prices available for their produce especially those arising from high world market demand.

The Ivory Coast: Table 2. Agricultural, fishing and forestry production, 1970 and 1974 - 1977 (thousands of tonnes)

|                                   | 1970  | 1974  | 1975  | 1976  | 1977     |
|-----------------------------------|-------|-------|-------|-------|----------|
| <b>Food crops</b>                 |       |       |       |       |          |
| Roots and tubers                  | 2 294 | 2 534 | 3 612 | 3 458 | ...      |
| Plantains                         | 650   | 720   | 1 150 | 1 035 | ...      |
| Rice (paddy)                      | 316   | 406   | 460   | 420   | 427      |
| Other cereals                     | 281   | 218   | 401   | 368   | ...      |
| Groundnuts                        | 42.8  | 46.5  | 50.1  | 48    | 48       |
| <b>Industrial crops</b>           |       |       |       |       |          |
| Coffee                            | 274   | 207   | 254   | 324   | 273      |
| Cocoa                             | 168   | 223   | 241   | 257   | 243      |
| Pineapples                        | 111   | 231   | 218   | 265   | 246      |
| Bananas                           | 179   | 211   | 188   | 145   | 165      |
| Palm products                     | 480   | 916   | 953   | 976   | 800      |
| Cotton                            | 34    | 59    | 61    | 65    | 75       |
| Fish catch                        | 72 a/ | 67.5  | 77.6  | 94.5  | 105.5    |
| Timber (thousand m <sup>3</sup> ) | 3 464 | 4 669 | 3 972 | 4 744 | 5 200 a/ |

Source: As table 1.

a/ Estimates.

Tubers and roots are the most important food crops, yams in particular, and production is sufficient to cover the needs of the population, though the rapidly increasing urban population has created some problems. In 1977 climatic conditions have not been as favourable as usual and this resulted in lower food crops and sharp rises in food prices in urban centres. For cereals, the Government programme has aimed at increasing rice production in order to reach self-sufficiency for a product which is rapidly becoming the staple food in the urban areas and has met with great success. Production is reported at 477,000 tonnes in 1977 against 316,000 tonnes in 1970, an increase of 32 per cent over this seven year period. For commercial crops which supply the bulk of exports, there have been substantial increases for most of them, despite yearly fluctuations due to the climate. For coffee a high point was reached in 1976 with a production of 314,000 tonnes. In the case of cocoa, the highest production to date was also recorded in 1976 with 257,000 tonnes. The output of bananas for export has fallen from its peak of 211,000 tonnes in 1974 to 165,000 tonnes in 1977. Cotton production has constantly increased and reached 75,000 tonnes in 1977 against 34,000 tonnes. Output of palm products reached 976,000 tonnes in 1976 before falling to 800,000 tonnes in 1977 but at this level it was 67 per cent higher than in 1970; the Ivory Coast has now become an important world producer of palm oil.

The climate of the Ivory Coast is not favourable to animal husbandry and a large part of the meat consumed is imported chiefly from the Sahel countries. In 1974 it was estimated that 43 per cent of the meat consumed was imported. Most of the cattle are in the northern areas being raised by nomadic cattle breeders. In 1977 the cattle herds were estimated at 550,000 head compared with 1 million sheep, 800,000 goats and 285,000 pigs. Despite the climatic handicap, animal husbandry is being developed and a special effort is being made over cattle.

The long coastline makes conditions very favourable for fishing. The fish catch had risen to over 100,000 tonnes in 1977 but still remains insufficient to cover domestic needs. In 1976 total fish consumption was 190,000 tonnes of which 105,000 tonnes or 55 per cent were imported.

Forestry is one of the foundations of the growth of the country and there was a generally upward trend in exports up to 1973. However in 1974 with the reduced demand for timber in European markets, exports fell by 13.7 per cent in volume and there was a sharper decline of 22.5 per cent in 1975. Exports recovered in 1976 and 1977 and in the later year were 31 per cent higher than in 1970. In 1978 according to early estimates production has again fallen because of a lower demand due mainly to competition from Asian producers. However, timber output is meeting serious problems, one of them being the depletion of the wood reserves. The exploitable area has fallen from 10 million hectares in 1956 to only 4 million in 1976, and this has created the danger of a possible exhaustion of the forests to guard against which conservation measures are being taken. Local processing of wood has been rising in order to increase the proportion of processed items in timber and wood products exported. A recently announced project is one for paper pulp in San Pedro but this is likely to take some time to reach the stage of production.

In agriculture the authorities consider that in the next phase of growth, basic technical changes must be made in the agriculture sector involving a modernization of all production techniques. The successful policy of diversification which has led to the successful development of palm products, pineapples, sugar and cotton now needs to be supplemented by technical improvements, especially at the level of the peasant producer.

(b) Energy. Most energy needs of the country are covered by oil imports, and the contribution of electricity produced by harnessing water supplies accounted for one third of total electricity output in 1977. In 1976 oil imports reached 1.7 million tonnes against 1.2 million tonnes in 1973, a rapid rate of increase despite higher prices. As for electricity production this has risen at the high rate of 13.4 per cent a year since 1970, and has been helped by a policy of distribution of electricity to more of the population. This has met with remarkable results and in 1974, 43.2 per cent of the population was supplied with electricity against only 17 per cent in 1962. Oil has recently been discovered in off-shore deposits but the amount is not known and exploitation has not begun. However, it is reported that the expected production will be enough to cover the Ivory Coast requirements.

(c) Manufacturing. Growth has been very rapid in this sector. Value added at current prices grew by 19.1 per cent per year from 1970 to 1977 while an index computed by the Ministry of Finance shows an average annual growth of 16.1 per cent in volume terms. In the years 1974 to 1977, for which constant price estimates are available, the average rate of growth was 9.7 per cent per year. The industrial structure is diversified but is mainly a combination of consumer goods factories and plants processing agricultural products before export. In the food, drink and tobacco subsector, the production of beer occupies a prominent position with 850,000 hl produced in 1976. The treatment of palm products has grown rapidly and in 1976 153,000 tonnes of palm oil were produced. Textile industries have also become increasingly important but the timber processing industries represent only 7.3 per cent of the value added by manufacturing as a whole despite the large quantities of timber cut in the country. Chemical industries now contribute about one fifth of the output from the sector chiefly because of petroleum refining.

Despite the rapidly growing GDP, the internal market in the Ivory Coast is small and many of the opportunities offered by import substitution industries have already been covered. As outlined in the development plan for 1976-1980, exports of manufactured products are necessary for the further growth of the manufacturing sector. However after an initial rapid rise of industrial exports between 1970 and 1974 obstacles have appeared partly because of the protective measures taken by EEC countries. It also appears that the Ivory Coast is ill-equipped to compete with countries like South Korea or Singapore in supplying third markets.

(d) Construction. The construction sector has grown very rapidly mainly because of the expansion of public investment. The growth of the sector was 47.7 per cent at current prices in 1975, 29.4 per cent in 1976 and 53.6 per cent in 1977. There has been a large rise in employment and total industrial employment was 57,915 in 1976 compared with 36,300 in 1970.

(e) Transport services. There are two main ports, the port of Abidjan, the most important and the port of San Pedro, built in 1972. Traffic has risen regularly in both ports to reach 9,216,000 tonnes in 1977 against 5,081,000 tonnes in 1970 an increase of 81.4 per cent equivalent to a rate of 8.5 per cent per year. In view of the importance of maritime traffic, the country is building up its own merchant fleet; there was a target for 1978 of 8 container-ships and between 1978 and 1980, 12 other ships were to be added to the fleet.

A railway of 1,140 km links Abidjan to Ouagadougou the capital of the Upper Volta in the north. This line is important both to the Ivory Coast and the Upper Volta, but traffic has not grown much since 1970. Between 1970 and 1976, the quantity of goods carried increased by only 14.7 per cent or an average annual rate of growth of 2.3 per cent only. The drought which affected the Upper Volta in 1973 and 1974 must have been a factor in this trend. For passenger traffic there was an increase of 38.6 per cent between 1970 and 1976.

Road transport is increasingly important with the development of the road network and the rising number of vehicles in use. In 1976 the length of road was estimated at 40,000 km of which 2,500 km were tarmac roads. The number of vehicles in 1976 was 140,000 more, than 2.7 times the number registered in 1968, with a growth rate of more than 10 per cent a year.

Air transport has grown more rapidly than other transport services, the number of passengers handled at Abidjan airport excluding those in transit rose from 214,300 in 1970 to 546,600 in 1977.

The Ivory Coast: Table 3. Selected transport indicators, 1970 and 1974-1977

|                                | 1970  | 1974  | 1975  | 1976  | 1977  |
|--------------------------------|-------|-------|-------|-------|-------|
| <u>Railway</u>                 |       |       |       |       |       |
| Passengers (thousands)         | 2 565 | 2 931 | 3 007 | 3 254 | 3 555 |
| Freight (thousand tonnes)      | 755   | 795   | 725   | 866   | ...   |
| <u>Ports</u>                   |       |       |       |       |       |
| Freight (thousand tonnes)      | 5 081 | 7 417 | 6 995 | 8 919 | 9 216 |
| <u>Airports (Abidjan)</u>      |       |       |       |       |       |
| Passengers handled (thousands) | 214.3 | 356.7 | 397.7 | 462.0 | 546.6 |
| Freight (thousand tonnes)      | 10.3  | 13.8  | 14.8  | 16.8  | 20.2  |

Source: The Ivory Coast "La Côte d'Ivoire en chiffres" 1978-79.

#### 4. Expenditure and the GDP

Since 1970 expenditure has grown less than GDP, and domestic savings which were 25 per cent of GDP at market prices in 1970 had risen to 34.1 per cent in 1977. At the same time net exports of goods and services have risen from 3 to 6.8 per cent of the total. Private consumption fell from 59.3 per cent of GDP in 1970 to 52.1 per cent in 1977 and for public consumption the reduction was from 15.7 to 13.8 per cent. Gross fixed capital formation has increased very rapidly since 1970 and despite the substantial rise in GDP at current prices the proportion of GDP on investment including stock changes has risen from 22 per cent in 1970 to 27.3 per cent in 1977.

In savings a new development since 1975 has been the sharp fall of savings made by firms and businesses while the public sector has become the major source of savings. In 1977 the savings of businesses and firms had fallen to 13.2 per cent of domestic savings while public savings represented 82.6 per cent. The Government has thus become the major agent in investment decisions through its control of most of the required resources.

The Ivory Coast: Table 4. Expenditure and the GDP 1970 and 1975-1977  
(billions of CFA francs)

|  | 1970  | Percentage | 1975  | 1976    | 1977    | Percentage |
|--|-------|------------|-------|---------|---------|------------|
| Private consumption                        | 246.1 | 59.3       | 504.2 | 616.4   | 824.7   | 52.1       |
| Public consumption                         | 64.9  | 15.7       | 141.8 | 180.3   | 217.9   | 13.8       |
| Gross fixed capital formation              | 83.9  | 20.2       | 183.9 | 247.2   | 394.4   | 24.9       |
| Change in stocks                           | 7.4   | 1.8        | 3.4   | 8.9     | 37.7    | 2.4        |
| Exports less imports of goods and services | 12.6  | 3.0        | 1.2   | 61.2    | 107.8   | 6.8        |
| GDP at market prices                       | 414.9 | 100.0      | 834.5 | 1 114.0 | 1 582.5 | 100.0      |
| Domestic savings                           | 103.9 | 25.0       | 188.5 | 317.3   | 539.9   | 34.1       |

Source: As table 1.

#### 5. External trade and balance of payments

Exports have grown very rapidly and particularly in 1976 and 1977; the total value of exports was CFAF 529.2 billion in 1977 against CFAF 130.2 billion in 1970. The increase in value was equal to an annual average of 22.2 per cent and volume rose by 2.7 per cent a year based on the three most important export commodities. These three main export products, coffee, cocoa and wood, represent about 70 per cent of the total value of exports, and coffee rose sharply in price in 1976 and 1977 while there were high prices for cocoa in 1977 and 1978. The unit value of wood exports doubled between 1970 and 1977 and their volume rose on average by 3.9 per cent a year. In 1977 itself there was a fall in total export volume of about 10 per cent because of lower volume exports of coffee and cocoa. The average growth rate of the value of imports was 21.9 per cent a year or just below that of exports and there was a trade surplus of CFAF 99.6 billion in 1977 compared with CFAF 22.5 billion in 1970. The unit value of imports was 203 per cent higher in 1977 than in 1971 and the annual rise in import volume in that period was 11.4 per cent a year.

In all the years covered in table 5, the balance of payments was in surplus except in 1975 when reserves were reduced by nearly CFAF 20 billion. The net outflow of private transfers increased from CFAF 14.1 billion in 1970 to CFAF 80 billion in 1977 and in all years there were large inflows of capital with the net total rising from CFAF 20.8 billion in 1970 to CFAF 61.8 billion in 1975 and CFAF 125.6 billion in 1977.

The Ivory Coast: Table 5. External trade and balance of payments, 1970 and 1975-1977 (billions of CFA francs)

|                            | 1970  | 1975  | 1976  | 1977  |
|----------------------------|-------|-------|-------|-------|
| <u>External trade</u>      |       |       |       |       |
| Exports                    | 130.2 | 254.6 | 392.5 | 529.2 |
| Imports                    | 107.7 | 241.4 | 311.6 | 429.6 |
| Surplus                    | 22.5  | 13.2  | 80.9  | 99.6  |
| <u>Balance of payments</u> |       |       |       |       |
| Goods and services (net)   | -5.0  | -51.9 | 2.4   | -18.0 |
| Private transfers (net)    | -14.1 | -38.0 | -66.5 | -88.0 |
| Public transfers (net)     | 8.6   | 7.7   | 4.7   | 8.0   |
| Capital (net)              | 20.8  | 61.8  | 64.4  | 125.6 |
| Reserves and related items | -9.8  | 19.9  | -7.0  | -27.6 |
| Errors and omissions       | -0.5  | 0.5   | 2.0   | nil   |

Source: IMF, International Financial Statistics, vol. XXX No. 12, December 1977; vol. XXXII No. 2 February 1979.

#### 6. Development aid and the external debt

Despite its large domestic savings, the high net outflow of private transfers and the size of the investment programme result in high inflows of foreign capital. The inflow of resources increased at a high rate between 1975 and 1977 and as shown in the preceding section the capital inflow has been rising rapidly as the investment programme could not be financed from domestic resources. In 1977 the external debt increased by 78 per cent after rising by 59 per cent in 1976. Though the debt service represented only 11.1 per cent of exports in 1977, the considerable increase of the public debt is a preoccupying phenomenon because a large part of it is used in public works which only indirectly add to productive capacity and have a long gestation period.

At the end of 1977 the total external public debt was CFAF 927.2 billion.

#### 7. Government revenue and expenditure

There was a rapid expansion of government revenue and expenditure throughout the period and fiscal receipts grew from CFAF 75.6 billion in 1970 to CFAF 307.2 billion in 1977. Total expenditure was estimated at CFAF 98.19 billion in 1970 and CFAF 431.7 billion in 1977. The most rapid growth was in capital expenditure where appropriations increased from CFAF 38.1 billion in 1970 to CFAF 179.1 billion in 1977. This was in line with the policy of the Government to sustain growth through large public investments especially in the situation created by the world recession after 1974.

In 1976 and 1977 the high prices for coffee and cocoa helped to raise the level of government revenue appreciably and the expenditure was increased accordingly.

The Ivory Coast: Table 6. Government revenue and expenditure, 1970 and 1975-1977  
(billions of CFA francs)

|                       | 1970  | 1975  | 1976  | 1977  |
|-----------------------|-------|-------|-------|-------|
| Fiscal receipts       | 75.62 | 168.5 | 237.3 | 307.2 |
| Other receipts (net)  | 14.12 | 45.2  | 54.2  | 60.2  |
| Recurrent expenditure | 60.06 | 171.5 | 214.7 | 252.6 |
| Capital expenditure   | 38.13 | 90.0  | 123.2 | 179.1 |
| Financing required    | 8.45  | 47.8  | 46.5  | 64.3  |

Source: Based on National Data from the Ivory Coast.

External borrowing has increased substantially in recent years and in 1977 had been estimated at CFAF 48.5 billion with a large rise to CFAF 82.7 billion in 1978. The total budgeted expenditure in 1978 was CFAF 487.1 billion.

#### 8. Money and banking

There was a very sharp fall in net foreign assets of the Ivory Coast between 1970 and 1976 from CFAF 44.29 billion to a negative CFAF 2.6 billion but in 1977 and 1978 these assets recovered so that at August 1978 they totalled CFAF 53.05 billion. This movement in net foreign assets had an important impact on money supply but the major influence was the growth in private sector credit.

Net claims on the Government were negative throughout the period under review and showed an increasing trend so that at December 1977 the net deposits of the Government in the banking system were CFAF 76.38 billion compared with CFAF 16.24 billion on December 1970. In the first eight months of 1978 these net deposits rose to CFAF 119.07 billion.

Claims on the private sector rose at a very rapid rate from CFAF 92.68 billion at the end of 1970 to CFAF 605.51 billion at December 1977 and the rate of increase averaged 30.8 per cent a year.

The effect of these movements on money supply was to increase money proper by an average of 24.3 per cent a year and the total of money and quasi-money by 25.5 per cent a year between 1970 and 1977. These high rates of increase in money supply have had inflationary consequences despite the substantial GDP growth rates of constant prices.

In the first eight months of 1978 money and quasi-money fell by 3.4 per cent and this should have had its own impact on the future rate of inflation in the Ivory Coast.

The Ivory Coast: Table 7. Monetary survey, 1970 and 1975-1978 (billions of CFA francs)

|                             | End<br>1970 | End<br>1975 | End<br>1976 | End<br>1977 | August<br>1978 |
|-----------------------------|-------------|-------------|-------------|-------------|----------------|
| Net foreign assets          | 44.29       | 2.29        | 2.60        | 35.83       | 53.05          |
| Domestic credit             |             |             |             |             |                |
| Net claims on Government    | -16.24      | -25.29      | -21.55      | -76.38      | -119.07        |
| Claims on private sector    | 92.68       | 292.52      | 391.89      | 605.51      | 628.09         |
| Money                       | 83.54       | 179.86      | 260.11      | 382.70      | 313.29         |
| Quasi-money                 | 23.24       | 64.72       | 89.65       | 141.40      | 192.91         |
| Long-term foreign borrowing | 5.69        | 10.08       | 11.81       | 14.28       | 14.56          |
| Other items (net)           | 8.25        | 14.91       | 6.18        | 26.57       | 41.32          |

Source: IMF, International Financial Statistics, vol. XXX, No. 12, December 1977, vol. XXXII, No. 2, February 1979.

#### 9. Wages and prices

Because of the high rate of inflation and of the real growth of the economy causing pressures on the job market, wages have increased rapidly and for industry between 1974 and 1977 the rate of increase was over 10 per cent per year. Adjustments have been made several times to the minimum wage rate which reached CFAF 143 per hour in January 1977 against CFAF 58.3 in January 1970. Upward adjustments were also made to salaries of civil servants and to other categories of workers.

Before 1973, the rate of inflation was low and the average increase in consumer prices was only 3 per cent between 1970 and 1973. In 1974 prices increased by 17.4 per cent and in 1975 and 1976 by 11 to 12 per cent a year. In 1977 poor crops led to a high price increases for food products and as a result the rate of inflation rose to 27.4 per cent. The policy of high credit expansion to the private sector has played its own part in consumer price increases since 1974. In 1978 consumer prices in the third quarter of the year were 8.3 per cent higher than in the same period of 1977.

#### 10. Employment and unemployment

The census taken in 1975 showed that the Ivory Coast population was growing at the high rate of 4 per cent per year. This rate is explained by the large immigration from Sahelian countries to the Ivory Coast attracted by the employment opportunities available. The growth of employment has been rapid in particular in commercial agriculture where labour shortages are common. In industry the number of workers has risen from 36,300 in 1970 to 57,915 in 1977 or by 7.8 per cent a year. Despite this over-all favourable situation there is sizeable unemployment in the urban sector and in Abidjan in particular probably because of the attractions of these areas and the high level of past employment creation.

## 11. Other social sectors

(a) Education. Primary enrolments had risen to 740,375 pupils in 1976/1977, the enrolment ratio being near 77 per cent. As well as an increase in the enrolment considerable efforts have been to improve the quality of education, as shown by the spreading of televised teaching to more than half of the primary school students. The teaching staff which previously included many French nationals is now completely Ivoirian.

The growth of secondary education has been rapid and enrolments doubled from 54,838 students in 1970 to 113,366 students in 1977. Here the teaching staff still includes a large number of French technical assistant personnel whose numbers reached 1,400 in 1974/1975. There were 8,165 students in vocational education in 1974/1975. University education has also expanded and there were 7,153 university students in 1976/1977, excluding students abroad. The growth of university education has been fast as there were only 2,701 students in 1969/1970. In 1977/1978 the total at university is estimated at 8,500.

(b) Health. The health sector has steadily improved in terms of hospital services available to the population, the numbers of doctors and para-medical personnel. However, in 1975, there were 385 doctors in the Ivory Coast or one doctor for 17,400 people which is still high ratio. There were 8,444 hospital beds in 1975 or 793 people per bed, a ratio more favourable than in 1969 when there were 835 people per hospital bed. One important element to take into account in judging the situation of the health services is the existence of the preventive medical services which are constantly checking on the health of the population. In 1978 measures were taken to create 200 mobile medical units to reinforce the preventive services at the Ministry of Health.

## B. MAJOR PROBLEMS

The Ivory Coast has an exceptional growth record, having maintained an average rate of growth of GDP since the beginning of the 1960s of 7 to 8 per cent a year. However there are difficult problems in the economy on whose solution further growth depends. First of all the Ivory Coast has come to depend on a cheap flow of migrant labour mainly from the Upper Volta for its commercial farming sector and for the lower ranks of its urban work force and it is unlikely that this situation will continue without change. The skilled personnel both in industry and in the public administration are filled to a high extent by European expatriates who despite their contribution to growth of the economy are paid high salaries while a substantial part of these earnings leave the economy as private transfers. Wage costs in the Ivory Coast are generally high so that recently established export industries have found themselves in a weak competitive position.

The Ivory Coast growth has been remarkable in that it is mainly based on agriculture. But despite the high gains made from coffee and cocoa exports, and despite the successful diversification programme which has led to the emergence of the Ivory Coast as an important producer of palm oil and pineapples, much of the agricultural sector remains technically backward with very low yields per hectare.

Since 1975 to counter the effect of recession and inflation in industrialized countries, the Government has considerably increased its public investments but has also contracted large external loans and the continuation of such a policy of reliance on external loans will create its own problems over future debt service payments if there should be any interruption in the long-term growth of exports from the country.

#### C. INTERNAL DEVELOPMENT POLICIES

The period 1970-1977 coincides with two five year plans, one for 1971 to 1975 and the other still running from 1976-1980. In both plan periods, the objective was to ensure rapid growth while maintaining basic equilibrium in the balance of payments, and between the demand and supply of labour. For the current plan though the main priorities have not changed essentially from those of the previous plan there is a clear option towards a more diversified economic growth. In agriculture, the objective is to modernize fully the structure and techniques of production. In industry though import substitution opportunities will continue to be explored, the main objective is to develop export industries making maximum use of local raw materials. To lessen the dependence of the Ivory Coast on foreign labour a policy of Ivoirization is being followed. This is linked to a thorough overhaul of the education system which in its present form is not well adapted to the needs of an underdeveloped economy.

#### D. PROSPECTS FOR 1978 TO 1980

The economy has registered a high rate of growth in 1978 estimated at 7 per cent in real terms despite the fall in coffee prices. Beyond 1978 the outlook depends on the situation on foreign markets and here prospects are less favourable than they were in 1976 and 1977. However, the current growth momentum should enable the economy to continue to advance at a satisfactory rate in 1979 and 1980.

KENYA

A. ECONOMIC AND SOCIAL DEVELOPMENTS, 1970-1978

1. Introduction

The steady advance of the Kenya economy was interrupted in the year 1974 and 1975 by the world recession. However, a sharp rise in coffee and tea prices in 1976 and 1977 enabled the growth momentum to be regained. On average GDP at constant factor cost rose by 5.2 per cent a year between 1970 and 1977, at current prices the growth rate was 17.7 per cent a year giving an average annual implicit GDP deflator of 11.9 per cent. In fact inflation has been high over this period and the rate of growth of consumer prices accelerated from an average of 5.7 per cent from 1970 to 1973 to 14.2 per cent from 1973 to 1977. One result has been that real wages have fallen by 11.3 per cent comparing 1977 with 1970 and this, accompanied by a substantial rise in farm incomes, has led to a narrowing of the gap between urban and rural living standards. One study also shows that there was a significant narrowing of income inequalities between 1969 and 1976 but that these inequalities still remain substantial.

In the field of external trade, the major developments have been first the multiplying of expenditure on imports with the major price rise coming in 1974, and secondly the coffee price boom of 1976 and 1977 which also sparked off substantial rises in tea prices as consumers switched away from the very high cost coffee. While the trade in petroleum products had been approximately in balance in 1970, in 1977 the net cost to Kenya was K& 43 million with imports of petroleum products valued at K& 115.4 million and equal to 22 per cent of total imports. The balance of payments was a cause for particular concern in the years 1974 and 1975 and in these two years the country's external reserves were run down substantially despite drawings on the IMF. Fortunately the reserves were built up again in 1976 and 1977 but these years also saw increased foreign borrowing. In recent years the net inflow of Government transfers has risen substantially.

There were almost continuous rises in the government recurrent budget surpluses between 1970/71 and 1977/78 and such surpluses have helped towards financing the much higher capital expenditure. Both recurrent and capital expenditures by the Government have risen more rapidly than the GDP at current market prices since 1970 and the higher levels of capital spending have been financed mainly by increases in borrowing on both external and internal account. In 1977/78 the estimates show that public debt interest had risen to K& 40 million of which K& 17.7 million was for interest on external debt. Debt redemption was K& 40 million including K& 34.6 million on the external debt. In 1970 total debt service charges on external debt had been only K& 8.2 million.

One feature of the monetary and banking statistics has been a rise in domestic credit from K& 94 million at December 1970 to K& 463 million at December 1977 an average annual rate of increase of over 25 per cent. This rise has been accompanied by rises in money of 19.5 per cent and quasi-money of 20 per cent yearly on the average. The high average annual rate of increase in total money supply including quasi-money of 19.8 per cent a year has reinforced inflationary pressures.

In the social field, apart from the impact of inflation on real wages already noted, the abolition of fees in standards I to V in 1974 has led to the enrolment rate at primary schools rising to 85.6 per cent of the eligible age group in 1977. There has also been a positive increase in the number of hospital beds available related to population and in the number of nurses and midwives in service. The provision of basic services in the rural areas has improved in a number of directions.

The present indicators show that in 1978 there will be a substantial reduction in total export earnings while imports will rise quite sharply in line with the relaxation in import and exchange controls and higher demand. The current account of the balance of payments is running a large deficit which is leading to a substantial reduction in net foreign assets despite a considerable capital inflow. At September 1978 these net foreign assets had fallen to K£ 126 million from K£ 209 million at December 1977. With such a decline in net foreign assets the money supply had risen only moderately up to September 1978; for money proper the increase was just over 2 per cent and including quasi-money it was 7 per cent. Domestic credit rose by 24 per cent between December 1977 and September 1978. In the first 9 months of 1978 the rise in the average of three consumer prices index numbers was 7.7 per cent compared with 13.8 per cent in the same period of 1977. Thus inflationary pressures are falling in the economy as a whole. For 1978 it has been forecast that the GDP will rise between 5 and 6 per cent at constant prices.

## 2. GDP by industrial origin

Measured at current prices the contribution of agriculture, forestry and fishing to total GDP rose from 33.3 per cent in 1970 to 38.3 per cent in 1977; over the same period the share of manufacturing industry rose from 12 to 12.7 per cent and of commerce from 9.3 to 11.7 per cent. For all other sectors their contribution to GDP fell with the most marked decline being for transport and communications from 7.9 to 4.3 per cent. Services other than transport and commerce produced 25.9 per cent of GDP in 1977 compared with 29.6 per cent in 1970. There was a decline in the relative importance of the semi-monetary economy from 23 to 19 per cent reflecting increased monetisation of the economy as a whole.

Constant price estimates provide a somewhat different story with the value added by agriculture, forestry and fishing falling from 33.8 to 28.9 per cent of GDP, the contribution of manufacturing industry rising from 11.1 to 15.5 per cent and that of all services from 46 to 47.5 per cent. The difference between the relative shares measured at current and constant prices reflects largely the improvement in the terms of trade of the farming sector vis-a-vis the rest of the economy. It has been estimated that farmers' terms of trade improved from 100 in 1972 to 152 in 1977 despite falls recorded in the years 1973, 1974 and 1975.

Growth of GDP at constant prices has been very uneven since 1973. In 1974 the rate of growth slowed to 3.7 per cent then fell to only 1.2 per cent in 1975; in 1976 and 1977 growth rates of 6.1 per cent and 7.3 per cent were recorded but the ending of the coffee boom will lead to a lower rate in 1978.

Against an average increase of 5.2 per cent a year for total GDP at constant prices between 1970 and 1977 agriculture rose by 2.8 per cent, manufacturing industry by 10.5 per cent and all services by 5.7 per cent. The rate of increase for transport and communications was only 1.9 per cent a year.

Kenya: Table 1. GDP by source, 1970 and 1975 - 1977 (millions of Kenya pounds)

|   | 1970  | Per-<br>cent | 1975    | 1976    | 1977    | Per-<br>cent |
|---|-------|--------------|---------|---------|---------|--------------|
| <u>At current prices</u>                      |       |              |         |         |         |              |
| Agriculture, forestry, fishing                | 172.8 | 33.3         | 324.0   | 428.3   | 620.9   | 38.3         |
| Mining  | 2.4   | 0.5          | 3.3     | 4.2     | 4.6     | 0.3          |
| Manufacturing                                 | 62.2  | 12.0         | 127.1   | 167.4   | 205.4   | 12.7         |
| Electricity, etc.                             | 11.9  | 2.3          | 20.0    | 23.1    | 32.7    | 2.0          |
| Construction                                  | 26.4  | 5.1          | 63.7    | 68.1    | 77.8    | 4.8          |
| Wholesale and retail trade                    | 48.7  | 9.3          | 121.9   | 144.5   | 190.4   | 11.7         |
| Transport and communications                  | 40.8  | 7.9          | 60.3    | 69.1    | 69.3    | 4.3          |
| Other services                                | 153.7 | 29.6         | 307.7   | 358.2   | 419.1   | 25.9         |
| Total at factor cost                          | 518.9 | 100.0        | 1 028.0 | 1 262.9 | 1 620.2 | 100.0        |
| <u>At constant (1972) prices<sup>a/</sup></u> |       |              |         |         |         |              |
| Agriculture, forestry, fishing                | 197.0 | 33.8         | 221.2   | 222.2   | 238.8   | 28.9         |
| Manufacturing                                 | 64.3  | 11.1         | 94.3    | 111.8   | 128.6   | 15.5         |
| Other industry                                | 52.9  | 9.1          | 61.8    | 63.2    | 66.8    | 8.1          |
| Services                                      | 267.3 | 46.0         | 348.9   | 373.1   | 392.6   | 47.5         |
| Total   | 581.5 | 100.0        | 726.2   | 770.3   | 826.8   | 100.0        |

Source: National data from Kenya.

a/ 1970 figures estimated from other data.

### 3. Selected economic sectors

(a) Agriculture, forestry, fishing. This is the most important economic sector; there is highly diversified crop production while livestock holdings are substantial and there is an important dairy industry.

Producer prices have increased fairly sharply between 1970 and 1977 although their combined impact on the total output volume has been only moderate. Some of the rises in producer prices are compared below with the rise in consumer prices.

Percentage increases 1970-1977

|                            |     |
|----------------------------|-----|
| Coffee producer price      | 430 |
| Tea producer price         | 219 |
| Sisal producer price       | 262 |
| Pyrethrum producer price   | 87  |
| Seed cotton producer price | 191 |
| Maize producer price       | 218 |
| Sugar cane producer price  | 182 |
| Milk producer price        | 149 |
| Consumer prices            | 111 |

In all cases except the producer price for pyrethrum the increase in prices received by farmers is well in excess of the rise in consumer prices.

The gross value of marketed agricultural output rose from K£ 85.4 million in 1970 to K£ 415.1 million in 1977 and there were particularly large increases in 1976 and 1977. However, an early estimate suggests that gross farm revenue will fall from K£ 415 million in 1977 to around K£ 307 million in 1978 mainly because of lower coffee and tea receipts which earned K£ 192 million and K£ 93 million respectively in 1977.

Kenya: Table 2. Commercial agricultural production, 1970 and 1975 - 1977

|                              | 1970    | 1975    | 1976    | 1977    |
|------------------------------|---------|---------|---------|---------|
| Coffee (thousand tonnes)     | 58.3    | 66.2    | 80.3    | 97.1    |
| Tea (thousand tonnes)        | 41.1    | 56.7    | 62.0    | 86.3    |
| Wheat (thousand tonnes)      | 221.5   | 145.5   | 186.8   | 169.9   |
| Maize (thousand tonnes)      | 205.7   | 487.8   | 564.7   | 424.0   |
| Sisal (thousand tonnes)      | 43.9    | 43.6    | 33.6    | 33.8    |
| Rice paddy (thousand tonnes) | 28.5    | 32.1    | 38.7    | 41.4    |
| Sugar cane (thousand tonnes) | 1 451.2 | 1 854.6 | 1 652.6 | 1 888.1 |
| Pyrethrum extract (tonnes)   | 95.0    | 203.9   | 166.1   | 144.5   |
| Milk (million litres)        | 256.8   | 230.6   | 208.7   | 259.5   |

Source: National data from Kenya.

Most of the products in table 2 show substantially increased output in 1977 compared with 1970. Exceptions are wheat and sisal with lower output while for milk the increase is only 1 per cent.

An index of agricultural output based on 1972 shows that production in 1977 was 21.1 per cent more than in 1972. Some very indifferent climatic years in the middle years of the decade prevented farmers taking full advantage of the higher producer prices but climatic conditions in 1977 were much more favourable. In 1978 rainfall was heavy and coffee production has suffered to some extent and a substantial fall in output has been forecast from the 1978/79 coffee crop.

A major new demand for forest products arose when the pulp and paper mill at Webuye came into production. In 1977 this plant used 685,000 cubic metres of logs, three times the level of 222,000 cubic metres in 1976. In addition some 360 sawmills consume about 500,000 cubic metres a year. There is a substantial use of timber for charcoal production.

Fish output reached 42,779 tonnes in 1977 compared with 28,923 tonnes in 1973. The catch had been falling up to 1975 but heavy rains raised the level of Lake Turkhana and the catch from that lake quadrupled in 1976.

The policy directives for the new development plan under preparation for 1979 to 1983 suggest, by its emphasis on a better utilization of Kenya's resources of land, labour and raw materials, that productivity in agriculture is still low leading to poverty for those producers with small land-holdings. The land has a potential for substantial increases in output and there is also scope for making more land available for productive use by reclaiming swamp areas and valley floor drainage. Easier access to credit, more extension services, co-operative developments, improved transport and more irrigation schemes are all expected to help increase agricultural output.

(b) Mining. This is still a relatively small sector which contributed only 0.3 per cent of GDP in 1977. There have been developments in the period to 1977 and the most important was the growth of fluorspar mining. Output figures are incomplete but they suggest that production of soda ash fell between 1970 and 1977 while for fluorspar there was a very large increase. Table 3 gives information on the sales values of the more important minerals.

Kenya: Table 3. Sales of minerals, 1970 and 1975 - 1977 (millions of Kenya pounds)

|                    | 1970 | 1975 | 1976 | 1977 |
|--------------------|------|------|------|------|
| Soda ash           | 1.73 | 2.67 | 3.02 | 2.64 |
| Fluorspar          | 0.04 | 1.57 | 1.79 | 2.83 |
| Salt               | 0.39 | 0.17 | 0.67 | 0.72 |
| Limestone products | 0.17 | 0.38 | 0.43 | 0.53 |
| Other              | 0.20 | 0.76 | 1.81 | 2.09 |
| Total              | 2.53 | 5.55 | 7.72 | 8.81 |

Source: National data from Kenya.

The increase in the value of other minerals is due primarily to increased production of precious and semi-precious stones.

(c) Manufacturing. Despite a setback in 1975 when there was no growth in this sector, output has recorded a very high growth rate since 1970 averaging about 10.1 per cent a year. Details are available from an index of production which show that the fastest growing sectors of industry since 1970 have been beverages and tobacco, textiles, leather and footwear, printing and publishing, paper products, rubber and plastic products, metal products, electrical machinery, and transport equipment.

Kenya: Table 4. Index numbers of manufacturing output by sector, 1970 and 1975 - 1977  
(1972 = 100)

|  | 1970 <sup>a/</sup> | 1975 | 1976 | 1977 |
|--|--------------------|------|------|------|
| Foodstuffs                             | 86                 | 123  | 151  | 163  |
| Beverages and tobacco                  | 78                 | 136  | 146  | 170  |
| Textiles                               | 69                 | 143  | 141  | 184  |
| Clothing                               | 102                | 85   | 101  | 150  |
| Leather and footwear                   | 68 <sup>b/</sup>   | 184  | 181  | 190  |
| Wood, cork and furniture <sup>b/</sup> | 78                 | 118  | 114  | 129  |
| Paper products                         | 88                 | 98   | 141  | 170  |
| Printing and publishing                | 88                 | 148  | 156  | 238  |
| Basic industrial chemicals             | 85                 | 89   | 84   | 76   |
| Petroleum and other chemicals          | 85                 | 117  | 133  | 151  |
| Rubber products                        | 72                 | 103  | 146  | 170  |
| Plastic products                       | ..                 | 244  | 310  | 383  |
| Non-metallic minerals <sup>b/</sup>    | 93                 | 105  | 101  | 157  |
| Metal products                         | 83                 | 118  | 178  | 207  |
| Transport equipment                    | 92                 | 102  | 111  | 178  |
| Other <sup>b/</sup>                    | 80                 | 104  | 110  | 127  |
| Total (all items)                      | 84                 | 121  | 143  | 165  |

Source: National data from Kenya.

a/ Based on 1969 index reworked to 1972 base.

b/ Unweighted average of more than 1 index number.

The output of manufacturing industry is still heavily oriented towards import substitution. Exports have been developed but their value apart from petroleum products is still relatively small. The main items exported include six petroleum products, cement, canned pineapples, canned beef, pyrethrum extract, tanned hides and skins and insecticides. More recently exports of printed items and paper have become more significant. In 1977 African countries took 36 per cent of the more important manufactured items; petroleum products made up 78 per cent of these exports to African countries.

The emphasis in the new plan period is for the manufacturing sector to become more export-oriented while the import-substitution component of the sector as a whole must minimize its foreign exchange requirements. It must also increase its labour absorptive capacity. One result of this policy may be to lead to increasing shift production in manufacturing enterprises to make best use of the capital already invested in equipment.

(d) Electricity. There has been a rapid growth in capacity and production since 1970 with capacity rising from 153.2 MW to 338.7 MW and production from 531.4 million kWh to 1,197.3 million. Imports from Uganda have increased only moderately from 247.2 million to 271.8 million kWh. The substantial increase in consumption is in line with the growth rate of the economy.

(e) Construction. This sector has shown a decline in activity since 1972 with value added at constant prices in 1977 only 87 per cent of that recorded in 1972. This poor performance is related to the generally low growth of the economy particularly in the years 1974 and 1975. Private sector projects appear to have fallen off substantially but there was at least a sustained level of activity in the public sector. The indications are that the year 1978 will be better as building plan passed by Nairobi City Council in 1977 were more than twice as high as in 1976 while the Government capital budget calls for substantial increases in expenditure in 1977/78 and 1978/79.

(f) Transport services. This is another sector showing a relatively poor performance since 1970 and here there has been the repercussions of the running down of activity by the East African Community Corporations followed by the abrupt transition to national corporations leading to some loss in performance. At the same time there was little increase in the total tonnage handled at Mombasa Port between 1970 and 1977 and the growth in passengers handled at Nairobi and Mombasa Airports appears to have stopped in 1976. Road transport services have shown substantial growth but measurement here is complicated by inadequate data. There was a loss of the promising road haulage traffic to and from Zambia in 1977 because of the prohibition of heavy vehicles in Tanzanian roads. The Tanzanian border closure later put a complete halt to intercountry road traffic between Kenya and Tanzania.

Some indicators of transport traffic figures are given in table 5.

Kenya: Table 5. Selected transport indicators, 1970 and 1975 - 1977

|                                       | 1970  | 1975  | 1976               | 1977  |
|---------------------------------------|-------|-------|--------------------|-------|
| <u>Mombasa Port</u>                   |       |       |                    |       |
| Freight handled (thousand tonnes)     | 5 793 | 5 948 | 5 913              | 5 972 |
| <u>Railways (Kenya region)</u>        |       |       |                    |       |
| Freight handled (thousand tonnes)     | ...   | ...   | 4 107              | ...   |
| <u>Roads</u>                          |       |       |                    |       |
| Commercial vehicles in use (thousand) | 52.7  | 79.2  | 85.0 <sup>b/</sup> | ...   |
| <u>Airports a/</u>                    |       |       |                    |       |
| Passengers handled (thousand)         | 1 028 | 1 676 | 1 776              | 1 618 |
| Freight and mail (thousand tonnes)    | 17.7  | 34.3  | 34.3               | 40.6  |

Source: National data from Kenya.

a/ Nairobi and Mombasa.

b/ Estimates.

The road network has been improved quite substantially since 1970 and in 1977 there were 4,376 km of bitumen roads including 2,549 km of trunk roads compared with 2,935 km and 1,882 km respectively in 1970. The total of gravel and earth classified roads had risen from 37,922 km to 46,027 km over the same period. The new plan period will probably see some change of emphasis in road development in favour of new access roads in potentially rich agricultural areas and a major emphasis is to be placed on the improvement of secondary and minor roads in rural areas. The programmes for road rehabilitation and maintenance are to be improved.

(g) Tourism. This was a fast growing sector in Kenya up to 1972 but since then all indicators show a much reduced rate of growth. Total days spent in Kenya by visitors were 4,768,000 in 1972 then fell in both 1973 and 1974, showed new growth in 1975 and 1976 with the total rising to 5,308,000 but then fell to 5,101,000 in 1977. The reasons for this very chequered record include the world recession, changes in currency values and particularly a sharp reduction in travel from Tanzania and Uganda. Hotel bed occupancy figures indicate that there has been a very substantial growth in the coastal area, particularly in the beach hotels but much slower growth elsewhere. Earnings from tourism have risen fairly rapidly reaching K£ 48.3 million in 1977. In recent years growth in earnings has been largely due to higher tariffs and prices.

#### 4. Expenditure and GDP

While GDP at current market prices rose by 18.1 per cent yearly on the average between 1970 and 1977, private consumption increased by 17.5 per cent, public consumption by 18.8 per cent and capital formation including stocks by 15.8 per cent yearly. Thus only public consumption has risen more rapidly than GDP over this period. There was an export surplus of goods and services in 1977 equal to 3.6 per cent of GDP while in 1970 there had been a small import surplus of less than 1 per cent of GDP.

Kenya: Table 6. Expenditure and the GDP, 1970 and 1975 - 1977 (millions of Kenya pounds)

| Current prices                                      | 1970  | Per-<br>cent | 1975    | 1976    | 1977    | Per-<br>cent |
|---|-------|--------------|---------|---------|---------|--------------|
| Private consumption                                 | 344.7 | 60.2         | 786.6   | 877.1   | 1 066.9 | 58.2         |
| Public consumption                                  | 93.1  | 16.2         | 212.8   | 247.2   | 312.5   | 17.0         |
| Gross domestic capital<br>formation                 | 112.7 | 19.7         | 242.5   | 292.0   | 388.7   | 21.2         |
| Change in stocks                                    | 27.0  | 4.7          | -13.8   | 6.6     | -0.7    | -            |
| Export <u>less</u> imports of<br>goods and services | -4.8  | -0.8         | -61.0   | 6.2     | 65.3    | 3.6          |
| Total GDP at market prices                          | 572.7 | 100.0        | 1 167.1 | 1 429.1 | 1 832.7 | 100.0        |

Source: National data from Kenya.

In 1977 gross domestic capital formation was equal to 21.2 per cent of GDP; in 1975 and 1976 the proportions had been 20.8 and 20.4 per cent respectively and in 1970 it had been 19.7 per cent.

The level of domestic savings exceeded expenditure on capital formation in 1977. In 1976 domestic savings were equal to 18 per cent of GDP. The 1977 experience can not be repeated in 1978 and it may even prove difficult to reach the level of 18 per cent recorded in 1976.

#### 5. External trade and balance of payments

The particularly high deficit on merchandise account in 1974 with imports exceeding exports by K£ 151 million proved to be exceptional against the record of the years 1970 to 1977 and this deficit was reduced progressively to reach the low figure of K£ 29.6 million in 1977. A major cause of the 1974 deficit was a sharp increase in imports mainly due to price rises. Corrective measures were taken in 1975 to contain imports and in 1976 and 1977 exports rose very rapidly due to the coffee boom.

Kenya: Table 7. External trade and balance of payments, 1970 and 1975 - 1977  
(millions of Kenya pounds)

|                            | 1970  | 1975   | 1976  | 1977   |
|----------------------------|-------|--------|-------|--------|
| <u>External trade</u>      |       |        |       |        |
| Exports                    | 108.8 | 288.0  | 345.1 | 501.8  |
| Imports                    | 158.0 | 362.6  | 407.0 | 531.4  |
| Balance                    | -49.2 | -124.6 | -61.9 | -29.6  |
| <u>Balance of payments</u> |       |        |       |        |
| Goods and services (net)   | -26.6 | -102.4 | -48.4 | -5.4   |
| Private transfers (net)    | -0.6  | -1.4   | -2.1  | 3.5    |
| Government transfers (net) | 9.6   | 19.9   | 15.6  | 26.0   |
| Capital                    | 31.9  | 68.9   | 71.0  | 90.4   |
| Reserves and related items | -16.1 | 16.9   | -35.7 | -112.7 |
| Errors and omissions       | 1.8   | -1.9   | -0.4  | -1.8   |

Source: National data from Kenya. Except for 1970 balance of payments for which IMF, International Financial Statistics, vol. XXX, No. 12, December 1977 is used.

For 1978 the forecast is for total exports of K£ 427 million and imports of K£ 630 million leading to a high deficit of K£ 203 million. In the period January to June 1978 the deficit was K£ 120 million. There had been a virtual elimination of trade with Tanzania in this period and this has contributed to a widening of the trade gap but the major reason was the decline in earnings from coffee and tea.

The balance of payments statistics show that both the capital inflow and net receipts of government transfers (aid receipts) have increased substantially since 1970. In 1977 these two items produced a net inflow of K& 116.4 million against K& 41.5 million in 1970. The overall balance of payments produced a net surplus of K& 112.7 million in 1977 which was used to raise the level of the country's foreign reserves.

In 1978 there was a rundown of net foreign assets of K& 54 million in the first nine months of the year reflecting the need to make use of some of the foreign reserves to balance the external payments account. It seems likely that there has also been a further substantial net inflow of both transfers and capital in 1978.

#### 6. Development and external debt

The balance of payments figures given above show that net transfers received by Government reached K& 26 million in 1977 compared with K& 15.6 million in 1976, K& 19.9 million in 1975 and K& 9.6 million in 1970. The budget estimates for 1978/79 show that a total of K& 21.0 million in external grants is expected for the central government budget compared with K& 17.2 million in 1977/78. Receipts from external loans have also been on a rising trend with the total for the central government budget increasing from K& 10.9 million in 1970/71 to K& 43.7 million in 1975/76, K& 29.8 million in 1976/77 and K& 50 million in 1977/78. The estimates show a total of K& 81 million expected in 1978/79.

The total external debt servicing charges in the estimates for 1977/78 were interest K& 17.7 million and repayments K& 34.6 million. The total of both in 1970 was only K& 8.2 million equal to 4.8 per cent of exports of goods and services. In 1976 this proportion was down to 2.5 per cent but is likely to have risen substantially in 1977/78 and has in fact been forecast for 1978 as 7 per cent of exports of goods and services.

#### 7. Government revenue and expenditure

In 1972 the ratio of government expenditure to GDP at market prices was 26 per cent and in 1977 this percentage had risen to 29 per cent. There has been a widening of government activity in the economy as a whole accompanied by a broadening of the tax base including the introduction of a sales tax.

Table 8 provides details of the central government budget for the financial years 1970/71 and 1975/76 to 1978/79. Both recurrent and capital expenditure have increased rapidly over the period shown in the table and recurrent revenue has also risen at a fast rate with the result that the recurrent surplus has risen releasing more funds for capital spending. However, the bulk of the capital budget is financed by external grants and loans and by internal borrowing.

The estimates for 1978/79 show recurrent revenue 415 per cent, recurrent expenditure 408 per cent and capital expenditure as 567 per cent of the level of 1970/71.

Kenya: Table 8. Government revenue and expenditure 1970/71 and 1975/76 - 1978/79  
(millions of Kenya pounds)

|                               | 1970/71      | 1975/76 <sup>a/</sup> | 1976/77 <sup>a/</sup> | 1977/78 <sup>a/</sup> | 1978/79 <sup>a/</sup> |
|-------------------------------|--------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Recurrent revenue             | 124.4        | 269.2                 | 320.6                 | 476.6                 | 516.0                 |
| Recurrent expenditure         | <u>111.3</u> | <u>246.8</u>          | <u>285.1</u>          | <u>431.1</u>          | <u>454.0</u>          |
| Surplus                       | <u>13.1</u>  | <u>22.4</u>           | <u>35.5</u>           | <u>45.5</u>           | <u>62.0</u>           |
| External grants               | 0.8          | 7.0                   | 10.5                  | 17.2                  | 21.0                  |
| External loans                | 10.9         | 43.7                  | 29.8                  | 50.0                  | 81.0                  |
| Long term domestic borrowing  | 8.1          | 52.8                  | 25.0                  | 90.0                  | 36.0                  |
| Capital expenditure           | <u>45.5</u>  | <u>126.3</u>          | <u>124.7</u>          | <u>236.8</u>          | <u>258.0</u>          |
| Overall deficit               | <u>-12.6</u> | <u>-0.4</u>           | <u>-23.9</u>          | <u>-34.1</u>          | <u>-58.0</u>          |
| Financed by:                  |              |                       |                       |                       |                       |
| Short term internal borrowing | 15.0         | 32.5                  | 29.7                  | 5.5                   |                       |
| Changes in cash balances      | -2.4         | -32.1                 | -5.8                  | 28.6                  |                       |

Source: National data from Kenya.

a/ Estimates or revised estimates.

The out-turn for 1977/78 was substantially below the revised estimates on capital account and here expenditure appears to have been no more than K£ 166.0 million. As a result, the full financing requirement shown in the estimates was not taken up. External grants and loans actually received were below the estimate and so was long term domestic borrowing. There was an overall surplus on government account instead of the forecast deficit. In 1977/78 defence expenditure accounted for K£ 72 million of the expenditure of K£ 100 million covered by supplementary estimates. The high level of both defence and education expenditure has led to a ceiling in percentage being placed on education expenditure. This percentage in 1978/79 was 32 per cent of recurrent civil expenditure (excluding Consolidated Fund Services). It will not be possible to increase this percentage in future years.

With buoyant revenue in 1977/78 and some savings the supply on recurrent account was more than that estimated with the total at least K£ 63 million. On the capital account, aid receipts (grants and loans) were K£ 48 million against the originally forecast K£ 67 million. Short-term commercial loans were used to finance purchases of railway and defence equipment of about K£ 47 million.

The high level of capital spending forecast for 1978/79 represents in part a re-vote of sums not spent on particular projects especially the Upper Tana Reservoir in 1977/78.

In his budget speech in June 1978 the Minister of Finance stated that with high inflation and the prospect of a sizeable balance of payments deficit, he could not rely entirely on deficit financing for the budget deficit estimated at K& 58 million. He was proposing that K& 5 million would be sought from the banks by requiring all banks to maintain a fixed proportion of their deposit liabilities in Government stocks.

Changes in tax rates proposed were also expected to reduce the overall deficit by a further K& 14 million to about K& 40 million.

#### 8. Money and banking

Between December 1970 and December 1977, the increase in domestic credit has been from K& 93.6 million to K& 462.8 million or by 391 per cent. Net claims on Government rose from K& 1.6 to K& 90 million and claims on the private sector increased from K& 86.6 million to K& 369.8 million. Net foreign assets rose from K& 80.8 to K& 180.0 million or by 123 per cent and this had a moderating impact on the growth of money supply. Money proper increased by 249 per cent, quasi-money by 264 per cent, the average rate of increase being 19.8 per cent a year. The rate of advance of money proper was 50 per cent in 1977 and of quasi-money 43 per cent; high rates indeed and leading to increased inflationary pressure.

Kenya: Table 9. Monetary survey, 1970 and 1975 - 1978 (millions of Kenya pounds)

|                             | End<br>1970 | End<br>1975 | End<br>1976 | End<br>1977 | May<br>1978 |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Net foreign assets          | 80.8        | -269.9      | -296.9      | 180.0       | 173.6       |
| Domestic credit             |             |             |             |             |             |
| Net claims on Government    | 1.6         | 386.7       | 464.3       | 90.0        | 73.1        |
| Claims on official entities | 5.4         | 15.1        | 10.7        | 13.0        | 17.2        |
| Claims on private sector    | 86.6        | 217.2       | 268.1       | 359.8       | 426.6       |
| Money                       | 120.5       | 227.0       | 283.7       | 421.3       | 419.9       |
| Quasi-money                 | 54.8        | 113.7       | 139.0       | 199.3       | 226.7       |
| Other items (net)           | -1.6        | 8.3         | 23.6        | 22.1        | 40.0        |

Source: IMF, International Financial Statistics, vol. XXX, No. 12, December 1977, vol. XXXI, No. 11, November 1978.

In 1978 by September there was a substantial fall in net foreign assets while domestic credit rose by 24 per cent. The total rise in money and quasi-money was 7 per cent with virtually all the rise due to higher savings and time deposits. This low rate of money supply increase in 1978 has been accompanied by a substantially reduced rate of consumer price increase.

In 1978 there was an increase in the liquidity ratio of the commercial banks to 20 per cent, the raising to 4 per cent of the cash ratio and a limit of  $1\frac{1}{2}$  per cent a month on the rate of growth of bank advances. In 1978/79 the aim was to reduce the growth of bank money to 18-20 per cent.

#### 9. Wages and prices

Wage guidelines have been operated over the last few years of high consumer price rises and one result has been that real wages have fallen by 11.3 per cent between 1970 and 1977. The reduction in real earnings at the higher salary levels has been more severe than for the lower income wage earners. In 1977 itself real earnings declined by 4.3 per cent.

The wage guidelines have been amended from 1st January 1978 to allow an additional element for productivity increases. Wage awards in 1978 were to be related to the cost of living and productivity increases so wage earners had an opportunity to make up some of the loss of real income suffered in the last few years.

There is a new emphasis in the fight against inflation after the years of high consumer price rises. The economy now has to face the need to build up its exports more rapidly and restrict the growth in imports. This can only be done if the prices of goods produced can sell competitively on export markets as well as being economical to purchase on domestic markets. Price rises have to be reduced to below the level of countries in competition with Kenya.

The average of three consumer prices index numbers rose at an annual rate of 5.7 per cent a year from 1970 to 1973 and then by 14.2 per cent from 1973 to 1977. In 1977 itself the increase was 12.8 per cent, in 1976 10.0 per cent and in 1975 17.8 per cent. In the first 9 months of 1978 these prices rose by 7.7 per cent with some evidence of a slowing down as the year advanced.

#### 10. Employment and unemployment

The total population in 1977 was approximately 14,350,000 and of these just over 5 million were in the labour force. There were 902,900 in wage employment in modern establishments in urban and rural areas, 57,000 self employed and unpaid family workers in the urban areas and 103,900 in informal establishments in the urban areas. The balance of the labour force, nearly 4 million, was engaged in rural sector activities mainly farming but also the substantial number of occupations in these areas.

Wage employment has grown from 644,500 in 1970 to 902,900 in 1977 a substantial growth rate of 5 per cent a year but still not enough to cater for all the persons wanting to work in this way. The increase in the labour force in 1978 was estimated at approximately 180,000; it is unlikely that more than 45,000 of these can expect to find employment in the modern sector of the economy. The majority of the new entrants must find gainful activity in small scale agriculture, the rural non-farm sector and the urban informal sector. This is why the 1979-1983 plan emphasizes rural development.

11. Other social sectors

(a) Education. Universal primary education came nearer to achievement in the period under review. The abolition of school fees in standards I to V in 1974 caused a very sharp jump in the primary enrolment and in 1977 there were 85.6 per cent of the 6-12 age group at school. Total primary enrolment reached 2,971,000 compared with 1,428,000 in 1970. In 1979 and 1980 tuition fees in standards VI and VII will be removed and one forecast is that there will be 3.7 million primary students in 109,000 classes. The rapid rise in enrolments has led to the employment of a greater proportion of untrained teachers; in 1977 the proportion had risen to 37 per cent compared with 26 per cent in 1970. Steps are proposed to train or phase out all untrained teachers as rapidly as possible. It is also proposed to retrain teachers to equip them better to meet their changing role.

Basic education at the primary level is to be given the highest priority, the subjects taught aiming at literacy, numeracy, scientific and social understanding and the development of practical skills. As most primary school leavers will work in the rural areas, there is to be a shift in emphasis towards improved quality and relevant education geared to self-employment in the rural and informal sectors.

In secondary education the most significant development in the recent period has been the growth in enrolments in unaided schools. The total secondary enrolment in 1970 was 126,855; in 1977 there were 127,996 students in aided secondary schools and 191,986 in unaided schools. In the new plan period to 1983 only a modest expansion of secondary education is to be attempted generally to redress imbalances in the availability of schools in different parts of the country. By 1983 15 government-aided secondary schools will be offering a full technical education programme. The existing polytechnics are also to be expanded and assistance given to the Harambee technical institutions recently under development. The aims and patterns of secondary education will be oriented towards better suiting the patterns of economic and employment opportunities.

The University of Nairobi is expected to reach its capacity of 6,000 students by 1983/84; there were 4,800 students in 1978/79. Expansion will concentrate on the Kenyatta University College with its enrolment rising from 1,450 in 1978/79 to 2,900 in 1983/84. In 1970 there were 2,786 university students.

(b) Health and nutrition. Despite the advances made in the provision of health services since 1970 there is still an inadequate coverage of the population due to insufficient service delivery points. Manpower problems include those of an unsatisfactory pattern in utilization of the persons presently in service and practical problems include shortages of drugs and equipment and an inadequate flow of health-related information.

In 1978 there were 191 health centres in the rural areas, 34 subcentres and 536 dispensaries, the numbers of each, except for the subcentres which have been upgraded, have risen fairly substantially since 1970. There were also 136 rural institutions run by churches and other private agencies but in general there are wide variations between districts in the availability of services while many rural health centres are poorly staffed due to the low training output.

There were 19,616 hospital beds in 123 hospitals in 1978. Including other institutions the total of beds and cots was 22,848 in 1977 giving a ratio of 1.59 beds per 1000 population. However the distribution favoured Nairobi province where there were 4.47 beds per 1000 people.

In 1977 there were 1,479 doctors (1 per 10,000 people) and 6,173 registered nurses and midwives (4.3 per 10,000 persons). There were also 7,426 enrolled nurses and midwives.

The programmes for the development of health services will concentrate on the control of diseases including the development of health information services; will give special attention to irrigation and settlement scheme areas; will aim at family planning promotion and reducing maternal and child mortality; will emphasize proper nutrition and will stress environmental aspects of health such as food safety, water quality, waste disposal, etc.

A number of new health centres and dispensaries will be built and others improved, expanded or upgraded. Some hospitals are to be improved and upgraded especially those used for training. In general the training programme is to be strengthened. Efforts will be made to ensure medical supplies and equipment are available in time and where required.

(c) Housing. There is a very serious shortage of housing for the low-income groups in both urban and rural areas. The housing programme for 1979-1983 calls for 73,310 units to be developed outside the traditional sector of the economy. This total includes 28,032 site and service plots while 10,000 units in existing squatter settlements will be upgraded. By increasing the supply of housing it is hoped to make some impact on the present high levels of rents caused by the overall housing shortage.

(d) Income distribution. The available evidence suggests that there has been some alleviation of income inequalities so far this decade, but despite this improvement the degree of income inequality still remains high. A major objective of policy is to further reduce the degree of inequality by widening the participation of Kenyans in the development process.

(e) Social welfare. This heading covers many aspects of the social scene not yet discussed. The Harambee project approach whereby individuals in a certain area club together to provide funds for particular projects has been markedly successful and in 1974-1978 about K& 28 million was collected for various schemes including water supplies, social projects and the like. In 1979-1983 a similar sum is expected to be collected.

There are now some 300,000 children aged 2-5 in day care centres and 1,500 classes for adult education. In 1978 it was estimated that there were still 4 million adult illiterates and if not checked this total would rise to 5 million by 1983. It is proposed to increase the number of classes to 3,600 by 1983.

There were 4,061,000 persons served by improved water supply schemes in 1977 and it is policy to extend to all the population the benefits of safe water supply sufficient for the requirements for livestock and domestic consumption by the year 2000. By 1983 it is expected that 6,948,000 or nearly half the total population will be covered by such water supply schemes.

The national social security fund covered 1,027,524 persons in 1977 and total contribution had reached K£ 98 million while the investments of the fund had risen to K£ 112 million. At present the fund is still increasing its assets but its outgoings will rise rapidly as a reasonable proportion of the contributors reach pensionable age.

In the field of nutrition a survey in 1977 showed that mild and moderate protein energy malnutrition was fairly widespread amongst the children examined. One third of all children surveyed had a weight for age index more than 20 per cent below standard.

#### B. MAJOR PROBLEMS

Some problem areas have already been touched upon but probably the most crucial one is the continuance of poverty amongst fairly large numbers of the population despite a very satisfactory rate of economic growth since independence.

The development of the rural sector has not been nearly as rapid as the rest of the economy and there are large numbers of rural poor living at low level of subsistence. In the urban areas the problem of the urban attraction has been created to a large extent because of the lack of extensive development in the rural areas. The urban poor are largely those persons without employment or living on fringes in the informal sector.

Rapid population growth has worsened unemployment and poverty and has increased the pressure of population on good agricultural land.

There is a crucial need to change the structure of the economy but as has been said "the days of the soft options are over and only hard choices lie ahead".

Inflation reached particularly high levels in the period 1974 to 1977 and if not reduced fairly swiftly it can negate Kenya's attempts to build up its export potential.

The balance of payments has created problems in a number of years so far this decade. The indications are that 1978 will only balance if there is a fairly substantial reduction in the level of the country's external reserves. Such reductions cannot be made for more than a limited period without creating the attendant difficulties that accompany a shortage of foreign exchange.

The level of government expenditure has probably reached a temporary plateau and already revenue shortages are making it difficult to carry out policies already agreed in sectors such as education.

Employment creation in the modern sector although relatively fast is not capable of absorbing more than about one quarter of the new entrants to the labour force.

Productive capacity has been built in many directions in the economy in past plan periods but this capacity is not being utilized in full.

### C. INTERNAL DEVELOPMENT POLICIES

New policies are being taken in the new plan shortly to be introduced covering 1979 to 1983.

The focus of the plan is the relief of poverty by increasing the incomes of small-holder families. Malnutrition, it is hoped will be reduced by educating people in how best to spend their money. There should be improvements in other basic needs such as health care, basic education, water and housing.

It is planned to improve the efficiency of the country's productive capacity. The large number of willing and potentially productive people will be given opportunities to earn incomes and to contribute to development. Land, labour and capital will all be used more productively. Policy is being oriented to this end.

Where possible the supply of productive agricultural land will be increased through programmes of swamp reclamation, valley floor drainage and flood protection. The Upper Tana Reservoir is one project to control the water flow but will also be linked to electricity production.

Farmers will be given easier access to credit, increased extension services and these together with more cooperative developments, minor and supplementary irrigation and improved transportation will all help to raise agricultural output.

The emphasis on rural development in the new plan will include rural non-farm activities which are now an important source of rural incomes. The development of arid and semi-arid lands will also receive attention.

The Government expects to enhance the attractiveness of living in rural and semi-urban areas by a whole set of packages.

The take-over of the East African Community functions will enable the successor institutions to serve Kenya's needs more effectively; this includes the rural areas. Other services to the rural areas such as credit savings channels, supplies of goods and services etc. etc. are to be expanded and their quality improved.

In 1978 itself the need to fight inflation had been recognised to ensure Kenya's retains its international competitiveness. This new emphasis calls for attention to wages, farm prices, customs tariffs, price control and monetary control.

The overall GDP growth rate in the plan is set at 6.1 per cent a year. This rate is more than the 5.2 per cent achieved in the seven years to 1977. Manufacturing industry is expected to grow at 9 per cent a year and agriculture including the semi-monetary sector at 4.8 per cent a year. Exports are forecast to grow at 6.4 per cent a year and imports at 4.5 per cent.

The emphasis on export industries calls for the diversification of exports and markets. Government assistance will be given to exporters trying to establish themselves in new markets. The manufacturing sector is being planned to be increasingly export-oriented and cost conscious.

The policies under health, education and housing have already been commented on in the relevant sections.

#### D. PROSPECTS FOR 1978 TO 1980

The year 1978 has already been covered with the forecast of a growth rate similar to that of the average of the seven years to 1977. For 1979 and 1980 the prospects will depend a lot on a continuation of the more rapid investment started in 1977 and 1978. The new plan is based on an investment rate equal to 20.6 per cent of GDP plus a further 2.2 per cent for increases in stocks. These rates are a little more than the averages achieved from 1970 to 1977 but if realized will help keep the construction sector functioning nearer its full capacity. The likely success in the export sector is more difficult to gauge and without such success there will be problems in finding enough foreign exchange to finance the higher imports of capital equipment and industry raw materials required. Probably the most appropriate forecast at present is for a continuation of the growth rate achieved in the first seven years of this decade. However, in 1979 itself the poor coffee harvest already forecast may make it difficult to achieve this rate.

LESOTHO

A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

1. Introduction

The years 1970 to 1978 have been ones of substantial change in Lesotho. While the statistical base for the GDP estimates is somewhat shaky it seems obvious that there has been a high growth rate of the economy at current prices and a reasonably satisfactory rate of growth at constant prices. Between 1970/71 and 1973/74 GDP at constant prices appears to have risen by about 6 per cent a year and from 1973/74 to 1977/78 at 5 per cent a year. There was a particularly high growth rate in 1977/78 helped by much increased development expenditure.

Lesotho continues to send large numbers of its male adults to work abroad and as a result very substantial sums accrue to the economy in the form of migrant remittances and what is brought back in kind after periods of employment. The sharp rise in the estimated net cash earnings of these migrant workers has helped to pay for the large increase in imports since 1970 but part of the rise in imports has been due to much increased purchases of machinery and transport equipment in line with the growth of development expenditure. Imports were valued at only 23 million rand in 1970 but at 210 million in 1977. At the same time exports increased from 4.24 million rand to 12.18 million. The very large trade deficit that has developed was covered in the years 1975 to 1977 by the net earnings of Basotho abroad, by increasing inflows of both public and private transfers and by some inflow of capital. Net assets held abroad by the monetary authorities fell over this period but those of the commercial banks increased.

While the importance of agriculture including livestock rearing has declined since 1970, it is still the activity which must be developed to help to ensure that the attractions of modern sector employment do not denude the rural areas. From 1970 to 1978 the basis was laid for major changes in the agricultural sector. Marketing organisations have been established and a basic agricultural services project was due to start on a nation-wide basis in 1978 to provide adequate secondary roads, marketing facilities, extension services and credit coverage and to assist farmers with the purchase and maintenance of agricultural machinery and equipment. Processing facilities under development or in sight include a large-scale flour-mill and an abattoir.

Capital investment has risen from around 5 million rand in 1970/71 to 41.4 million in 1977/78. The rise in the Government's capital budget for 1978/79 suggests a particularly large increase in investment in that year.

Development assistance has grown rapidly. In 1977 the value of development assistance to Lesotho totalled \$US 48.6 million. Revisions to the second five-year development plan have led to a particularly sharp rise in development spending projected for the last three years of the plan 1977/78 to 1979/80. However implementation problems may lead to a lower rise in investment in practice.

As well as aiming for a much better growth in agriculture, perhaps the most significant development will be the start of a massive effort to penetrate the mountain areas with a dependable skeletal road network. It is planned that this task can be completed by 1982. Its achievement will lead to mutually reinforcing

linkages between the capital city and the hinterland.

Discussions have been revived with a neighbouring country on the Highland Water Scheme (a combined water and hydro-electric project). Feasibility studies will probably be started shortly.

The Letseng diamond mine has been developed by de Beets as an industrial mining venture. Production started in 1977 and in the first five months of 1978 exports of diamonds were moving towards the target production rate of 20 million rand a year.

Lesotho is a signatory of the December 1974 monetary agreement between Lesotho, South Africa and Swaziland. The currency in use in the country is still the rand but in 1979 it is proposed to introduce a national currency called the maloti. The Lesotho monetary authority will be given power to implement certain monetary policy measures.

The growth of Government expenditure has been from R. 13.2 million in 1970/71 to R. 121.7 million in 1978/79. This almost tenfold increase has emphasized the capital account and has been materially assisted by the sharp rise in revenue and in grants received from foreign donors.

The social services have been improved with particular emphasis on secondary education. Housing for the low-income groups is still a problem in the urban and peri-urban areas. There has been growth in wage employment within Lesotho and a broadening of self-employment into commerce, handicrafts and services. However the rate of employment creation is still inadequate. Any faltering in the level of employment of migrant workers, as appears to be happening in 1978, could result in substantial unemployment.

Present indications for the years to 1980 are that the enhanced level of development spending with some emphasis on greater use of domestic factors of production in the construction industry together with expanded mining output, could lead to a continuation of a GDP growth rate of more than 6 per cent a year. There is however an important proviso in any GDP forecasting, which relates to migrant labour. Any sensible reduction in the average numbers working abroad over the next few years could react adversely on the domestic economy in a number of ways.

## 2. GDP by industrial origin

The sectors which have grown faster than total GDP at current prices since 1970/71 are construction, commerce including catering, mining and transport. Agriculture and services have grown less rapidly and consequently their relative importance has declined. Table 1 compares 1970/71 with the years 1975/76 to 1977/78 but it must be pointed out that the basis for the estimates for 1970/71 is different from that of the later years.

In 1970/71 the proportion of GDP from agriculture was 41 per cent, but by 1977/78 it had fallen to 30 per cent and over the same period the contribution of the construction industry increased from less than 3 per cent to more than 10 per cent.

Lesotho: Table 1. GDP by source, 1970/71 and 1975/76-1977/78 (millions of rands)

| At current prices                                  | 1970/71     | 1975/76     | 1976/77      | 1977/78      |
|--|-------------|-------------|--------------|--------------|
| Agriculture, forestry and fishing                  | 17.3        | 37.7        | 43.6         | 38.1         |
| Mining   | 0.7         | 1.7         | 2.7          | 3.0          |
| Manufacturing                                      | 1.2         | 3.6         | 3.8          | 2.6          |
| Construction                                       | 1.1         | 2.6         | 5.3          | 13.1         |
| Wholesale and retail trade, hotels and restaurants | 6.0         | 16.3        | 21.0         | 25.7         |
| Transport etc.                                     | 0.6         | 2.1         | 2.9          | 3.6          |
| Services <sup>a/</sup>                             | 15.6        | 23.3        | 27.0         | 40.4         |
| <b>Total at factor cost</b>                        | <b>42.5</b> | <b>87.3</b> | <b>106.3</b> | <b>126.5</b> |

Source: Compiled from data supplied by Lesotho authorities

a/ Includes electricity and water.

### 3. Selected economic sectors

(a) Agriculture, forestry and fishing. The statistics on crop production are somewhat suspect but they indicate continuing low agricultural productivity, some part of which is due to the absence of so many able-bodied men in employment outside Lesotho. The arable area is not large but is capable of producing Lesotho's requirements of maize, sorghum, wheat, peas and beans as well as an exportable surplus. Livestock rearing emphasizes cattle for meat and goats and sheep mainly for mohair and wool. Overgrazing has led to soil erosion and a generally unsatisfactory performance from livestock.

Considerable attention is being given to developing the agricultural sector. The emphasis in the crop sector is increased crop yields leading towards self-sufficiency. Some diversification in crops is expected; for example asparagus is now being grown while forage to support commercial livestock production is also anticipated. As mentioned earlier a basic agricultural services project was due to start on a nation-wide basis in 1978.

The Produce Marketing Corporation and the Livestock Marketing Corporation were both started in 1974 but have so far had only limited success. The livestock sector is expected to benefit materially from the development of a large abattoir to be in production at Maseru in 1980.

Output figures of certain major products since 1970 are given in table 2. Output varies widely between seasons and a good harvest such as in 1976/77 is normally the result of favourable climatic conditions. It is hoped that opening up the mountain areas with a suitable road network will help to stimulate greater production from agriculture.

A wood-lots project was started in 1973 and its expansion by 1985 should cover a total of 5,000 hectares. Another large-scale forestry project was due to be started in 1978.

Lesotho: Table 2. Output of selected agricultural products 1970 and 1975-1977

|                                  | 1970/71     | 1975/76     | 1976/77     |             |
|----------------------------------|-------------|-------------|-------------|-------------|
| Maize (thousand tonnes)          | 31          | 49          | 126         |             |
| Sorghum (thousand tonnes)        | 30          | 24          | 62          |             |
| Wheat (thousand tonnes)          | 60          | 45          | 53          |             |
| Peas and beans (thousand tonnes) | ...         | 14          | 22          |             |
|                                  | <u>1970</u> | <u>1975</u> | <u>1976</u> | <u>1977</u> |
| Mohair exports (tonnes)          | 445         | 600         | 300         | 397         |
| Wool exports (tonnes)            | 2 148       | 2 600       | 1 700       | 2 800       |

Source: Compiled from data supplied by Lesotho authorities.

(b) Mining. In the past this sector consisted of diamond mining by individual diamond diggers. But in 1975 an agreement was reached with the de Beers group to exploit the mining deposits at Letseng-La-Terai. Since then large sums have been spent bringing the mine into production and this started in the second half of 1977. In the first five months of 1978 diamond exports were 23,870 carats valued at R 5.28 million. It is hoped that output value at full working will be worth some R 20 million a year.

Other small mines are to be developed on a co-operative basis if the current experiment at the Kac diamond mine proves to be successful and other diamond pipes have been located. Surveys have revealed extensive deposits of clays suitable for ceramics and bricks and tiles and there are indications of uranium. Extensive mineral exploration is continuing.

(c) Manufacturing. This sector has made some progress since 1970 but it is still small and the number of projects developed is relatively few. A flour mill at Maseru to process local wheat is under development and an abattoir is expected to be completed in 1980. The production of building and construction materials is being pushed and the possibility of building a brewery is under study.

Small industry and local entrepreneurs are assisted by the Basotho Enterprises Development Corporation set up in 1975 and larger-scale projects by the Lesotho National Development Corporation established in 1967 although the latter has also assisted craft industries to develop.

(d) Construction. This sector has grown rapidly, particularly over the last few years, and the fast rate of expansion seems likely to continue. However, the larger-sized projects are still being handled by expatriate contractors with some loss in the value-added that could be obtained from construction for the domestic economy. The revised second development plan calls for investment of R 107 million a year in 1978/79 and 1979/80 compared with R 62 million in 1976/77 and R 86 million in 1977/78.

(e) Transport services. There is only incomplete information available for these services and it is difficult to comment on growth in the sector. However the growth of the economy has led to corresponding growth in transport and the expenditure

of large sums in the period to 1982 should see the completion of a road network opening up the mountain areas. Plans are advanced for the construction of the perimeter road beyond Mafeteng through Mochale's Hoek, Quthing, Qacha's Nek to the south-east and Leribe, Butha-Buthe, Mokhotlong, Taung, Qacha's Nek to the north-east. This perimeter road network will be complemented by a central system of road development.

Heavy road vehicles including lorries, buses and trucks are being obtained and arrangements made for their maintenance.

#### 4. Expenditure and GDP

A characteristic of Lesotho's GDP by expenditure type is that private and public consumption is far in excess of GDP at market prices. In 1970/71 consumption expenditure was 32 per cent higher than GDP as a whole. The excess rose by 1975/76 to 71.5 per cent and reached the record figure of 88 per cent in 1977/78. This rising excess was reflected in the widening of the trade deficit and the services deficit whose share in GDP rose from 42.4 per cent in 1970/71 to 99.2 per cent in 1975/76 and the record of 113.8 per cent in 1977/78. As stated before the deficits were met by migrant remittance and an inflow of foreign aid. A comforting development is the expansion in the share of capital formation which rose from 10.4 per cent of GDP in 1970/71 to 27.7 per cent in 1975/76, and stagnated at 26.6 per cent in 1976/77 and 25.8 per cent in 1977/78.

Lesotho: Table 3. Expenditure and GDP, 1970/71 and 1975/76-1977/78  
(millions of rand)

|   | 1970/71 | % of<br>GDP | 1975/76 | % of<br>GDP | 1976/77 | % of<br>GDP | 1977/78 | % of<br>GDP |
|---|---------|-------------|---------|-------------|---------|-------------|---------|-------------|
| Private consumption                                   | 58.6    | 119.4       | 156.2   | 152.4       | 216.1   | 165.1       | 268.4   | 167.5       |
| Public consumption                                    | 6.2     | 12.6        | 19.6    | 19.1        | 24.1    | 18.4        | 32.9    | 20.5        |
| Gross domestic<br>capital formation                   | 5.1     | 10.4        | 26.6    | 25.9        | 37.0    | 28.3        | 36.9    | 23.0        |
| Change in stocks                                      | ...     |             | 1.8     | 1.8         | -2.2    | -1.7        | 4.5     | 2.8         |
| <u>Exports less</u><br>imports of goods &<br>services | -20.8   | -42.4       | -101.7  | -99.2       | -144.1  | -110.1      | -182.5  | -113.8      |
| Total GDP at<br>market prices                         | 49.1    | 100.0       | 102.5   | 100.0       | 130.9   | 100.0       | 160.2   | 100.0       |

Source: Compiled from data supplied by Lesotho authorities.

Investment in Lesotho is of fundamental importance in the quest for economic independence and creating job opportunities for the local people. Judging from the revised second five-year of development plan the share of investment expenditure is scheduled to rise substantially over the next few years.

5. External trade and balance of payments

Lesotho's imports have grown much more rapidly than its exports and one result has been that a deficit of R 22.9 on merchandise trade in 1970 has grown to one of R 197.8 million in 1977. This scale of deficit has only been possible because of the earnings of migrant workers and because part has also been covered by higher net transfer (aid) receipts. The statistical series for exports and imports and the balance of payments is roughly as indicated in table 4. It should however be pointed out that the data shown in table 3 differ from those in table 4 owing to the usual differences in coverage, timing and valuation.

Lesotho: Table 4. External trade and balance of payments, 1970 and 1975 to 1977  
(millions of rand)

|  | 1970  | 1975   | 1976   | 1977   |
|--|-------|--------|--------|--------|
| <u>External trade</u>                  |       |        |        |        |
| Exports                                | 4.2   | 9.2    | 14.7   | 12.2   |
| Imports                                | 22.9  | 117.8  | 179.6  | 210.0  |
| Balance                                | -18.7 | -108.6 | -164.9 | -197.8 |
| <u>Balance of payments</u>             |       |        |        |        |
| Goods and services <sup>a/</sup> (net) | ...   | -28.6  | -46.2  | -56.6  |
| Private transfers (net)                | 5.0   | 4.4    | 6.5    | 8.2    |
| Public transfers                       | 9.3   | 14.2   | 16.3   | 31.4   |
| Capital (net)                          | 5.3   | 3.5    | 7.9    | -4.8   |
| Reserves & related items               | ...   | 2.2    | 7.9    | 4.8    |
| Errors and omissions                   | ...   | 4.3    | 7.6    | 17.0   |

Source: Compiled from data supplied by Lesotho authorities.

a/ Includes migrants earnings.

Net earnings of Basotho abroad have been estimated at R63.1 million in 1975, R 85.6 million in 1976 and R 98.6 million in 1977. They have increased rapidly because of the rise in cash earnings on the South African mines in particular.

Net transfers received by the Government have also risen comparatively rapidly from R 9.3 million in 1970 to R 14.2 million in 1975 and then to R 31.4 million in 1977.

In 1978 exports are forecast to grow rapidly because of the larger sales of diamonds from the Letseng-la-Terai mining venture. At the same time imports may show little growth because the 1977 figures were inflated by the import of mining equipment.

6. Development aid and external debt

Lesotho has received a substantial inflow of both grants and loans on easy terms particularly since 1975. In 1970/71 grants and external loans were valued at only

R 1.1 million, in 1977/78 grants were R 12.5 million and external loans R 4.9 million. Higher figures of R 31.5 million and R 14.6 million have been forecast for 1978/79 but the actual level will depend on the success of the capital investment programme.

Despite the inflow of capital, the external public debt was still very small at the end of March 1978, being estimated at only R 15.1 million, while the internal debt was probably in the region of R 9 million. The smallness of Lesotho's merchandise exports would make for some sort of problem over debt servicing but the high level of net earnings of migrant workers drastically reduces the significance of these debt service obligations.

The value of development assistance to Lesotho during 1977 totalled \$US 48.6 million including \$US18.5 million of technical assistance, \$US21.6 million of capital loans and grants and \$US8.48 million of food aid.

#### 7. Government revenue and expenditure

During the 1970s recurrent revenue rose faster than recurrent expenditure and the current surplus of the budget was used to finance part of the capital expenditure. Capital receipts also rose substantially mainly from foreign donors and so in spite of the large increase in capital expenditure the budgetary position (both current and capital) remained relatively sound. In 1978/79 it is forecast in the budget estimates that the capital expenditure of R 66.44 million will be largely covered by the recurrent surplus of R 22.19 million, external grants of R 31.46 million and foreign loans of R 14.64 million.

The major source of recurrent revenue since 1970/71 has been the receipts under the South African Customs Union Agreement. In 1978/79 the estimated revenue under this heading is R 56.16 million.

The largest head of recurrent expenditure in 1978/79 is education, accounting for 20 per cent of the total; health takes 6 per cent and agriculture 10 per cent. In the capital budget agriculture is allocated 30 per cent, works 22 per cent and transport and communications 9 per cent.

Lesotho: Table 5. Government revenue and expenditure 1970/71 and 1975/76-1978/79  
(millions of rand)

|                       | 1970/71 | 1975/76 <sup>a/</sup> | 1976/77 | 1977/78 <sup>a/</sup> | 1978/79 <sup>a/</sup> |
|-----------------------|---------|-----------------------|---------|-----------------------|-----------------------|
| Recurrent revenue     | 11.64   | 29.3                  | 30.1    | 53.69                 | 77.44                 |
| Recurrent expenditure | 11.42   | 26.2                  | 32.3    | 45.84                 | 55.25                 |
| Capital receipts      | 1.10    | 7.0                   | 8.7     | 20.38                 | 47.85                 |
| Capital expenditure   | 1.76    | 12.4                  | 15.1    | 25.69                 | 66.44                 |
| Total receipts        | 12.74   | 36.3                  | 38.8    | 74.07                 | 125.29                |
| Total expenditure     | 13.18   | 38.6                  | 47.4    | 71.53                 | 121.69                |
| Balance               | -0.44   | -2.3                  | -8.6    | +2.54                 | +3.60                 |

Source: Compiled from data supplied by Lesotho authorities.

<sup>a/</sup> Estimates or revised estimates.

In his budget speech of April 1978, the Minister of Finance announced that new measures of taxation were to be introduced to spread the tax net while surveys would be carried out into a tax on agricultural land and another on consumption expenditure covering mainly luxury goods.

### 8. Money and banking

Lesotho is a signatory of the Monetary Agreement between the Governments of Lesotho, South Africa and Swaziland of December 1974. The rand is the currency in circulation but it is proposed to introduce a currency unit called the maloti in May 1979. This will be on a par with the rand and both the maloti and the rand will circulate jointly in Lesotho. Under the authority of the Financial Institutions Act of 1973, the Commissioner of Financial Institutions controls and supervises financial institutions in Lesotho. The commissioner has a wide range of duties including the administration of exchange controls and advising the Government on reserve management and other monetary matters. The regulation of bank credit through the use of reserve ratios, reserve asset requirements and other policy directives will be the responsibility of the monetary authority when it is established as a currency-issuing institution.

Four banks operate in Lesotho with head offices at Maseru and 28 permanent and mobile branches in other parts of the country. One is the Lesotho Bank established in 1972 which absorbed the Post Office Savings Bank and manages the Miners Deferred Pay Fund. Since 1974 the commercial banks and other financial institutions have been regulated by the 1973 Act. They are now subject to licensing, minimum capital and liquid asset requirements.

The data, with all their limitations, show that private demand deposits plus savings and time deposits rose from 20.2 million rand in December 1974 to 48 million rand at the end of December 1977 giving the high average annual rate of increase of 33 per cent. Among the factors accounting for the large rate of increases in money supply are the increases in net foreign assets, claims on private sector and net claims on Government.

Lesotho: Table 6. Monetary aggregates of commercial banks, December 1974 to March 1978 (millions of rand)

|                             | Dec. 1974 | Dec. 1975 | Dec. 1976 | Dec. 1977 | March 1978 |
|-----------------------------|-----------|-----------|-----------|-----------|------------|
| Net foreign assets          | 14.165    | 17.389    | 17.402    | 23.161    | 23.164     |
| Claims on Government (net)  | -6.142    | -0.810    | 1.474     | 6.292     | 5.243      |
| Claims on official entities | 1.568     | 1.403     | 2.337     | 4.294     | 4.511      |
| Claims on private sector    | 8.606     | 8.434     | 11.569    | 13.640    | 15.336     |
| Demand deposits             | 5.458     | 7.406     | 11.367    | 18.779    | 18.137     |
| Savings and time deposits   | 14.730    | 18.698    | 23.237    | 29.241    | 30.873     |

Source: Kingdom of Lesotho, Commissioner of Financial Institutions.

## 9. Wages and prices

There have been substantial wage adjustments during the last few years. Wages of government employees were increased by an average of 20 per cent on 1 April 1975 and further general increases were awarded from 1 April 1977. Substantially higher rates were awarded to special groups of skilled workers. The Wages and Conditions of Employment Order, 1978 prescribed minimum wage rates for non-government commercial and industrial employees. For unskilled manual workers the minimum annual wage was raised from the R 300 set in 1975 to R 480 in 1978.

Consumer prices have risen very rapidly since the index numbers were introduced based on October 1972. The rise for an average of three index numbers was to 138.7 in 1975, 154.1 in 1976, 179.9 in 1977 and 202.3 at April 1978. The increase between October 1972 and the average for the year 1975 was equal to 13 per cent a year. In 1976 the increase was 11.1 per cent and in 1977 it was 16.7 per cent. The large rise in 1977 was affected by the removal of subsidies on maize and maize meal sold to Lesotho from South Africa. The rise already recorded in 1978 over the average for 1977 indicates a further increase of more than 10 per cent in consumer prices in 1978.

## 10. Employment and unemployment

The data on employment in Lesotho are not clear so it is difficult to comment on developments in domestic employment since 1970. There has certainly been some increase but the growth has not been sufficient to make any sort of impact on the large numbers employed outside Lesotho. Average employment of Basotho on the South African gold mines and collieries actually increased from 87,384 in 1970 to 128,876 in 1977. In the first half of 1978 the average number in employment was about the same as the average for 1977. However, comparing June 1978 and June 1977 employment fell from 133,483 to 128,263. There was a fall of up to 20 per cent in the numbers recruited from January to June 1978.

## 11. Other social sectors

(a) Education. The growth in enrolments since 1970 has emphasised secondary education. Primary enrolment was 183,395 in 1970 and rose by 23 per cent in 1977 to 226,019. The percentage increase in secondary enrolment was 189 per cent with the total rising from 6,028 to 17,433. Virtually all the rise in the primary enrolment took place from 1970 to 1975.

In 1977 there were 245,701 students at school or university and in teacher training. The total population at that time was 1,242,000.

The presence of large numbers of Basotho males in South Africa for employment has a material impact on education enrolments in Lesotho. For example at primary schools there were 18,079 pupils in standard 7, of whom 12,172 or 67 per cent were girls. There was also a similar situation at secondary schools with 58 per cent of all students in 1977 being girls.

(b) Health. The present medical services are concentrated in the urban areas but the basic problem of taking preventive medicine to the rural areas is being tackled through an increase in the number of rural clinics. In 1976 there were 74 clinics and 19 hospitals with 2,365 beds. The number of physicians was 59 and there were 347 nurses.

Although Maseru has the largest hospital in Lesotho, major cases continue to be referred to hospitals in South Africa. Health facilities are being improved and studies are being carried out for a modern referral and teaching hospital at Maseru.

(c) Housing. The current shortages of housing relate to accommodation for the low-income groups and also to housing for technical assistance personnel needed to assist Lesotho's development. To resolve the latter problem Basotho civil servants are being encouraged, through suitable loans, to purchase their own houses thus releasing accommodation for urgently needed personnel. For the low-income groups, more money is being allocated to speed up and expand the low-cost housing programmes at Maseru and other urban areas. A National Self-Help Housing Corporation is being established and, together with the Lesotho Building Finance Corporation, it should help to make inroads into the present accommodation problem areas.

#### B. MAJOR PROBLEMS

Lesotho is heavily dependent on its migrant workers abroad who if not so employed would raise levels of unemployment in the country probably to serious proportions. At the same time the migrant labour system has acted to denude the rural areas of much of the able-bodied male adults who might otherwise have engaged in assisting development and growth in the agricultural sector. Another side effect is that the proportion of older boys in the higher levels of primary education and at secondary schools is sharply reduced. This occurs because these boys are required to assist in farm activities while some of the older ones are tempted into working on the mines in South Africa as soon as they are eligible.

The net earnings of migrant workers have a substantial impact on bridging the gap between GDP and consumption expenditure and between imports and exports. In 1977 this trade deficit was as high as R 198 million and net earnings of Basotho abroad were valued at about half this figure.

The basic problem with the migrant labour system is that, although it has been a feature of the Lesotho economy for the last 100 years, there are indications that the need for foreign labour on the mines abroad may be reduced in the future.

There is still a substantial shortage of trained and experienced Basotho for middle- and higher-level posts particularly those requiring particular skills. Training by various means is being increased but as a temporary measure technical assistance from donor countries and organisations is continuing to fill some of the gaps. Here a bottleneck has arisen over accommodation and, as indicated earlier, steps are being taken to eliminate this bottleneck.

Agricultural productivity is low in Lesotho and it is hoped that the basic agricultural services project will help to move agriculture to a more productive basis. This project was due to be launched on a nation-wide scale in 1978.

The mountain areas of the country are very poorly connected by the existing transport network to the rest of the country. A major scheme has been launched to build a modern road network to open up these mountain areas. The closure of the south-eastern border of the country has made it impossible for people in the affected areas to cross the border to obtain their supplies. This has accentuated the need to speed up road construction to provide dependable transport links within the region.

In general it is essential to develop the country at a much faster rate. Only when there is sufficient employment available to provide worth-while activity for the total labour force can Lesotho move to a position of economic independence. The recent revision of the second five-year development plan is designed to raise the growth rate of the economy and stimulate economic activity.

Inflation, as in so many African countries, is continuing at a high level and some of it is imported inflation; other contributing factors are the excessive expansion in money supply.

### C. INTERNAL DEVELOPMENT POLICIES

The broad aims of the second development plan are economic growth, social justice, maximum domestic employment and economic independence. The speeding-up of development by accelerating existing projects and by bringing forward projects originally scheduled for the third plan period is the main feature of the revised second year plan. Against an average expenditure on investment of R 54 million a year in 1975/76 and 1976/77, the proposed expenditure for 1978/79 and 1979/80 is R 107 million a year. This doubling of the level of investment expenditure will raise the level of domestic activity in Lesotho and should have a material impact on the future growth rate of the economy. The structural balance of the plan is changed to some extent and the emphasis of the revised programme is on agricultural projects and road transport and other works but the social sector, including education, health and housing, is also allocated much increased funds. There is generally a much higher proportion of investment being financed from budget surpluses. In 1978/79 and 1979/80 this proportion is projected to rise to 75 per cent.

To achieve greater social justice, health care, education and low cost housing are being improved or developed at a faster rate than in the past with particular emphasis in health care and education on increasing facilities in the rural areas. The creation of more jobs and greater economic activity in Lesotho is designed to help remove the potential problem that might arise from the dependence of so many workers on employment abroad.

The Government has a policy aim of diversifying its sources of revenue and new taxes and increases in existing fees and taxes are proposed or are under study. At the same time measures are being introduced to raise more funds for development within the domestic economy. Treasury Bills have been issued, consideration is being given to floating development bonds, a National Insurance Company has been established and peoples' savings mobilized.

Internal transport links are being developed more rapidly by the creation of a dependable road network to penetrate the mountain areas. Labour-intensive techniques are being evolved to provide employment for larger numbers of Basotho.

Efforts are being made to raise the capability to execute projects and implement the development strategy. Manpower constraints, low domestic construction capacity and administrative weaknesses must all be overcome. Construction has progressed more rapidly since the establishment of the National Construction Committee.

The third five-year development plan now under preparation will retain the focus on rural development and will contain measures to link the mountain and lowland areas more fully. The development of the rural and mountain areas will call for the growth of the economic and social infrastructure in these areas. The basic aim of total

self-reliance will be brought nearer by the enhanced economic integration of the mountain areas into the economy. A Ministry of Rural Development has been established to co-ordinate the activities of other ministries in the rural areas.

One project which could have a very important impact on Lesotho's development is the Highland Water Scheme for which feasibility studies are being undertaken. This is a scheme to sell water and electricity to abroad and its cost would run to many hundreds of million rands.

#### D. PROSPECTS FOR 1978 and 1979

The much increased level of development spending proposed should greatly stimulate economic activity and help to ensure that GDP growth rates in both 1978 and 1979 will be at comparatively high levels. Both years should also benefit from the much higher exports of diamonds. In the first five months of 1978 diamond exports were running at annual rate of 57,000 carats valued at R 13.9 million. This compares with the 1977 figures of 15,000 carats worth R 1.25 million. There is an annual target for diamonds of R 20 million when full production is achieved.

The outlook for migrant labour is uncertain. In the first half of 1978 the numbers working on the goldmines and collieries in South Africa were at the same level as the average for 1977. However in June 1978 there were 4 per cent less than in June 1977. Any substantial fall in numbers employed would have a material impact on net earnings and an indirect serious effect on the level of GDP.

The agricultural season ending in 1978 was less successful than that ending in 1977.

It seems likely that in 1978/79 GDP growth rate at constant prices will be substantial, in the region of 10 per cent. Provisional estimates for 1977/78 suggest a growth rate of 9.4 per cent.

LIBERIA

A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

1. Introduction

The growth of the Liberian economy has been very disappointing in the period 1970 to 1977 with an increase in the monetary GDP at constant factor cost of only 1.6 per cent a year which is well below the population growth rate of 2.7 per cent a year. This result has been due to a fall in the output of diamonds, rubber and iron ore and despite higher sales of logs and timber and greater output of various agricultural products especially sugar cane, rice, palm kernels and coffee.

At current factor cost the GDP average growth rate has been 9.6 per cent a year so the GDP deflator has averaged 7.9 per cent a year, indicating a rate of price increase below the average for the region as a whole.

Liberia depends heavily on its external trade sector and here exports have grown at current prices at a rate of 10 per cent a year or slightly more than for GDP as a whole. Imports have increased much more rapidly with their value rising at 17.5 per cent a year from 1970 to 1977. Thus the trade balance has moved from substantial surplus to deficit and there has been an increasing call on foreign resources to meet the balance of payments deficit. GDP at constant prices rose by 1 per cent in 1977 compared with an annual growth rate of 6.5 per cent envisaged in the socio-economic development plan of Liberia, for the period 1976-1980. Since the underlying factors contributing to this sluggish growth rate may persist in 1978, it is forecast that any improvement in the performance of the economy in 1978 will be equally marginal.

The contribution of the traditional sector in 1977 was estimated at constant 1971 prices to be \$77.2 <sup>1/</sup> million (compared with \$73.5 in 1976), thus accounting for 20 per cent of total GDP and there are strong indications that this sector will continue to respond as effectively in 1978 with a rise in excess of that expected for GDP as a whole. Rice production is expected to continue to increase in 1978 and cassava production, another staple food, is expected to reach record levels.

The Monrovia consumer price index increased by 5.8 per cent in 1977 compared with 6 per cent in 1976. The import price index rose sharply from 95.9 in 1976 to 117.8 in 1977 (1975 = 100). The prospects for 1978 are that consumer price increases will probably be higher than for 1977. At December 1977 the consumer price index stood at 241.9 and at July 1978 at 259.4, a rise of 7.2 per cent in seven months.

For the first time for a long period, there was a deficit on external trade in 1977. The total value of exports f.o.b. declined from \$460 million in 1976 to \$447.4 million in 1977, while imports rose from \$399.3 million in 1976 to \$463.5 million in 1977. The unfavourable balance of trade was -\$16.1 million and on all indications, the situation in 1978 could be worse than in 1977.

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<sup>1/</sup> The Liberian dollar is on a par with the United States dollar and in fact the United States dollar circulates in the country.

Government revenue from domestic sources rose from \$149.8 million in 1976 to \$172.7 million in 1977, an increase of 15 per cent but unfortunately recurrent budget expenditure grew by 34 per cent. Government was able to articulate its policy of increased expenditure on development projects and programmes by expanding development expenditure from \$29.9 million in 1976 to \$35.5 million in 1977 through the harnessing of foreign resources. Total foreign resources were about \$58.7 million in 1977. Extra-budgetary expenditure increased from \$49.7 million in 1976 to \$81 million in 1977 and is expected to continue at a high level in 1978.

## 2. GDP by industrial origin

Although the data given in table 1 suffer from an omission of the non-monetary economy, they show that between 1970 and 1977 there was a sharp fall in the contribution of the mining sector to GDP, the proportion falling from 35.8 to 22.8 per cent. At the same time most other economic sectors recorded increases in their relative contribution. Exceptions were commerce and transport. The decline of the value added at current factor cost by the mining sector has been particularly marked since 1975, the total falling from \$231.8 to \$140 million in 1977. In contrast, the value added by agriculture, forestry and fishing rose from \$62.6 million in 1975 to an estimated \$105 million in 1977. This large upturn was accounted for by higher prices especially of coffee where production also increased strongly.

The changing fortunes of these major productive sectors - mining and agriculture - help the Government's policy of economic diversification to some extent but the performance of the manufacturing sector continues to raise doubts. In real terms, the performance of the sector has declined in recent years although the Government has been pouring relatively large resources into the Free Zone Authority. Probably the down-turn is temporary as the Liberia Oil Refining Company ceased productive operations for the major part of 1977 because of fire and management problems.

Generally, however, the very rough distribution of GDP by industrial origin in 1977 does suggest that the economy, instead of continuing to depend to a large degree on the exploitation of non-renewable resources, is moving into a more broadly based productive orientation.

### Selected economic sectors

(a) Agriculture, forestry and fishing. This sector provides a livelihood for 70 per cent of the people and is crucial in terms of the Government's long-term development objectives, namely, "equitable distribution of the benefits of economic growth, development and diversification so as to assure an acceptable standard of living to all Liberians." In the past, commercial crops have usually included only export-oriented commodities, such as rubber, coffee, cocoa and palm kernels. Now, however, consistent with the Government's emphasis on rural development, an all-out effort is being made to increase the volume of cash crops, which include particularly sugar cane, rice and a large range of foodstuffs. Rice imports actually increased to 55,800 tonnes in 1977 valued at \$19.8 million from 37,500 tonnes valued at \$12.9 million in 1976 but there is a target of self-sufficiency in 1980.

Liberia: Table 1. GDP at current factor cost by industrial origin (monetary sector only) 1970 and 1975-1977 (millions of Liberian dollars)

| Item                                      | 1970  | Percentage | 1975  | 1976  | 1977 <sup>a/</sup> | Percentage |
|---|-------|------------|-------|-------|--------------------|------------|
| Agriculture, forestry and fishing         | 40.4  | 12.5       | 62.6  | 78.2  | 105.0              | 17.1       |
| Mining                                    | 115.6 | 35.8       | 231.8 | 182.7 | 140.0              | 22.8       |
| Manufacturing                             | 15.2  | 4.7        | 36.3  | 45.2  | 50.0               | 8.1        |
| Electricity and water                     | 5.6   | 1.7        | 8.5   | 10.4  | 12.0               | 2.0        |
| Construction                              | 16.2  | 5.0        | 28.8  | 37.9  | 55.0               | 8.9        |
| Wholesale and retail trade                | 42.6  | 13.3       | 49.2  | 54.5  | 70.0               | 11.4       |
| Transport and communications              | 31.8  | 9.8        | 40.7  | 45.1  | 56.0               | 9.1        |
| Other services                            | 55.7  | 17.2       | 101.2 | 115.4 | 127.0              | 20.6       |
| GDP at current factor cost                | 323.1 | 100.0      | 559.1 | 569.4 | 615.0              | 100.0      |
| Indirect taxes less subsidies             | 28.5  |            | 31.0  | 35.3  | 42.6               |            |
| GDP at current market prices              | 351.6 |            | 590.1 | 604.7 | 657.6              |            |
| GDP at 1971 factor cost                   | 324.7 |            | 343.5 | 358.4 | 362.0              |            |
| <u>Annual rate of growth (percentage)</u> |       |            |       |       |                    |            |
| GDP at current factor cost                | 5.8   |            | 21.6  | 1.0   | 8.0                |            |
| GDP at 1971 factor cost                   | 5.3   |            | -3.7  | 4.3   | 1.0                |            |

Source: Economic surveys of Liberia.

<sup>a/</sup> Preliminary unofficial estimates only.

Table 2 shows, besides the traditional major commercial export crops, the production volume of three agricultural crops - rice, sugar cane and cassava - which are consumed locally by the population.

Regarding the exports of logs and sawn timber table 3 shows that, while there has been little change on a trend basis in exports of logs since 1972, there has been an increase in sawn timber. This trend is expected to continue. The Government's long-term development objective is to satisfy the full needs of the home market for wooden building components and fixtures and furniture. With the successful first year of operation of the Forestry Development Authority, assisted by the World Bank and ADB, it is expected that a more rational exploitation of the forestry resources will be achieved.

Liberia: Table 2. Production of major commercial crops, 1970, 1975-1977

| Crops                            | 1970  | 1975  | 1976  | 1977  |
|----------------------------------|-------|-------|-------|-------|
| Rubber (millions of lb)          | 190.6 | 187.4 | 181.6 | 170.4 |
| Rice (thousands of tonnes)       | 200.0 | 229.1 | 244.8 | 256.1 |
| Cocoa (millions of lb)           | 6.1   | 7.0   | 5.5   | 4.5   |
| Coffee (millions of lb)          | 10.9  | 9.9   | 10.1  | 19.7  |
| Sugar cane (thousands of tonnes) | 50.8  | 82.0  | 92.0  | 222.5 |
| Cassava (thousands of tonnes)    | 103.4 | 104.2 | 124.6 | 156.2 |
| Palm kernel (millions of lb)     | 3.6   | 4.8   | 6.4   | 6.8   |

Source: Liberia: Ministry of Agriculture, annual agriculture survey reports.

Liberia: Table 3. Exports of logs and sawn timber, 1972-1977

| Year | Logs                                |                                 | Sawn timber                         |                                 |
|------|-------------------------------------|---------------------------------|-------------------------------------|---------------------------------|
|      | Quantity<br>millions of<br>board ft | Value<br>millions of<br>dollars | Quantity<br>millions of<br>board ft | Value<br>millions of<br>dollars |
| 1972 | 94                                  | 8.1                             | 0.17                                | 0.03                            |
| 1973 | 105                                 | 16.6                            | 0.16                                | 0.02                            |
| 1974 | 80                                  | 17.6                            | 0.16                                | 0.03                            |
| 1975 | 39                                  | 11.0                            | 3.51                                | 1.83                            |
| 1976 | 113                                 | 32.4                            | 5.24                                | 2.16                            |
| 1977 | 79                                  | 25.9                            | 7.33                                | 3.43                            |

Source: As table 1.

(b) Mining. Iron ore and diamonds are the two most important minerals produced. But by far the most crucial is iron ore. Peaking at \$328.7 million in 1976, the value of iron ore exports fell to \$273.3 million in 1977, a decline of 11 per cent. Prospects in 1978 are so disappointing that the Government has been forced to review its estimated budgetary revenues based on receipts from iron ore. Table 4 details the erratic nature of the movements in the volume and price of iron ore and diamonds. The volume decline in real terms of the past 3 years is expected to continue.

In terms of quantity, iron ore exports were 23.3 million long tons (of 2,240 lb) in 1970, 18.6 million tons in 1975, 20.5 million tons in 1976 and 17.4 million tons in 1977. For diamonds the 1970 level was 790,000 carats with 419,000 carats in 1975, 320,000 in 1976 and 326,000 carats in 1977.

Liberia: Table 4. Indices of volume and price of iron ore and diamonds, 1971-1977 (1971 = 100)

| Year | Iron ore |            | Diamonds |            |
|------|----------|------------|----------|------------|
|      | Volume   | Unit price | Volume   | Unit price |
| 1971 | 100.0    | 100.0      | 100.0    | 100.0      |
| 1972 | 108.2    | 105.1      | 119.1    | 94.1       |
| 1973 | 120.4    | 101.7      | 109.9    | 154.6      |
| 1974 | 120.5    | 135.4      | 86.1     | 122.9      |
| 1975 | 86.7     | 210.9      | 56.8     | 114.4      |
| 1976 | 96.7     | 211.6      | 43.3     | 135.2      |
| 1977 | 83.2     | 204.7      | 44.1     | 171.4      |

Source: As table 1.

(c) Manufacturing. For some time the manufacturing sector has been beset with numerous problems. With the statistical coverage in the Quarterly Establishment Survey limited to establishments employing 20 persons or more, the number of such establishments continues to be about the same in 1977 as in 1976 contributing at current market prices an estimated \$50 million to GDP and employing about the same number of persons.

It is hoped that the policy of rural development will lead to a new approach to manufacturing industry, probably emphasizing fairly small units operating at centres in the rural areas.

Figures of actual production are scanty for the full period since 1970 but those figures that are available show that cement production grew from about 60,000 tonnes in 1970 to nearly 100,000 tonnes in 1977.

(d) Construction. There was a sharp increase in the contribution of this sector to GDP between 1970 and 1977 with the total at current factor cost increasing from \$16.2 million to an estimated \$55 million. There was a substantial increase in 1977 itself and prospects are that the boom in building construction will continue well beyond 1978.

#### 4. Expenditure and GDP

In 1970, 63.7 per cent of GDP at constant 1971 prices consisted of expenditure on consumption and in 1977 the comparable proportion rose to 72.2 per cent. Because there were improved basic salary and handsome fringe benefits covering housing and transportation for public sector employees in 1977, public consumption grew much faster than private consumption. Public consumption was 12.2 per cent of GDP in 1970 and 24.2 per cent in 1977.

Between 1970 and 1977 gross fixed capital formation also increased as a percentage of GDP rising from 19.3 to 25.3 per cent.

Liberia: Table 5. Expenditure and the GDP at constant 1971 prices (monetary economy only 1970 and 1975-1977 (millions of Liberian dollars))

|  | 1970  | Percentage | 1975  | 1976  | 1977  | Percentage |
|--|-------|------------|-------|-------|-------|------------|
| Private consumption                          | 209.5 | 51.5       | 161.5 | 190.8 | 192.6 | 48.1       |
| Public consumption                           | 49.6  | 12.2       | 48.8  | 51.8  | 97.0  | 24.3       |
| Gross fixed capital formation                | 78.5  | 19.3       | 90.0  | 118.2 | 101.6 | 25.4       |
| Net export of goods and services             | 73.8  | 18.1       | 24.2  | 9.6   | -13.7 | -3.4       |
| Statistical discrepancy                      | -4.4  | -1.1       | 23.4  | 25.0  | 22.5  | 5.6        |
| Total GDP at 1971 market prices              | 407.0 | 100.0      | 347.9 | 395.4 | 400.0 | 100.0      |
| Consumption expenditure as percentage of GDP |       | 63.7       | 60.4  | 61.3  |       | 72.2       |

Source: Official data from Liberia.

Although the high level of gross fixed capital formation in 1976, totalling \$118.2 million, declined to \$101.6 million in 1977, the prospects are that a relatively high level of investment will be maintained in 1978. Significantly, the reversal of the situation from net exporter of goods and services occurred in 1977, when for the first time in the decade there was a net import of goods and services equal to \$13.7 million or 3.4 per cent of GDP at 1971 prices.

The above developments together with the statistical discrepancies shows that there was a sharp reduction in the share of domestic savings in GDP from 37.4 per cent in 1970 to 22 per cent in 1977. However the savings efforts of this country still continues at a high level by the standard of other developing countries and domestic savings finance a high proportion of fixed capital formation. What is disturbing is the substantial increase in the incremental capital output ratio during the first seven years of the 1970s. It is hoped that this is a temporary phenomenon.

##### 5. External trade and balance of payments

Liberia's propensity to import has been such that a trade surplus of \$86.2 million in 1970 was turned into a trade deficit of \$16.1 million in 1977. Exports grew in value terms by 10 per cent a year over the period under review but imports increased by the higher annual rate of 17.5 per cent. In 1977 itself there was actually a fall in the value of exports while imports rose by 16.1 per cent.

For 1978, the indications are that the trade deficit will be larger, with a continuing rise in imports and virtual stagnation of exports. Out of the total value of imports of \$463.5 million in 1977, \$122.8 million or 26.5 per cent consisted of consumer goods of which food constituted about one half.

Liberia: Table 6. External trade, 1970 and 1975-1977 (millions of Liberian dollars)

| Item          | 1970    | 1975    | 1976    | 1977    |
|---------------|---------|---------|---------|---------|
| Exports       | 234.9   | 394.4   | 458.0   | 447.4   |
| Iron ore      | (149.9) | (293.6) | (328.7) | (273.5) |
| Rubber        | (36.2)  | (46.2)  | (53.3)  | (59.1)  |
| Imports       | 149.7   | 331.2   | 399.3   | 463.5   |
| Trade balance | +86.2   | +63.2   | +58.7   | -16.1   |

Source: Official data from Liberia.

There are no recent data on the balance of payments but it seems that over the more recent period there has been a rise in the net inflow of aid and capital to Liberia. The international reserves have been increasing since figures began to be published in 1974.

#### 6. Government revenue and expenditure

Government receipts from domestic sources rose from \$75.7 million in 1970 to \$172.7 million in 1977 an average annual rate of increase of 12.5 per cent against an annual increase in GDP at market prices of 11.4 per cent. Recurrent expenditure rose over this period from \$55.1 million to \$117.7 million, an average annual rate of increase of 11.5 per cent. The recurrent budget surplus increased substantially from \$20.6 million to \$55 million although it had peaked at \$62.2 million in 1976.

In 1977, consistent with the requirements of the development plan, expenditure on development projects was kept at a high level of \$35.5 million in 1977 compared with \$29.9 million in the previous year. In view, however, of the relatively large extra-budgetary expenditure of \$81 million in 1977, counting other development project expenditure, the year ended with a deficit of \$61.5 million as shown in table 7. This deficit was almost completely financed from external sources.

By June 1978 the external debt had risen to \$220 million and 64 per cent of the external debt is made up of loans calling for effective interest rates of 4 per cent with maturities between 15 and 50 years. According to a statement made by the Minister of Finance, the worst days for debt servicing are expected to fall around 1983 and as long as "external debt is less than 25 per cent of domestic revenue and/or 10 per cent of GDP", the debt burden is not considered intolerable. Debt service payments including capital repayments in 1977 were \$25.3 million of which these on foreign loans amounted to \$22.3 million. In 1977 development aid expenditures stood at a level of \$58.7 million compared to \$34.4 million in 1976. With the intense concern for rural development projects and programmes, it is expected that increased foreign assistance in the form of grants and concessionary loans will continue to be available in the future and possibly on an increasing scale.

Liberia: Table 7. Government receipts and payments, 1970 and 1974-1977 (millions of Liberian dollars)

| Item                        | 1970 | 1974  | 1975  | 1976  | 1977  |
|-----------------------------|------|-------|-------|-------|-------|
| Recurrent revenue           | 75.7 | 108.6 | 125.3 | 149.8 | 172.7 |
| Recurrent expenditure       | 55.1 | 72.0  | 79.8  | 87.6  | 117.7 |
| Recurrent surplus           | 20.6 | 36.6  | 45.5  | 62.2  | 55.0  |
| Development expenditure     | 23.2 | 14.9  | 24.0  | 29.9  | 35.5  |
| Extra budgetary expenditure |      | 17.4  | 29.3  | 49.7  | 81.0  |
| Surplus/deficit             | -2.6 | 4.3   | -7.8  | -17.4 | -61.5 |
| Foreign financing (net)     |      |       |       |       |       |
| Foreign grants              | 1.6  | 12.3  | 11.3  | 16.0  | 16.0  |
| Foreign loans               | 4.8  | -13.9 | 0.3   | 18.4  | 42.7  |
| Over-all surplus/deficit    | 3.8  | 2.7   | 3.8   | 17.0  | -2.8  |

Source: Official data from Liberia.

## 7. Money and banking

Data on the monetary aggregates for Liberia are available only from 1974 and for the period 1974 to 1978 are presented in table 8. They show that domestic credit had risen at the very moderate rates of 2.5 per cent and 9.8 per cent in 1975 and 1976 respectively but more significantly by 23.3 per cent in 1977 owing to a surge in credit of 31.3 per cent to the private sector in that year. The money supply figures are not complete because United States currency notes circulate in the economy and are not covered as such in table 8.

Quasi-money is particularly high in Liberia with the total at the end of 1977 being \$69.1 million, 129 per cent higher than at December 1974.

In 1977 net foreign assets fell from \$34.33 million to \$31.32 million but recovered in the first quarter of 1978 to reach \$34.56 million. The rise in these assets in the first quarter of 1978 was accompanied by a strong advance in net lending to the Government with the total rising from \$8.67 million at the end of 1977 to \$15.28 million at March 1978; in the same period of 1977 there had been a sharp increase in Government net deposits in the banking system.

Liberia: Table 8. Monetary survey, 1974-1978 (millions of Liberian dollars)

|                          | December<br>1974 | December<br>1975 | December<br>1976 | December<br>1977 | March<br>1978 |
|--------------------------|------------------|------------------|------------------|------------------|---------------|
| Net foreign assets       | 9.72             | 6.02             | 34.33            | 31.32            | 34.56         |
| Domestic credit          |                  |                  |                  |                  |               |
| Net claims on Government | 13.91            | 9.13             | 12.59            | 8.67             | 15.28         |
| Claims on private sector | 73.52            | 80.44            | 86.00            | 112.68           | 117.68        |
| Deposit money plus coin  | 47.25            | 42.11            | 62.39            | 57.00            | 71.71         |
| Quasi-money              | 30.14            | 34.96            | 49.62            | 69.10            | 68.37         |
| Other items (net)        | 19.76            | 18.53            | 20.70            | 26.57            | 28.45         |

Source: IMF, International Financial Statistics, vol. XXXI, No. 9 September 1978.

8. Wages and prices

The trend in the annual changes of consumer prices, as measured by the Monrovia consumer price index is shown in table 9; there was a peak inflation period in 1973 and 1974 but since then the trend has been downward.

Liberia: Table 9. Annual changes in consumer prices, 1971-1977

| Year | Annual change<br>(Percentage) |
|------|-------------------------------|
| 1971 | -0.2                          |
| 1972 | 3.9                           |
| 1973 | 19.5                          |
| 1974 | 19.5                          |
| 1975 | 13.5                          |
| 1976 | 6.0                           |
| 1977 | 5.8                           |

Source: Official data from Liberia.

In the first seven months of 1978 consumer prices rose by 7.2 per cent which indicates a fairly substantial acceleration compared with 1976 to 1977.

There were substantial salary increases for public sector employees in 1977 to rectify the large differential between salaries in the private sector and those in the public sector for comparable tasks. The Government, through the Civil Service Agency, has evolved and approved a policy on salaries of public employees, the first since

1963 when salaries of public employees were frozen after the financial crises. The implementation of the policy involved the award of flexible increased basic salaries for all job categories plus a standard 40 per cent of basic salaries to cover rent and transportation.

#### 9. Employment and unemployment

Wage employment is estimated to stand at 98,000 in 1977. The increase of 14,000 over 1976 is attributable to large-scale public works. Reforestation activities of the Forestry Development Authority also account for a sizable portion of the increase in wage employment. On the basis of strategies for the future regarding rural development, total employment is expected to rise substantially since most of the development projects, both public and private, are expected to be geared to rural development.

Studies on unemployment are limited to Monrovia. According to a Labour Force Study by the Ministry of Planning and Economic Affairs there was 22.8 per cent open unemployment in 1977. Unemployment was very high in particular among the 17 to 25 years age group. Bearing in mind the opportunities for employment on construction sites in Monrovia, it may be estimated that unemployment probably fell significantly in 1978.

#### 10. Other social sectors

(a) Education. Enrolment in primary schools (kindergarten to grade 6) increased from 68,200 in 1970 to 176,900 in 1977, probably representing between 80 and 90 per cent of the eligible age group. Comparable figures for secondary enrolment (grades 7-12) were 15,400 in 1970 and 36,800 in 1977. Bearing in mind the popular desire just to go to school and the rate of primary school construction through nationally encouraged self-help activities, the forecast is that there will be further increases in enrolments in 1978.

Enrolment in teacher training institutes increased from 480 in 1976 to 530 in 1977. In the same period graduates from these institutes were 294 and 310. The problem of the quality of education, i.e. its relevance to the needs of life, has become so acute that all-out efforts, supported by UNESCO, have been and are being made to improve the content of the curricula, starting with primary schools, as well as to develop instructional materials for on-the-job use by the many untrained and unqualified teachers at the primary level.

(b) Health. While the number of hospital beds has increased modestly during the past seven years from 2,216 to 2,523, the number of clinics and health posts has increased significantly each year. Most of the new clinics and health posts are located in the rural areas where health delivery is given top priority in the health service. The revised figures for registered nurses suggest that attrition is significant among nurses, some of whom find jobs in other professions. For this reason the Government is understood to be considering a further increase of 5 per cent in salary scales for nurses. In accordance with the 1978 Survey of Rural Health Workers it is further understood that the strategy of the Ministry of Health and Social Welfare in the future is to up-grade, by appropriate training, existing unqualified health personnel. There were 198 doctors and 771 registered nurses in 1977, both figures at least twice as high as in 1970.

## B. MAJOR PROBLEMS

Considering its traditional contribution during the past two decades of some 30 per cent of GDP, iron ore exploitation and exports present a basic problem, the solution of which is unfortunately beyond the control of the Government. Mainly because of falling real prices since 1975 the value added by iron ore has declined, at constant 1971 prices, by 11.8 per cent in 1975, 5.1 per cent in 1976 and by a further 11 per cent in 1977. At current market prices, the decline in 1976 was as much as 39 per cent in 1976 and 25.1 per cent in 1977. The effects of such a deteriorating trend on public finance and the economy has been so grave that the Government has had to cut back in 1978 on some development projects.

The manufacturing industry is one sector which has led the development thrust but it is subject to a number of constraints. Besides the weakness of using a large import content, the manufacturing industry is by and large improperly oriented. Because of the lack of forward and backward linkages in the internal productive processes, import substitution has lost much of its usefulness because the identification, selection and establishment of manufacturing processes have not been adequately based on local raw materials which the country has in relatively abundant supplies. As an example although a 7-million ton deposit of clay a few miles from Monrovia was discovered a decade ago, it was not used for the manufacture of burnt bricks for the housing estates close by which continue to use cement blocks made from imported clinker. Probably the example of the Liberia Sugar Corporation which produced commercial sugar at competitive world prices from its own sugar plantation in South East Liberia in 1977 should be used as a basis for introducing some changes in the manufacturing policy.

The continuous rise of expenditures on imports in 1977, 16 per cent above the 1976 level of almost \$400 million, is as disturbing as the rise of the level of imported consumption goods from \$85.1 million in 1976 to \$122.8 million. The food bill for imports in 1977 was a disquieting \$52 million compared to \$37.8 million in 1976. For a country whose exports are dominated by two commodity items, iron ore and rubber accounting for 61.1 per cent and 13.2 per cent of exports respectively in 1977, a continued weakening in the demand for iron ore has already transformed a traditionally trade-surplus economy to one marked by a trade deficit. The trend will continue in 1978.

## C. INTERNAL DEVELOPMENT POLICIES

Perhaps the most momentous development policy decision, the third in Liberia's history (the first being the granting of the concession to Firestone Plantations Company and the second the "Open Door" Policy in 1944), has been the Executive Order No.1 on strategies and tactical measures for rural development in Liberia issued on 7 June 1978.

This document, representing the will and the commitment of the Government to focus on rural development as an integral part of the nation's over-all development, sets out most clearly and at great length how rural development will be implemented in the coming years. The strategy will be build around:

(a) Decentralization, which involves the transfer of development responsibilities and authority to local administration as well as the delegation of responsibilities and authority by central Government agencies to their representatives at the local level in order to promote and assure decision making and programme/project implementation at the local level.

(b) Popular participation, which embraces the spirit of self-reliance and the total involvement of all the people at different levels of local administration in decisions making and taking appropriate actions to improve the quality of their lives.

(c) Co-ordination, which ensures that separate programmes and projects of different implementing agencies are executed with deliberate and due regard to the complementarity of actions and results.

(d) Integration, which not only reflects deliberate and due regard for complementarity but also, through firm and explicit functional linkages, binds separate sectoral activities into one organic whole.

Within the framework of these strategies and various guidelines and tactical measures, a "Rural Development Task Force" administratively responsible to the Vice-President of Liberia, has been established to follow up, evaluate and monitor the extent and degree of compliance in order to ensure that the spirit of the Executive Order is reflected in a medium-term national socio-economic development plan which is to be submitted by the Ministry of Planning and Economic Affairs to the National Planning Council by 1 March 1980.

#### D. PROSPECTS FOR 1978 AND 1979

Executive Order No. 1 (1978) was prepared on the basis of consultations and active discussions at the local, national and international levels.

Bearing in mind the psychological effects and implications of the outcome of these discussions, each individual and each community is sensitized to feel that they will derive benefits in line with the contribution they decide to make. On this basis the future looks propitious in the sense that development will tend in the future to be endogenously oriented, thus providing meaningful opportunities for unleashing the productive energies of all the people. With this new development approach it may be forecast that, although real growth rate may be about 2 per cent in 1978, there will be enhanced recovery in 1979 approximating a growth rate of more than 3 per cent.

## MADAGASCAR

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

#### 1. Introduction

Despite the uncertainties of the available data, the average growth rate of GDP for the period 1970 to 1977 appears to have been only 0.6 per cent a year at constant prices with the GDP in 1977 only 4.5 per cent higher than in 1970. Since population growth is estimated at 3 per cent a year, this means that GDP per head has declined substantially since 1970. The causes of the relative stagnation in the Madagascar economy are to be found in a fall in investment expenditure, a poor performance in agriculture and very little growth elsewhere in the economy. The growth rate in agriculture is difficult to assess, the FAO volume index shows an average growth rate of 1.6 per cent a year; the output of rice, the main crop, appears to have risen by 2.4 per cent a year and with a relative price improvement for producers for rice paddy in particular this would suggest that the growth rate in real terms in agriculture has probably been in the region of 2 per cent a year. Official data based on a sectoral deflation shows an average growth rate for agriculture at constant prices of 0.5 per cent a year. Whatever the reality agricultural output per head has obviously fallen significantly during the period under review.

After 1972, following fundamental political changes, most of the modern sectors of the economy including foreign trade were taken under government control while in the rural areas a new communal type administrative structure was introduced.

Alongside the relative stagnation in production there has been inflation which has averaged 7.9 per cent a year. The money supply rose fairly rapidly and budgetary expenditures were increased. The balance of payments situation has been contained by ensuring that imports were controlled in line with export earnings. The trade deficit of 1970 was turned into a small surplus in 1977.

The GDP growth rate at current prices averaged 9.6 per cent a year between 1970 and 1977 so the implicit GDP deflator was 8.9 per cent a year a little higher than the increase in consumer prices. In 1977 GDP rose by 4 per cent at constant prices and this growth wiped out the fall recorded in 1976. The relatively good result in 1977 owes much to the good harvests that were reaped. The external trade showed a small surplus in 1977 and there was an increase in international reserves; at the same time the rate of inflation was reduced. Money supply rose by 27 per cent in 1977 and the major contributing factor was the growing indebtedness of the Government to the banking system. Present data do not allow any assessment of the likely GDP growth rate in 1978 but it is known that rice production has not increased and that substantial food imports have been necessary to supply the urban areas where food distribution problems have appeared. The fairly severe import controls in operation in 1978 have led to some rise in international reserves but may also have caused problems over supplies of raw materials, spares, etc., leading to low capacity working in industry.

#### 2. GDP by industrial origin

According to current price the estimates made by the Malagasy Institute of Statistics (INSRE), there has been shift in GDP structure in favour of agriculture

since 1970 with the share generated in this sector rising from 34.1 to 45.1 per cent by 1977. All other sectors with the exception of manufacturing have declined in relative importance. Manufacturing produced 12.7 per cent of GDP in 1970 and 14.7 per cent in 1977. With such a low overall growth rate of total GDP of only 0.6 per cent a year, most economic sectors must have shown negative growth rates or at best very low growth rates.

Madagascar: Table 1. GDP by source, 1970 and 1975 to 1977.  
(billions of Malagasy francs (FMG))

| At current factor cost         | 1970  | Percentage | 1975  | 1976  | 1977  | Percentage |
|--------------------------------|-------|------------|-------|-------|-------|------------|
| Agriculture, forestry, fishing | 74.1  | 34.1       | 166.3 | 170.6 | 185.7 | 45.1       |
| Mining and quarrying           | 1.0   | 0.5        | 2.3   | 2.1   | 2.3   | 0.6        |
| Manufacturing                  | 27.6  | 12.7       | 44.2  | 54.2  | 60.7  | 14.7       |
| Construction                   | 8.7   | 4.0        | 11.2  | 12.2  | 14.6  | 3.6        |
| Wholesale and retail trade     | 27.2  | 12.5       | 37.8  | 38.7  | 41.6  | 10.1       |
| Transport and communication    | 16.9  | 7.8        | 26.1  | 27.1  | 29.0  | 7.0        |
| Public administration          | 37.2  | 17.1       | 42.5  | 44.0  | 48.1  | 11.7       |
| Other services                 | 24.6  | 11.3       | 26.3  | 27.8  | 29.8  | 7.2        |
| GDP at factor cost             | 217.3 | 100.0      | 356.7 | 376.7 | 411.8 | 100.0      |
| GDP at current market prices   | 249.7 |            | 398.3 | 419.8 | 456.3 |            |
| GDP at 1970 factor cost        | 217.3 |            | 225.7 | 218.2 | 227.0 |            |

Source: National data from Madagascar.

### 3. Selected economic sectors

(a) Agriculture, forestry and fishing. As in many African countries the major activity is agriculture, forestry and fishing occupying about 85 per cent of the people and providing 45 per cent of GDP. Both crop production and livestock raising are extensive but forestry and fishing are of lesser importance. For the period 1970 to 1977 it seems likely that the real growth rate of agriculture's contribution to GDP was about 2 per cent a year. This compares with the FAO volume index for agricultural production giving a growth rate of 1.6 per cent a year. The relatively poor performance from agriculture is partly explained by the weather; Madagascar experiences regular cyclones leading to crop damage and flooding. In 1977 agricultural production increased by 2.4 per cent; in 1976 there had been a fall of 6.7 per cent due to bad weather. Crop production is the main component of agriculture, and is itself dominated by rice. Paddy production is estimated at 1,865,000 tonnes in 1970 and 2,200,000 tonnes in 1977 giving an average growth

rate of 2.4 per cent a year. Figures for the marketed crop do not show any increase in the quantities of rice sold. In 1977 the total was 263,000 tonnes against 277,000 tonnes in 1971. It seems probable that more of the total crop has been consumed on the farms to meet the increasing demand due to population growth. Apart from rice the main industrial crops are sugar-cane, coffee, vanilla and cloves. The industrial sugar cane crop shows a small rise when comparing 1970 and 1977 but a fall in output since 1975. For cloves there is a strong cyclical element in production with wide fluctuations yearly. Quantities of marketed cloves were 12,000 tonnes in 1977 against only 4,000 tonnes in 1971 and an estimated total of 10,000 tonnes in 1970. Output of vanilla has been on a declining trend in recent years. In livestock, cattle herds have remained more or less constant in the 1960's and 1970's, and latest estimate for 1976 gives a total of about 9 million head. In contrast the numbers of sheep, goats and pigs appear to be growing rapidly. The emphasis on these smaller animals probably relates to a shortage of pastures. Reports indicate that substantial imports of rice were made in 1978 to make up for a shortfall in production.

Madagascar: Table 2. Agricultural production, 1970 and 1975 to 1977  
(thousand tonnes)

|                            | 1970               | 1975  | 1976  | 1977 <sup>a/</sup> |
|----------------------------|--------------------|-------|-------|--------------------|
| Rice paddy                 | 1 865              | 1 972 | 2 042 | 2 200              |
| Maize                      | 109                | 120   | 136   | 154                |
| Potatoes                   | 94                 | 121   | 133   | 150                |
| Cassava                    | 1 218              | 1 309 | 1 370 | 1 594              |
| Sugar cane                 | 1 113              | 1 377 | 1 287 | 1 352              |
| Groundnuts                 | 41                 | 42    | 54    | 55                 |
| Coffee                     | 67                 | 84    | 79    | 89                 |
| Cloves                     | 12.0               | 4.5   | 12.9  | 14.7               |
| Pepper                     | 2.1                | 3.0   | 4.9   | 5.8                |
| <u>Production for sale</u> |                    |       |       |                    |
| Rice paddy                 | 277                | 253   | 308   | 263                |
| Coffee                     | 48 <sup>b/</sup>   | 65    | 50    | 65                 |
| Sugar cane                 | 910                | 1 092 | 1 073 | 1 033              |
| Cloves                     | 4.0 <sup>b/</sup>  | 4.5   | 10.6  | 12.0               |
| Prepared vanilla           | 1.3 <sup>b/</sup>  | 1.43  | 0.85  | 0.55               |
| Pepper                     | 3.5 <sup>b/</sup>  | 2.6   | 3.5   | 3.0                |
| Cotton                     | 21.8 <sup>b/</sup> | 30.8  | 34.7  | 37.0               |
| Sisal                      | 21.9 <sup>b/</sup> | 22.0  | 18.6  | 18.8               |
| Groundnuts                 | 30.5 <sup>b/</sup> | 21.9  | 17.0  | 20.0               |

Source: Ministère du développement rural. Statistiques Agricoles Annuaire 1975-1976-1977: Banque Centrale de Madagascar, Bulletin Mensuel de Statistique No. 29. octobre 1978.

a/ Early estimates.

b/ 1971.

The Government is presently giving a high priority to agriculture and in particular to rice. Self-sufficiency in food is now one of the main elements of policy and to achieve it co-operatives and other producers organisations are being encouraged. Prices paid to farmers have been increased but have so far had little impact on the quantities marketed. In 1977/78 the producer price for ordinary rice paddy was 27 to 32 Malagasy francs per kilogram compared with 12 to 17 francs in 1973/74. The rise in prices for other crops was much less over this period.

(b) Mining. The mining sector is small and contributes only 0.6 per cent of GDP. Its growth has been relatively high since 1970. The main products mined are mica, chromite, graphite and quartz. Some gold is produced but in very small quantities. In 1977 the volume index of the sector fell by 11 per cent because of lower graphite and chromite production.

(c) Manufacturing. The sector is dominated by food and textile industries which contribute more than 50 per cent of total production. With the low level of investments since 1970, production has increased only modestly at a rate estimated in the national accounts at 2.3 per cent per annum. Measured by the index of industrial production which also includes mining the rate has been even lower at only 1.9 per cent per annum. In 1977, the situation improved to some extent because of the good crops obtained in that year which meant better supplies for industry.

The most important change this decade has been the increase of state control. Policy is to reserve important industries for public ownership but to encourage private business elsewhere.

Madagascar: Table 3. Industrial production, 1970 and 1975 to 1977

|  | 1970                | 1975   | 1976   | 1977   |
|--|---------------------|--------|--------|--------|
| <u>Mining</u>                                  |                     |        |        |        |
| Chromite (thousand tonnes)                     | 140.1               | 194.1  | 211.4  | 164.8  |
| Graphite (thousand tonnes)                     | 18.3                | 17.8   | 17.4   | 13.6   |
| <u>Manufacturing</u>                           |                     |        |        |        |
| Cattle slaughtered (thousand)                  | 85.7                | 32.5   | 26.5   | 49.3   |
| Sugar (thousand tonnes)                        | 101.6               | 114.5  | 107.3  | 130.9  |
| Edible oil (tonnes)                            | 7 159               | 5 644  | 5 816  | 5 929  |
| Beer (thousand hl)                             | 92.7                | 211.9  | 257.0  | 273.5  |
| Fabrics (million metres)                       | 60.7 <sup>a/</sup>  | 77.7   | 78.1   | 79.5   |
| Paper (tonnes)                                 | 6 160               | 10 622 | 9 053  | 11 498 |
| Soap (tonnes)                                  | 6 444               | 16 819 | 14 427 | 16 400 |
| Matches (million boxes)                        | 74.9                | 51.2   | 48.8   | 62.7   |
| Cement (thousand tonnes)                       | 75.2                | 58.0   | 69.9   | 52.2   |
| Electricity (million kWh)                      | 195.1 <sup>a/</sup> | 245.8  | 257.7  | 271.3  |
| Index of industrial production<br>(1970 = 100) | 100                 | 112.3  | 111.3  | 113.5  |

Source: National data from Madagascar.

a/ 1971.

(d) Energy. Energy needs are covered by oil imports, hydro-electric production and wood. Since 1970 the growth of energy consumption has been modest reflecting the low rate of economic growth. Oil consumption was 241.1 million litres in 1970 and 260.9 million in 1977. Production of electricity rose at a yearly rate of 5.7 per cent in the seven years under review. The Government is actively pursuing a policy of exploiting Madagascar's water resources for electricity production and the construction of a dam on the Namorana river is in its preliminary stage. This dam will have a capacity to produce 5000 kw of hydro-power. Another larger dam will be built at Andekaleka and will cost FMG 25 billion with an ultimate capacity of 110 megawatts.

(e) Construction. The cement production figures indicate some reduction in output in the construction industry since 1971. There has been a small reduction in the percentage of GDP spent on capital formation comparing 1977 and 1970 and this would also reflect some fall in output in building and construction.

(f) Transport services. Being an island, Madagascar is heavily dependent on maritime transport for its external trade, and an international air transport for the movement of people. On the island road and rail transport are important. In 1970, 787,000 tonnes of freight were loaded or unloaded in Malagasy ports, and in 1976 the total was 846,000 tonnes. For goods transported by the railway, the total is estimated at 219 million tonne/kilometres in 1977 against 224 million in 1970. Internal air transport has evolved favourably; the number of passenger kilometres had risen to 89.1 million in 1977 compared with 31.4 million in 1970. However, as shown in Table 4 the number of passengers on international services has fallen.

Madagascar: Table 4. Selected transport indicators, 1970 and 1975 to 1977

|  | 1970  | 1975  | 1976  | 1977  |
|--|-------|-------|-------|-------|
| <u>Ports</u>                                     |       |       |       |       |
| Freight loaded and unloaded<br>(thousand tonnes) | 787   | 969   | 846   | ...   |
| <u>Railways</u>                                  |       |       |       |       |
| Freight (million tonne/km)                       | 224   | 215   | 219   | 219   |
| Passengers (million km)                          | 182   | 249   | 293   | 275   |
| <u>Roads</u>                                     |       |       |       |       |
| New vehicles registered (number)                 | 4 853 | 3 756 | 3 909 | 4 126 |
| <u>Air Transport</u>                             |       |       |       |       |
| Passengers handled <sup>a/</sup> (thousand)      | 100.1 | 66.7  | 75.1  | ...   |

Source: National data from Madagascar.

a/ On international services.

#### 4. Expenditure and the GDP

With only a small growth rate of GDP and a policy of controlling imports in line with export earnings, the real growth rate of expenditure has been only about 3 per cent in seven years comparing 1977 with 1970 or 0.4 per cent a year. With a smaller inflow of foreign resources the net deficit on goods and services has fallen from 3.9 per cent of GDP in 1970 to 2.3 per cent in 1977. The domestic savings rate has remained unchanged at 13.0 per cent of GDP and the net result has been a decline in the proportion of GDP on gross capital formation from 16.9 to 15.2 per cent. Total consumption expenditure was unchanged between 1970 and 1977 but there has been a substantial reduction in the expenditure share going on public consumption from 21.9 to 15.8 per cent of GDP and a rise from 65.1 to 71.2 per cent in the proportion going on private consumption.

This increase in the relative share of GDP going on to private consumption is due to a large extent to the substantial price rise for rice instituted in 1974/75. While the range of government activities has increased the reason for its declining share in GDP at current prices is the limited wage increases allowed for civil servants and some fairly strict controls on the prices of the items purchased.

Madagascar: Table 5. Expenditure and GDP, 1970 and 1975 to 1977 (billions of FMG)

|  | 1970  | Per cent | 1975  | 1976  | 1977  | Per cent |
|--|-------|----------|-------|-------|-------|----------|
| Private consumption                        | 149.6 | 65.1     | 297.1 | 305.1 | 325.0 | 71.2     |
| Public consumption                         | 50.3  | 21.9     | 60.4  | 66.5  | 72.2  | 15.8     |
| Gross capital formation                    | 38.9  | 16.9     | 51.6  | 55.9  | 69.5  | 15.2     |
| Exports less imports of goods and services | -9.0  | -3.9     | -10.8 | -7.8  | -10.4 | -2.2     |
| GDP at current market prices               | 229.8 | 100.0    | 398.3 | 419.7 | 456.3 | 100.0    |
| Domestic savings                           | 29.9  | 13.0     | 40.8  | 48.1  | 59.1  | 13.0     |

Source: National data from Madagascar.

If measurement is made at constant prices the picture of the relationship between private and public consumption is markedly different with the proportions remaining virtually unchanged between 1970 and 1977.

#### 5. External trade and the balance of payments

The value of trade increased between 1970 and 1977. The volume of imports measured against unit price indicators for all developing countries appears to have fallen by about 37 per cent over this period and there has also been a fall in the volume of exports but its extent is not measurable. Both the reduction of exports and that of imports are linked to the economic stagnation of Madagascar. Products such as rice and sugar have been increasingly consumed in the domestic economy and exports of rice have fallen quite drastically while those of sugar have also been reduced. Since Madagascar left the franc zone the import control programme initiated in 1976 has helped keep expenditure on imports in line with what is earned from exports.

Exports are mainly of agricultural products, the four main current exports being coffee, sugar, cloves and vanilla. Previously rice had been an important export. In 1976 and 1977 high coffee prices boosted export earnings but exports of cloves fell markedly in 1976 from the particularly high level of 1975.

Madagascar: Table 6. External trade and balance of payments, 1970 and 1975 to 1977 (millions of FMG)

|                            | 1970   | 1975    | 1976    | 1977 <sup>a/</sup> |
|----------------------------|--------|---------|---------|--------------------|
| <u>External trade</u>      |        |         |         |                    |
| Exports                    | 40 222 | 63 044  | 66 035  | 70 000             |
| Imports                    | 47 346 | 78 047  | 68 434  | 68 500             |
| Balance                    | -7 124 | -15 003 | -2 399  | +1 500             |
| <u>Balance of payments</u> |        |         |         |                    |
| Goods and services (net)   | -7 498 | -27 862 | -15 295 | -16 214            |
| Private transfers (net)    | -4 443 | 214     | 239     | 737                |
| Government transfers (net) | 11 942 | 11 359  | 9 559   | 10 072             |
| Capital                    | 5 276  | 7 073   | 3 585   | 5 650              |
| Reserves and related items | -4 165 | 4 504   | Nil     | 1 965              |
| Errors and omissions       | -1 112 | 4 715   | 1 912   | -2 210             |

Source: National data from Madagascar.

IMF, International Financial Statistics vol. XXX No, 12 December 1977; vol. XXXI No.11 November 1978.

a/ Provisional.

The balance of payments has a traditional deficit for goods and services which is covered largely by government transfers and a capital inflow. However the net receipts from transfers have been static since 1970 and the capital inflow has fluctuated around FMG 5 billion. There was a reduction in international reserves in 1975 because the balance of payments was in overall deficit, no change in these reserves in 1976 but a further fall in 1977. Madagascar's net foreign assets have fallen from FMG 19 billion at December 1975 to FMG 14 billion at December 1977.

#### 6. Development aid and external debt

The foreign aid inflow has been stagnant this decade and as prices have risen rapidly the result has been a lower volume of aid. Foreign debt has increased according to the World Bank from \$US 94 million dollars in 1970 to \$US 181 million in 1977 but has remained constant relative to GDP. The external public debt service payments in 1976 were equal to 4.7 per cent of earnings from goods and services.

7. Government revenue and expenditure

The information on this subject is very limited and it is difficult to be specific about appropriate growth rates.

Madagascar: Table 7. Government revenue and expenditure, 1970 and 1975 to 1978 (billions of FMG)

|                     | 1970 <sup>a/</sup> | 1975 | 1976 | 1977 | 1978 <sup>b/</sup> |
|---------------------|--------------------|------|------|------|--------------------|
| Fiscal receipts     | 46.7               | 51.3 | 54.2 | 62.8 | 89.2               |
| Total receipts      | 46.9               | 52.9 | 67.5 | 72.0 | 101.1              |
| Current expenditure | 38.2               | 49.4 | 63.6 | 72.0 | 88.0               |
| Capital expenditure | 11.1               | 13.1 | 19.3 | 20.9 | 36.4               |
| Total expenditure   | 49.3               | 62.5 | 82.9 | 92.9 | 124.4              |
| Cash deficit        | 2.4                | 9.6  | 15.4 | 20.9 | 23.3               |

Source: Malagasy Government for 1975 to 1978. ECA data summaries for 1970.

a/ General and provincial budget.

b/ Budget estimates.

The figures shown on table 7 are probably incomplete and in 1970 there was an additional provincial budget which appears to have been incorporated in the general budget for 1975 to 1978.

The growth in expenditure has been higher than that of revenue since 1970 and as a result there was a cash deficit estimated at FMG 23.3 billion in the 1978 budget. Monetary data given below show that the increase in net claims on Government by the banking system from December 1970 to December 1975 was FMG 20.5 billion, in 1976 there was a further rise of FMG 7.7 billion and in 1977 of FMG 19.56 billion. Deficit financing has become increasingly important in the government accounts since 1973.

8. Money and banking

Money supply more than doubled between 1970 and 1977 due solely to the expansion of domestic credit. Government borrowing from the banking system started in 1974 when for the first time this decade it moved from a net depositor to a net borrower. Since then the level of government indebtedness has risen rapidly to reach FMG 39.31 billion at December 1977. Credit to the private sector has also risen at an average rate of 8.1 per cent a year since 1970. Money proper has shown a growth rate of 11.8 per cent a year.

In 1977 the rise in net claims on the Government was FMG 19.56 million and in private sector credit was FMG 21.43 billion or 26.9 per cent. There was little change in net foreign assets and quasi-money was reduced but the other element in the liabilities of the banking system 'other items (net)' showed a rise from FMG 12.69 to FMG 27.06 million.

Madagascar: Table 8. Monetary survey, 1970 and 1975 to 1977 (billion of FMG)

|                          | End<br>1970 | End<br>1975 | End<br>1976 | End<br>1977 |
|--------------------------|-------------|-------------|-------------|-------------|
| Net foreign assets       | 16.61       | 12.27       | 13.82       | 13.98       |
| Domestic credit          |             |             |             |             |
| Net claims on Government | -7.93       | 12.57       | 19.75       | 39.31       |
| Claims on private sector | 52.82       | 72.48       | 76.20       | 91.32       |
| Money                    | 46.19       | 69.35       | 79.67       | 101.10      |
| Quasi-money              | 8.97        | 14.36       | 17.41       | 16.45       |
| Other items (net)        | 6.38        | 13.61       | 12.69       | 27.06       |

Source: IMF, International Financial Statistics, vol. XXX No. 12 December 1977 and vol. XXXI No. 11 November 1978.

#### 9. Wages and prices

There have been large increases in monetary wages in Madagascar because of inflation and there have also been substantial rises in prices of agricultural products. But information is lacking on the amount and timing of the changes which have been made in general or specific wage rates. However, for 1978, information is available on the readjustment of civil servants pay; as from January 1st the minimum starting pay has been increased to FMG 270,400 and the maximum to FMG 2,704,000.

Before 1974 price inflation was relatively moderate with the rise in consumer prices in 1971, 1972 and 1973 averaging 5.7 per cent a year. In 1974 the increase was 22 per cent, in 1975 it was 8.3 per cent and it fell to 5 per cent in 1976 and 3 per cent in 1977. At June 1978 the consumer prices index was 6.8 per cent higher than at June 1977.

#### 10. Employment and unemployment

Madagascar has relatively few wage earners and its most pressing problem is how to make better use of the agricultural labour force. The demand for wage employment is most intense in the urban areas and with the depressed state of the economy unemployment has been increasing in the towns. According to the Ministry of Civil Service and Labour, the number of those in wage employment has fallen by 7.3 per cent between 1972 and 1976 with the largest declines being observed in mining and construction. In 1976 the number of unemployed was estimated at 250,000 people. In Tananarive itself the number of persons seeking but not finding work rose from 5,303 in 1970 to 24,443 in 1977. Similar data are available from other urban centres indicating a worsening situation in the labour market.

#### 11. Other Social sectors

(a) Education. The school population is increasing rapidly and the primary enrolment ratio is around 60 per cent. But the school system is poorly adapted to development needs because it does not give pupils and students the skills necessary to work in modern-day society. This is evident from the relatively small numbers of pupils in vocational schools. In order to adapt education to the needs of the

economy, the Government has introduced the use of the Malagasy language at all educational levels. In 1975 there were 1,133,013 primary school students, 131,536 secondary schools, 6,759 in vocational education and 8,345 at university.

(b) Health. The health situation is characterised by relatively high mortality rate and a high prevalence of epidemic, parasitic and nutritional diseases. There is roughly one doctor per 10,000 inhabitants and an acute shortage of specialised physicians. The distribution of medical personnel and health facilities favours the urban areas. Progress has been made over the years and the mortality rate has fallen to 20 per cent in 1975 from 27 per cent in 1960. The Government is making a significant effort to improve health conditions. Current efforts are directed towards a redistribution of health services in favour of the rural population. In 1976 there were 19,421 hospital beds giving a relatively good ratio of about 400 persons for each hospital bed.

#### B. MAJOR PROBLEMS

In the period under review the problems have been mainly those of trying to ensure food production is increased, to make the new administrative structure work efficiently and to try to maintain a reasonable level of investment. The major food-stuff is rice and Madagascar has turned from a net exporter to a net importer but despite this, supply problems have arisen in the cities leading to the introduction of rationing. Food imports are now costing Madagascar some FMG 15 to 17 billion a year of which 7 to 8 billion is spent on rice. The size of the budget deficit in the Government accounts has widened very appreciably in recent years and whilst this is helping to create economic activity it is also a potent source of inflation and instability in the economy.

#### C. INTERNAL DEVELOPMENT POLICIES

Since 1970, government policies have pursued different objectives. In the period 1970-1972 the administration pursued a policy of economic liberalism with a large participation of foreign interests in the economy. In 1974-1978 major changes have been introduced: the monetary system was nationalised, most of foreign trade now comes under public control and major foreign firms were either nationalised or brought under public control through state participation in their equity. In the rural areas, estates previously owned by foreigners were allocated to peasant agriculturalists and the rural administrative structure was entirely changed, communal type organisations called "fokolonas" being invested with administrative powers. Madagascar became more independent in the monetary field but foreign exchange controls had to be introduced. In the social field, the national language was made the language of education and compulsory basic education for children was instituted.

In conjunction with these structural changes, the Government has launched a major campaign to increase food production generally. Producer prices have been increased to encourage more production. Imports controls have been introduced and

strengthened to ensure a payments balance on external account. The 1976-1980 plan aims at increasing production by at least 5 per cent per year and gives priority to food crops and particularly rice production. To meet longer term objectives the means of production are to be gradually socialised. Farming will be progressively transformed from private husbandry to collective enterprise.

D. PROSPECTS FOR 1978 to 1980

Given the poor growth record of the Malagasy economy since 1970, it is difficult to forecast the developments up to 1980. However, improved management is being stressed and higher investments proposed in an attempt to generate more productive economic activity.

Economic prospects for 1978 which appeared favourable earlier this year are now more obscure. Food imports have risen and there has been some increase in prices. On balance it seems as if the growth rate of the economy in 1978 will not be particularly good and for 1979 to 1980 much will depend on the climate and the reaction of the peasant producer to the environment such as the level of producer prices in relation to what these will buy. Only moderate growth to 1980 seems in prospect.

MALAWI

A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

1. Introduction

Malawi's GDP at current market prices has been growing at an average compound rate of 16.1 per cent per annum during the last seven years. In real terms, GDP (1964 prices) has risen at nearly 6.9 per cent per year and real per capita GDP has grown at 3.6 per cent per annum. The implicit GDP deflator shows that prices rose at an average annual rate of 8.6 per cent. Data on GDP by expenditure type at current market prices show that between 1970 and 1977 the share of both public and private consumption in GDP declined especially in 1977, the share of domestic savings increased and the import surplus declined accordingly. The share of fixed capital formation in GDP at current market prices fell from 22.9 per cent in 1970 to 19.9 per cent in 1977.

However, it should be noted that, with the share of fixed capital formation in GDP averaging about 21 per cent and real growth rates in GDP of 6.9 per cent for the 1970s, the incremental capital output ratio in Malawi is about 3 to 1, reflecting the high efficiency of capital investment.

The average growth in the value of exports since 1970 (20.6 per cent per annum) has exceeded the average growth in imports (14.4 per cent). The current account deficit has declined.

In both 1977 and 1978, the Malawian economy continued to perform well despite world-wide problems of inflation, unemployment and balance-of-payments difficulties. All productive sectors showed positive growth and the balance-of-payments position improved substantially as well, allowing external reserves to rise in 1977 by over 52 million kwacha compared with a reduction of over K31 million in the previous year.

The implementation of the 1977/78 development programme made good progress although it was adversely affected by the closure of the Southern Rhodesia/Mozambique border and increased demurrage charges at the ports of Beira and Nacala which contributed to late delivery of equipment and steep increases in prices of materials.

In the year to April 1978 exports reached K172.7 million and imports K227.4 million and the trade deficit widened. Tobacco exports rose by 50 per cent compared with the period 12 months before to reach K94.6 million but exports of tea and sugar fell. Tobacco auction sales from January to May 1978 were valued at K21.6 million compared with K21 million in the same period in 1977. The quantity of tobacco sold fell by 4.5 per cent. Tea production from January to May 1978 was virtually unchanged but the price per pound realized at auction was down by 36 per cent compared with a year earlier. Manufacturing output was up by 13.3 per cent over this period. The value of building plans passed rose materially and there was a small increase in the number of tourists. Development account expenditure by the Government was twice as high in January to May 1978 as a year earlier.

Despite the stagnation reflected in commercial agricultural output, the present indicators for 1978 suggest the economy will continue to grow from the increase in manufacturing output and increased activity owing mainly to higher development spending.

Malawi: Table 1. Selected economic data, 1970 and 1975-1977

|  | Unit      | 1970  | 1975 <sup>a/</sup> | 1976 <sup>a/</sup> | 1977 <sup>a/</sup>  | Growth rate from 1970-1977 (Percentage per annum) |
|--|-----------|-------|--------------------|--------------------|---------------------|---|
| Population at mid-year                       | '000      | 4,441 | 5,044              | 5,175              | 5,310 <sup>b/</sup> | ...   |
| GDP at 1964 prices: total                    | K million | 226.0 | 301.4              | 339.4              | 360.2               | 6.9   |
| GDP at current market prices: total          | K million | 267.1 | 571.0              | 659.8              | 759.6               | 16.1  |
| Gross fixed capital formation                | K million | 61.1  | 145.6              | 135.0              | 151.5               | 13.9  |
| As percentage of GDP                         | %         | 22.9  | 25.5               | 20.5               | 19.9                | -   |
| Public consumption                           | K million | 41.0  | 68.9               | 73.9               | 83.5                | 10.7  |
| Private consumption                          | K million | 192.3 | 444.5              | 516.0              | 551.6               | 16.2  |
| Consumption as percentage of GDP             | %         | 87.3  | 89.9               | 89.4               | 83.6                | -   |
| Domestic savings                             | K million | 33.8  | 57.6               | 69.9               | 124.5               | 20.5  |
| Percentage of GDP                            | %         | 12.7  | 10.1               | 10.6               | 16.4                | -   |
| Foreign trade                                |           |       |                    |                    |                     |   |
| Imports                                      | K million | 82.5  | 218.7              | 188.5              | 211.9               | 14.4  |
| Exports                                      | K million | 49.7  | 122.1              | 151.6              | 184.6               | 20.6  |
| Import surplus                               | K million | 32.8  | 96.6               | 36.9               | 27.3                | -2.7  |
| Official reserves value                      | K million | 24.3  | 55.3               | 23.8               | 75.9                | -   |
| Blantyre low-income price index (1970 = 100) | -         | 100.0 | 157.0              | 163.8              | 170.7               | 7.9   |
| Terms of trade (1970 = 100)                  | -         | 100.0 | 81.22              | 79.32              | 86.13 <sup>c/</sup> | -2.2  |

Source: Compiled from official data from Malawi.

a/ Estimates.

b/ Preliminary results of the 1977 census show a mid-year population of 5.54 million.

c/ Average for four quarters.

## 2. GDP by industrial origin

Between 1970 and 1977 there was some decline in the relative importance of agriculture, forestry and fishing and an increase in the contribution of commerce, transport and other services.

Agriculture contributed 50.5 per cent of GDP in 1970; the figure then fell to 45 per cent in 1975 but rose to 46.4 in 1977. The value added in manufacturing was 12.5 per cent of total GDP in 1970, and 12.8 per cent in 1975 but because of disruptions caused by the Mozambique/Southern Rhodesian border closure this percentage fell to 11.9 per cent in 1977.

In contrast to these sectors showing a fall in their contribution to GDP, wholesale and retail trade increased from 9.9 to 11.9 per cent of GDP between 1970 and 1977, transport rose from 4.1 to 5.4 per cent and other services from 16.9 to 18.4 per cent.

Malawi: Table 2. GDP by source, 1970 and 1975-1977 (millions of kwacha)

| At 1973 factor cost                | 1970 <sup>a/</sup> | %     | 1975  | 1976  | 1977  | %     |
|------------------------------------|--------------------|-------|-------|-------|-------|-------|
| Agriculture, forestry, fishing     | 126.0              | 50.5  | 189.5 | 211.8 | 223.3 | 46.4  |
| Manufacturing                      | 31.3               | 12.5  | 53.8  | 52.6  | 57.2  | 11.9  |
| Construction                       | 12.1               | 4.9   | 20.9  | 20.8  | 21.7  | 4.5   |
| Electricity, etc.                  | 2.9                | 1.2   | 6.0   | 6.4   | 6.7   | 1.4   |
| Wholesale and retail trade         | 24.6               | 9.9   | 51.4  | 55.0  | 57.3  | 12.0  |
| Transport and communications       | 10.2               | 4.1   | 24.4  | 24.6  | 25.9  | 5.4   |
| Services                           | 42.2               | 16.9  | 75.0  | 82.3  | 88.7  | 18.4  |
| Total GDP at 1973 factor cost      | ....               | ....  | 421.0 | 453.5 | 481.3 | 100.0 |
| Total GDP at current factor cost   | 249.3              | 100.0 | 538.1 | 629.8 | 724.0 |       |
| Total GDP at current market prices | 267.1              | ...   | 571.0 | 659.8 | 759.6 |       |

Sources: Malawi Government: Office of the President and Cabinet, Economic Planning Division; Economic Report 1978 (Govt. Printer, Zomba 1978); and Malawi: Statistical Yearbook, 1977 (Govt. Printer, Zomba, March 1978).

a/ At 1970 prices.

### 3. Selected economic sectors

(a) Agriculture, forestry, fishing. 1976/77 was generally a good agricultural season although a few dry spells occurred in February and March which contributed to the drop in sales of groundnuts, rice and pulses to the Agricultural Development and Marketing Corporation (ADMARC). The volume of purchases in 1977 and primarily those of tobacco, groundnuts, maize, seed cotton, paddy and pulses was 8 per cent up on 1976 and 4.8 per cent in value terms reaching 215,000 short tons (of 2,000 lb.) valued at K24 million. This compares with a level of 94,945 short tons valued at K9.6 million in 1970 and 131,726 short tons valued at K16 million in 1975.

ADMARC purchases have risen markedly since 1970 and the value of such purchases has recently exhibited steep rises owing to the rise in prices offered to growers. Growth in smallholder production is largely attributable to increased efforts by farmers and use of better techniques and inputs like fertilizer. Fertilizer imports were 36,569 tonnes in 1970 and 81,722 tonnes in 1977. Production of estate-grown crops like tea, sugar, flue-cured and burley tobacco has also risen rapidly. Malawi is now self-sufficient in beef and pork and total cattle slaughterings were 69,729 in 1977 compared with 56,817 in 1970. Dairy production has been rising rapidly with the total milk intake at three plants reaching 655,000 gallons in 1977.

Malawi: Table 3. Commercial agricultural production, 1970 and 1975-1977

|                                     | 1970  | 1975  | 1976  | 1977  |
|-------------------------------------|-------|-------|-------|-------|
| <u>ADMARC purchases</u>             |       |       |       |       |
| Tobacco ('000 short tons)           | 13.10 | 13.50 | 15.97 | 25.54 |
| Groundnuts ('000 short tons)        | 29.83 | 36.16 | 35.88 | 20.39 |
| Cotton ('000 short tons)            | 23.57 | 19.60 | 19.79 | 24.95 |
| Rice ('000 short tons)              | 9.99  | 16.16 | 27.03 | 26.35 |
| Maize ('000 short tons)             | 9.13  | 32.24 | 71.48 | 99.12 |
| Other ('000 short tons)             | 9.32  | 14.07 | 29.43 | 19.14 |
| Value (K million)                   | 9.61  | 16.02 | 22.98 | 24.15 |
| Tobacco auction sales ('000 tonnes) | 22.18 | 34.72 | 36.71 | 51.27 |
| Tea production ('000 tonnes)        | 18.74 | 26.24 | 28.31 | 31.58 |
| Sugar exports (K million)           | 0.16  | 12.29 | 23.20 | 14.87 |

Sources: Malawi National Statistical Office, Monthly Statistical Bulletin June 1978 (Govt. Printer, Zomba), Statistical Yearbook 1976 (Govt. Printer, Zomba April 1977).

Tea production reached 31,580 tonnes in 1977, an increase of 69 per cent since 1970 and at the tobacco auctions 51,270 tonnes were sold in 1977 at record prices bringing in K89 million. In 1970 such sales were 22,180 tonnes for K14.4 million. Most of the growth for tobacco was attributable to growth in sales of Northern Division and Southern Division fire-cured tobacco, followed by burley and flue-cured tobacco. Sugar production reached 95,000 metric tons in 1977 of which 66 per cent was exported and 34 per cent was consumed locally.

The estimated fish catch has fluctuated substantially since 1970 but landings in 1977 were virtually the same as in 1970 at 65,833 tonnes. The highest catch in the period was of 84,100 tonnes in 1972.

Forest industry sales were valued at K2.34 million in 1977 and the total under plantations reached 58,020 hectares of hardwood and 5,057 hectares of other types in 1977.

(b) Manufacturing. The sector processes agricultural crops and produces goods mainly for domestic consumption such as food, beverages, tobacco, clothing and footwear, etc. Industrial activity, which experienced a downturn in 1976, recovered sharply in 1977 as firms adapted to the closure of the Southern Rhodesia/Mozambique border and other adverse events. The index of manufacturing output rose 11.7 per cent in 1977 and was 99.1 per cent higher than in 1970 indicating an average annual rate of expansion of 10.4 per cent during the 1970s. The greatest growth rate in 1977 occurred in industries processing agricultural commodities for export which recorded a growth rate of 20.3 per cent; then came footwear, clothing and textiles with a rise of 14.8 per cent and the intermediate goods industry producing goods mainly for building and construction (11.1 per cent).

Total investment proposed in 1977 in the industrial sector amounted to K84.98 million with a corresponding employment potential of 6,804 jobs. The most significant single investment is the Dwangwa sugar project which will cost K80 million and create 4,000 jobs. Other investments were in the manufacture of dry-cell batteries, plastic products, steel drums, geysers, solar heaters, hessian cloth and sports equipment. Malawi Development Corporation continued its efforts to develop new trades, local skills and provide additional employment. Its investment in fields such as hotels and catering, construction, agriculture, electronics and chemicals, etc., rose by 19 per cent from K12.789 million in 1976 to K15.275 million in 1977 compared to the levels of K4.936 million and K10.859 million in 1970 and 1975 respectively.

(c) Electricity. The growth of consumption of electricity in Malawi has been rapid since 1970 with ESCOM sales rising from 121.9 million kWh in 1970 to 236.2 million in 1975 and 270 million in the year ended April 1978. However, per capita consumption is still relatively small. During 1976, work on the second stage of the Tedzani Hydro-electric project (designed to provide an additional capacity of 20 MW) was completed, as well as the construction of a transmission line from the Nkula hydro-electric power station to Lilongwe, the new capital city, through Salima. The line will be extended to Chintcheche in the northern region to supply power to the Vipha pulp and paper mill complex there. Work on the second phase of Nkula Falls hydro-electric station commenced in 1977.

(d) Construction. Real output in this sector is estimated to have risen by over 4 per cent to K17.5 million in 1977 after a decline of 1.2 per cent in 1976 which was attributable in part to prolonged rains and late delivery of imported materials which put a brake on activities.

Construction and building output of larger establishments rose by 57 per cent in 1977 to K29.50 million, reflecting largely the heavy expenditure on rail and road construction and power projects undertaken to correct infrastructural imbalances and so lay a firm foundation for further self-sustained economic growth.

In the year to April 1978 the value of building plans approved for Blantyre and Lilongwe rose to K29.1 million, an increase of 61 per cent over the preceding 12 months. Most building activity based on these plans will be concentrated in Lilongwe.

Another indicator of construction activity is Government spending on development. In 1970/71 the total was K35.2 million; this had risen to K95.2 million in 1977/78 based on the revised estimates.

(e) Transport services. Malawi depends heavily on other countries' transport systems for its imports and exports. At independence, Malawi had only one rail outlet to the sea through Beira. Now it has a second line passing through Nacala which is shorter and more economical. Internally, the construction of a new railway line between Salima and Lilongwe including station buildings and marshalling yards was completed in 1977. An extension of the line to the Zambian border is expected to be completed in three years. Improvements to Chipoka harbour are being made and work started on the construction of Lilongwe International Airport.

The present international airport is at Chileka outside Blantyre and passengers handled at this airport reached a peak in 1974 but have since declined substantially. This traffic movement owes much to developments in neighbouring countries. The number of passengers handled was 163,879 in 1970, 284,099 in 1975 and 191,373 in the 12 months to April 1978.

Work on road development continues to emphasize the national road network. Work has begun on the construction of the Blantyre/Chikwawa road financed by EDF. The construction of the Lilongwe/Kasungu road financed by IDA has almost been completed. Other road projects are under construction. The third highway project was expected to start in mid-1978.

Malawi: Table 4. Selected transport statistics, 1970 and 1975-1977

|   | 1970      | 1975    | 1976  | 1977 <sup>a/</sup> |
|---|-----------|---------|-------|--------------------|
| <u>Rail transport</u>                         |           |         |       |                    |
| Passengers (thousand)                         | 840.6     | 1,211.2 | 953.7 | 956.0              |
| Net ton miles (million)                       | 117.7     | 168.6   | 143.8 | 127.7              |
| <u>Road transport</u>                         |           |         |       |                    |
| Goods vehicles licensed (thousand)            | Est. 7.20 | 9.46    | 10.64 | 15.52              |
| <u>Air transport</u>                          |           |         |       |                    |
| Passengers handled at two airports (thousand) | 224.9     | 313.7   | 202.2 | 215.5              |

Source: Compiled from official data from Malawi.

a/ Provisional.

(f) Tourism. The number of departing visitors has followed a similar trend to that of passengers handled at airports, rising to a peak in 1975 and falling back to some extent by 1977. There were approximately 46,000 visitors in 1972, 57,700 in 1975 and 43,800 in the year ending April 1978.

Tourist facilities are still being increased in Malawi and in 1977 work was in progress on a 40-room hotel at Mzuzu in the northern region.

#### 4. Expenditure and GDP

Malawi is continuing to provide an increasing amount of its own resources for development. Domestic savings rose by an exceptional 78 per cent in 1977 to reach K124.5 million and were equal to 16.4 per cent of GDP at current market prices, compared with the levels of K33.8 million and 12.7 per cent in 1970. This indicates a marginal propensity to save of 0.23 which is well above the present average of 16.4 per cent of GDP.

Gross fixed capital formation at current prices has been growing at a fast rate since independence. From approximately K13.2 million in 1964, the level rose to K61.1 million in 1970 and to K135 million in 1976 when it increased by a further 12 per cent to an estimated K151.5 million in 1977, the 1977 figure was equal to 19.9 per cent of GDP at current market prices. The average for the eight years 1970-1977 inclusive has been 20.7 per cent of GDP.

Information on investment and consumption has already been given in table 1. The share of consumption plus gross fixed capital formation in GDP was equal to 103.5 per cent in 1977 compared with 110.2 per cent in 1970 and the balance of resources required was supplied by a net inflow of goods and services from abroad.

From 1970 to 1977 private consumption has actually risen at a faster rate than public consumption and capital formation, the growth rates being 16.2, 10.7 and 13.9 per cent respectively.

#### 5. External trade and balance of payments

1977 was generally a good year for agriculture and, although exports of some commodities like groundnuts, sunflower seeds and sugar declined, earnings from other commodities particularly tobacco, rice, tea and cassava increased substantially to raise the total of exports by 23 per cent to K184.6 million. Tobacco continued to be the main export crop contributing one half of Malawi's domestic export earnings, followed by tea, 23 per cent, sugar, 9 per cent, and groundnuts, 6 per cent.

Exports of manufactures including cattle cake, wooden boxes, clothing and footwear which increased by only 3 per cent in 1976, rose by approximately 10 per cent in 1977 to K9.8 million, compared with a value of K3 million in 1970 and K5.6 million in 1973.

The volume of domestic exports grew about 11 per cent in 1977, while their unit value rose sharply by 31 per cent. Total exports at current prices have been growing at approximately 21 per cent per annum compound since 1970 from K49.7 million to K184.6 million in 1977, providing an important impetus for development.

Imports have also risen rapidly since 1970 with the total reaching K211.8 million in 1977 compared with K82.5 million in 1970. The average annual growth rate has been 14.4 per cent at current prices.

As the unit value index for exports rose faster than that for imports, the terms of trade for 1977 showed an improvement of almost 9 per cent. The trade deficit was reduced, falling to K27.2 million, its lowest value so far this decade.

Present indications based on trade figures for the first four months of 1978 suggest that for that year exports will be lower or unchanged while imports will be substantially higher, leading to a much wider trade deficit than in 1977.

Malawi: Table 5. External trade and balance of payments 1970 and 1975-1977  
(millions of kwacha)

|                            | 1970   | 1975   | 1976   | 1977   |
|----------------------------|--------|--------|--------|--------|
| <u>External trade</u>      |        |        |        |        |
| Exports                    | 49.70  | 122.12 | 151.63 | 184.57 |
| Imports                    | 82.48  | 218.66 | 188.47 | 211.79 |
| Balance                    | -32.78 | -96.54 | -36.84 | -27.22 |
| <u>Balance of payments</u> |        |        |        |        |
| Goods and services (net)   | -41.8  | -80.5  | -70.4  | -52.3  |
| Private transfers (net)    | 1.9    | 4.9    | 4.9    | 5.0    |
| Government transfers (net) | 10.9   | 7.3    | 26.8   | 17.5   |
| Capital (net)              | 32.5   | 76.4   | 55.1   | 79.2   |
| Reserves and related items | -6.8   | 16.1   | 32.9   | -46.4  |
| Errors and omissions       | 3.3    | -24.2  | -49.3  | -3.0   |

Sources: External trade, - Malawi: Monthly Statistical Bulletin, June 1978;  
Balance of payments, - IMF International Financial Statistics, vol. XXXI, No. 9,  
September 1978; vol. XXX, No. 10, October 1977 (converted from United States dollars).

As for the balance of payments, the current account deficit dropped by one quarter in 1977 to K29.8 million. This, coupled with measures taken to restrain the expansion of domestic credit overspilling into the external sector and the increased inflow of long-term capital and transfers, contributed greatly to the improvement in the balance-of-payments position.

#### 6. Development aid and external debt

The inflow of aid to Malawi, in the form of both grants and loans, has been on an increasing scale and, as shown earlier in the balance of payments, net transfer receipts by the Government rose from K10.9 million in 1970 to K26.8 million in 1976 before falling to K17.5 million in 1977. The net total inflow of capital rose from K32.5 million in 1970 to K79.2 million in 1977.

A large part of the current three-year development programme is being financed from external sources. Out of a total of K406.3 million for 1978/79 to 1980/81 it is expected that K363.6 million or 89 per cent will be financed externally.

It is difficult to comment on the level of the external debt in the absence of available data. The World Bank World Development Report, 1978 showed that Malawi's interest payments on external public debt were equal to 7.2 per cent of the country's earnings from exports of goods and services.

7. Government revenue and expenditure

The growth of recurrent revenue, recurrent expenditure and development expenditure has been broadly even in the period 1970/71 to 1977/78. The average annual increases have been 15.6 per cent, 16.4 per cent and 15.3 per cent respectively.

Malawi: Table 6. Government revenue and expenditure, 1970/71 and 1975/76-1977/78  
(millions of kwacha)

|                              | 1970/71             | 1975/76 | 1976/77 | 1977/78 <sup>a/</sup> |
|------------------------------|---------------------|---------|---------|-----------------------|
| Recurrent net revenue        | 34.93 <sup>b/</sup> | 70.75   | 79.39   | 96.36                 |
| Recurrent net expenditure    | 32.94               | 65.47   | 78.72   | 95.56                 |
| Development account receipts | 32.36               | 47.91   | 39.11   | 83.06                 |
| Of which external loans      | (31.86)             | (36.65) | (28.22) | (46.39)               |
| Grants and reimbursement     | (0.38)              | (11.00) | (9.37)  | (36.22)               |
| Other                        | (0.12)              | (0.27)  | (1.51)  | (0.45)                |
| Development expenditure      | 35.17               | 70.00   | 55.91   | 95.21                 |
| Balance <sup>c/</sup>        | -0.82               | -16.81  | -16.13  | -11.35                |

Sources: Malawi Government: Office of the President and Cabinet: Economic Planning Division: Economic Report, 1978. (Govt. Printer, Zomba); Economic Report, 1973.

- a/ Estimates or revised estimates.
- b/ Excludes budgetary aid of K4.2 million.
- c/ Financed together with below-the-line activities from local registered stock issues, Treasury Bills and cash balances.

In 1977/78 there was a rise of 21.4 per cent in recurrent revenue and a similar rise in recurrent expenditure. Development expenditure, after a fall in 1976/77, rose sharply by 70 per cent to reach K95.21 million. Foreign financing on development account increased substantially in 1977/1978 with foreign grants making up 38 per cent of total expenditure and foreign loans 49 per cent. Estimates for 1978/79 suggest a rise of 28 per cent in development spending and a lesser increase for the recurrent account.

8. Money and banking

The total money supply (money and quasi-money) increased substantially at the average annual rate of 19.2 per cent between December 1970 and December 1977. Most of the increase in money supply took place during the first half of the 1970s. Thereafter the rate of growth of money supply tapered off substantially. There was a fall in 1976 but a rise of 33 per cent in 1977. In the first half of 1978 there was little change and the total at June 1978 was K162.1 million of which money proper was K103.3 million. The large rise in money supply resulted from the substantial expansion in bank credit to both the Government and the private sector. Total domestic credit

at December 1975 was K123.3 million, more than four times as high as at December 1970. There was a sharp advance in 1976 with the total rising to K165.5 million or by 34.2 per cent but with fiscal and monetary policy measures introduced the rise in 1977 was only 3.1 per cent and this was followed by one of 1.2 per cent in the first half of 1978.

Credit has increased to all sectors - the Government, official entities and the private sector - since 1970 with a particularly sharp percentage rise in credit to official entities. The annual average rise in credit to the private sector was just over 18 per cent between 1970 and 1977.

Malawi: Table 7. Monetary survey, 1970 and 1975-1978 (millions of kwacha)

|                             | December<br>1970 | December<br>1975 | December<br>1976 | December<br>1977 | June<br>1978 |
|-----------------------------|------------------|------------------|------------------|------------------|--------------|
| Net foreign assets          | 20.36            | 21.61            | -24.24           | 10.33            | 7.12         |
| Domestic credit             |                  |                  |                  |                  |              |
| Net claims on Government    | 1.19             | 34.40            | 45.53            | 34.97            | 24.74        |
| Claims on official entities | 0.45             | 32.78            | 42.41            | 50.83            | 46.93        |
| Claims on private sector    | 26.44            | 56.09            | 76.55            | 84.80            | 100.99       |
| Money                       | 32.69            | 73.62            | 72.80            | 100.06           | 103.32       |
| Quasi-money                 | 14.46            | 48.73            | 48.24            | 60.93            | 58.74        |
| Other items (net)           | 1.28             | 22.52            | 19.20            | 19.93            | 17.73        |

Source: IMF International Financial Statistics, vol. XXXI, No. 9, September 1978, and vol. XXX, No. 10, October 1977.

#### 9. Employment and retail prices

The number of paid employees for Government and the larger private firms (employing more than 20 persons) reached 271,099 in 1977, having risen by 70 per cent from the 1970 level of 159,300 and 5 per cent from that of 1976. The number of Government employees (excluding statutory bodies but including local authorities) accounted for about 24 per cent of the total, those in industry (including manufacturing, construction, mining and quarrying) making approximately 20 per cent and in agriculture, including forestry and fishing, 50 per cent. As of March 1978 total paid employees were 346,375, being 7 per cent more than in March 1977.

In 1970 there were 90,642 Malawians employed on mines in South Africa under contract with the Mines Labour Organization. This total rose to 123,845 in 1972, but thereafter Malawian labour was withdrawn.

Average earnings in Malawi rose by 1.5 per cent in 1977 following a less than 0.1 per cent rise in 1976, the low rates of growth reflecting in a large measure the Government's policy of letting wages rise only in response to increases in productivity so as to minimize the potential reduction in real rural incomes that might follow a wage-price spiral. Average earnings in agriculture rose by approximately 15 per cent as result of increases in prices of several commodities effected by the Government in its policy of enabling growers to derive maximum benefit from the value of crops realized on world markets and so help to narrow the continuing wide gap between rural and urban incomes.

The Blantyre low income retail price index in 1977 was 4 per cent higher than in 1976 reaching 170.7 (1970 = 100) with the largest yearly average increases in retail prices being recorded for household goods and services, many of which are imported. For the high-income group, the Blantyre retail price index rose by 13 per cent to 212 (1970 = 100) with the greatest increases in average prices being recorded for transport and vehicle equipment followed by drinks and tobacco.

In May 1978 the low income index was 182.9, being 7 per cent higher than the average for 1977 and 12 per cent more than at May 1977; the high income index at April 1978 was 18 per cent higher than a year earlier. Inflation has thus increased in 1978 following two years of only modest price increases.

#### 10. Other social sectors

(a) Education. Primary school enrolment has risen from 362,561 in 1970/71 to 663,940 in 1976/77, a growth rate of 83 per cent in six years equal to 10.6 per cent a year which may be compared with the population growth rate of 3.2 per cent a year. Over the same period secondary enrolment rose from 11,736 to 14,826; the rate of increase being 26 per cent or 4 per cent a year. The numbers at teacher training colleges and technical schools have also risen and in 1976/77 there were 1,350 students at teacher training colleges for primary school teachers and 502 at technical schools.

The University of Malawi had 1,051 students in 1970/71 and 1,155 in 1976/77; of the latter total 600 were on degree courses at Chancellor College, 236 taking diploma or degree courses in agriculture at Bunda College and 319 were at the Polytechnic. There were a considerable number of Malawians studying abroad and others at the staff training college in Malawi. Young pioneers were trained at various centres.

Since 1970 the emphasis in educational development has been mainly to raise the enrolment rate at primary schools and the growth rate in primary enrolment illustrates the success that has been achieved.

(b) Health. The 482 health institutions in 1975 included 387 dispensaries and/or maternities. These latter institutions had a total of 1,124 beds, the remaining 7,867 beds being found in 95 hospitals and primary health centres. In 1978 there were 1.75 hospital beds per 1000 persons.

The development policies for health are intended to establish a network of health units throughout the country, to replace and renovate older hospitals, to provide health services in the main agricultural areas and to train medical personnel.

Substantial progress has been made since 1970 and the current emphasis is on preventive health but major problems still remain. The ever-increasing demand for health services points to the inadequacy of resources in terms of skilled manpower and finance. In 1977/78 the Medical Auxiliary Training School had been operating for two years. The first group of 40 clinical officers was due to complete its training in 1979. Construction work on the Kamuzu College of Nursing had been started.

(c) Housing. The Malawi Housing Corporation was actively engaged in developing site-and-service schemes in certain growth areas in 1977. At the end of 1977 this corporation was managing some 8,300 permanent housing units and 13,000 site and service plots throughout the country. However, the demand for housing continues to grow every year in line with the economic development and population growth of the country. Demand at the end of 1977 for permanent housing units covered a total of approximately 23,000 people compared with 21,000 at December 1976. Demand for site-and-service plots had risen to 16,000 people as against 14,000 in 1976.

#### B. MAJOR PROBLEMS

The growth rate of the economy has created its own problems especially in the field of manpower development. There are shortages of educated and skilled local manpower especially in certain key disciplines such as accountants, engineers, extension workers and doctors.

The demand for housing and health services indicates the current shortages in these areas and, while there has been a substantial growth in wage employment so far this decade, the total of 346,375 at March 1978 is low in relation to a total population of 5,540,000.

A deficit on the merchandise trade account has been common in every year of this decade; the figures for exports and imports in 1977 led to an appreciable fall in the deficit but the indications are for a substantial widening of the trade gap in 1978. The inflow of grants and loans is generally sufficient to cover the deficit on goods and services account but Malawi continues to be dependent to a substantial degree on external sources to finance its development.

Some of the current problems facing the economy are due to the developments in neighbouring countries and can not easily be overcome in isolation from the resolution of these unsatisfactory circumstances.

#### C. INTERNAL DEVELOPMENT POLICIES

The Malawi Government's objective continues, as in the past, to be to raise the living standards of its people and in particular those in the rural areas.

Special emphasis is on rural areas because, firstly, by far the greatest proportion of the population lives within this sector; secondly, agriculture is the mainstay of Malawi's economy, currently accounting for almost half of gross domestic product and providing the main occupation for most of the rural population, as well as for a substantial proportion of modern wage employment; thirdly, to arrest the migration of people from rural areas to urban centres, life in the rural areas must be made more attractive.

Consequently, the Government gives top priority to raising agricultural productivity. To ensure this, the Ministry of Agriculture and Natural Resources has embarked upon a National Rural Development Programme (NRDP) aiming to stimulate the production of crop surpluses by promoting improved agricultural technology, providing farm input packages and improving the market structure. This implies that roads, water, health units, education and shopping facilities, farm inputs and other services will have to be increasingly provided.

While the aim of this programme is to improve the general level of productivity, attention will continue to be given to focal points for agricultural improvement, whether these be progressive individuals, farmer groups, settlement schemes or irrigation schemes, in the hope of achieving a certain measure of demonstration effect.

In addition, the Government continues to promote more balanced regional development with an emphasis on the central and northern regions, as well as the less developed areas in the southern region.

The above strategy has led the Malawi Government to adopt a development programme whose main features are that top priority will continue to be given to raising living standards of the rural population through increased agricultural productivity. Consequently, a high proportion of the Government's capital budget, for the decade to come, will be spent in the agriculture sector plus its infrastructure - roads, health units, education, marketing facilities, including other ancilliary services.

To a large extent current policies are reflected in the three year rolling public sector investment programme. The 1978/79 to 1980/81 programme envisages a total expenditure of about K406.3 million of which K168.3 or 41 per cent is for 1978/79. In this year almost 41 per cent or K68.7 million of the total expenditure is earmarked for transportation projects, 18 per cent or K30.1 million for agriculture, 9 per cent or K15 million for power, 6 per cent for water supplies and sanitation and the same percentage for education.

The four major projects under agriculture and rural development are:

1. The Lilongwe land development programme in the central region, established in 1968, supported by IDA, which is now in its third phase.
2. The Shire Valley agricultural development project in the southern region, established in 1969, supported by IDA, which is now in its second phase.
3. The Karonga rural development project in the northern region, commenced in 1972, which is also supported by IDA and is now in its second phase.
4. The Lakeshore development project in the central region, commenced in 1968, which was assisted by the Federal Republic of Germany from 1968 to 1974 but is now supported by EDF.

Another project which is expected to have a great impact on the economy through its forward and backward linkages is the Vipha pulpwood project at Chintcheche designed to produce about 180,000 tons of softwood bleached pulp a year. The mill, which is expected to start production in the 1980s will contribute \$US 10 million in foreign exchange in 1988 rising to around \$US 40 million in 1996. The project is expected to create jobs for approximately 8,200 persons directly and over 18,000 jobs indirectly.

To combat the problem created by the shortage of educated and skilled manpower, as a short-run remedy, the Government has been and is recruiting expatriate staff to fill the posts which can not be filled locally and in the meanwhile it is expanding technical and agricultural education, training for specialized occupations such as accounting and management, as well as engineering studies as both a short-term and long-term measure.

D. PROSPECTS FOR 1978 TO 1980

The prospects for the coming two years look reasonably bright although it is difficult to be sure about weather conditions.

The high level of expenditure in the current three year development programme, and its continued priority for transportation and agriculture and to a lesser extent power, water supplies and sanitation and education should help to increase economic activity in Malawi leading to a continuation of the growth rate that has been achieved so far this decade.

MAURITANIA

A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

1. Introduction

Drought occurred continuously in Mauritania in the middle years of this decade and also in 1976/77 and 1977/78. In 1975 technical problems and a sudden fall in the international prices of copper necessitated a temporary closure of the copper mines. In 1977 hostilities in the north of the country adversely affected iron ore production. Economic growth has therefore been greatly constrained. GDP grew by only 1.1 per cent a year in real terms during the seven-year period 1970-1977. In 1977 itself real GDP fell by 7.3 per cent.

The annual rate of increase of GDP at current factor cost averaged 12.1 per cent between 1970 and 1977 and in fact the rate of inflation has been about 14 per cent per annum. The deflator for GDP averages just under 11 per cent a year.

Total expenditure for consumption and gross investment has risen at a much faster rate than GDP at current market prices. The greatest increases were in government consumption and investment. The resource gap has been filled by recourse to foreign resources.

Exports rose from 4,936 million ouguiyas in 1970 to 8,013 million ouguiyas in 1976 but fell to 7,156 million in 1977. Imports on the other hand increased steadily from 3,103 million ouguiyas in 1970 to 9,458 million in 1977. A visible trade gap appeared for the first time during this decade in 1976. It widened significantly to 2,302 million ouguiyas in 1977. The characteristic deficit on goods-and-services account in the balance of payments has also widened in recent years. The net inflow of capital and government transfers has not been sufficient to cover all the current deficits and as a result external reserves have been greatly reduced.

The over-all budgetary deficit has widened substantially in the past few years as current expenditure was expanded to deal with the security situation and because investment expenditure was stepped up in line with the Government's policy of increasing capital formation. The deficit was 6,442 million ouguiyas in 1977. The volume of external debt has consequently risen rapidly and was estimated to have reached about \$US 711 million in April 1978. In the 16 months to April 1978 the net claims on Government by the banking system rose markedly to 2,142 million ouguiyas.

At mid-1978 mineral production was expected to regain its previous level and budgetary resources previously used for defence were expected to become available for productive purposes. Economic growth is therefore expected to be substantial in 1979. The various agricultural development projects now under way in the south of the country are expected to have an important impact on improving the food supply of the country.

2. GDP by industrial origin

Table 1 gives details on GDP by industrial origin. The composition of GDP at constant prices has changed between 1970 and 1977. Agriculture accounted for 38.1 per cent of total GDP in 1970 but by 1977 this proportion had fallen to 25.9 per cent because of a steady decline in value added in the sector since 1975. Value added in mining fell by 6.5 per cent on average per annum between 1970 and 1977. Its proportionate share in total output consequently fell from 25.7 per cent in 1970 to 15.4 per cent in 1977. These declines were accompanied by increases in the shares of manufacturing, construction, transport, commerce and services and public administration.

Public administration, which includes defence, was the fastest growing sector during the period under review, recording a rate of expansion of 19.3 per cent on average per annum. It was followed by manufacturing with 11.6 per cent, transport, commerce and services 4.7 per cent and construction 1.8 per cent.

The fall in total GDP in 1977 at constant prices was reflected in declines or stagnation in all sectors except public administration and manufacturing which grew by 14 per cent and 12.1 per cent respectively. Agriculture and mining each recorded falls of more than 20 per cent in what was a very difficult year for the Mauritanian economy.

Mauritania: Table 1. GDP by source, 1970 and 1975-1977 (millions of ouguiyas)

|                                   | 1970 <sup>a/</sup> | Per cent | 1975   | 1976   | 1977   | Per cent |
|-----------------------------------|--------------------|----------|--------|--------|--------|----------|
| <u>At 1973 prices</u>             |                    |          |        |        |        |          |
| Agriculture, forestry and fishing | 4 343              | 38.1     | 4 479  | 3 997  | 3 192  | 25.9     |
| Mining                            | 2 931              | 25.7     | 2 109  | 2 390  | 1 894  | 15.4     |
| Manufacturing and crafts          | 401                | 3.5      | 719    | 769    | 862    | 7.0      |
| Construction                      | 917                | 8.0      | 880    | 1 100  | 1 037  | 8.4      |
| Transport, commerce and services  | 2 116              | 18.5     | 2 713  | 2 910  | 2 915  | 23.7     |
| Public administration             | 701                | 6.2      | 1 591  | 2 117  | 2 413  | 19.6     |
| GDP at constant 1973 factor cost  | 11 409             | 100.0    | 12 491 | 13 283 | 12 313 | 100.0    |
| GDP at current factor cost        | 9 840              |          | 19 382 | 22 497 | 22 349 |          |
| Indirect taxes less subsidies     | 770                |          | 1 722  | 2 193  | 2 343  |          |
| GDP at current market prices      | 10 610             |          | 21 104 | 24 690 | 24 692 |          |

Source: Compiled from national data from Mauritania.

a/ 1970 constant price estimates at 1973 prices are ECA estimates.

3. Selected economic sectors

(a) Agriculture, forestry and fishing. The cereal crop in Mauritania used to be between 88,000 to 100,000 tonnes and in 1970/71 production of millet and sorghum was 83,000 tonnes. This level was reduced to less than half during the 1972/1973 drought. There was some recovery to 45,000 tonnes in 1974/75 but in 1975/76 the crop fell by 20 per cent. Further falls of 42 and 33 per cent were recorded in 1976/77 and 1977/78 respectively as a result of renewed drought with the 1977/78 output of millet and sorghum being only 14,000 tonnes. However, rice production has expanded steadily from 1,365 tonnes in 1970/71 reach 6,000 tonnes in 1977/78 and output is expected to increase substantially in the coming years as irrigation projects in the Senegal Valley and adjacent areas come to fruition.

Mauritania: Table 2. Cereal production, livestock and fishing, 1970/71 and 1975/76-1977/78

|                                 | 1970/71 | 1975/76 | 1976/77 | 1977/78 |
|---------------------------------|---------|---------|---------|---------|
| <u>Cereals (tonnes)</u>         |         |         |         |         |
| Millet and sorghum              | 83 000  | 36 000  | 21 000  | 14 000  |
| Rice                            | 1 365   | 3 960   | 5 000   | 6 000   |
| <u>Livestock herds ('000)</u>   |         |         |         |         |
| Cattle                          | 2 560   | 1 236   | 1 273   | 1 311   |
| Sheep                           | 5 500   | 4 256   | 4 528   | 4 664   |
| Goats                           | 2 500   | 2 164   | 2 229   | 2 296   |
| Camels                          | 700     | 707     | 714     | 721     |
| <u>Fish catch ('000 tonnes)</u> | 55.0    | 20.5    | 37.3    | ...     |

Source: Direction de l'Agriculture et de l'Elevage, Nouackchott, Mauritania.

As shown in table 2 the livestock population has been reconstituted to some extent after the disastrous effects of the 1972/1973 drought. At the end of 1973 it was estimated that the cattle population was 55 per cent, sheep and goats 20 per cent and camels 5 per cent below the 1970/1971 level. In 1977/1978 the build-up of the camel herds to the 1970/1971 level was complete. Goats were at 92 per cent and sheep at 85 per cent of their pre-drought levels but the reconstitution of cattle herds has progressed more slowly. In 1977/1978 the cattle herd total of 1,311,000 was 48 per cent below its level in 1970/1971.

The total fish catch landed at Mauritanian ports was 37,284 tonnes in 1976 compared to 55,000 tonnes in 1970 and the record 80,000 tonnes landed in 1973. The total catch in 1977 was estimated to be about twice the size landed in 1976. There are at present six major plants for the processing and conservation of fish and other sea products. These have a total capacity of 300,000 tonnes.

In 1977, 29,042 tonnes of fish and fish products were exported. This compared with the tonnages exported in 1970, 1975 and 1976 of 20,640, 29,891 and 21,631 respectively.

(b) Mining. Iron ore is the most important mineral produced. Exports were 9,219,900 tonnes in 1970 and grew steadily up to 1974. However in 1975 there was a 25.6 per cent fall from the 1974 record level of 11,665,900 tonnes. There was some recovery in 1976 but production fell again to 8,423,000 tonnes in 1977. Exports of copper concentrates rose by 25.8 per cent in 1977 but the total of 14,372 tonnes hardly compares with the record level of 28,982 tonnes in 1974. Exports of gypsum rose from 1,955 tonnes in 1973 when production started, to 5,111 tonnes in 1975 and 10,969 tonnes in 1976. There was a fall to 10,163 tonnes in 1977.

The value of iron ore exports was 5,715 million ouguiyas in 1977 compared to 6,919 million in 1976 and 6,194 million in 1975. The corresponding values of copper exports were 482 million ouguiyas in 1977, 350 million in 1976 and 347 million in 1975.

The production of iron ore could ultimately reach more than 20 million tonnes a year when the Guelbs deposits are exploited. Production from these deposits is expected to start in 1981.

Mauritania: Table 3. Mineral production, 1970 and 1975-1977<sup>a/</sup> (thousands of tonnes)

|                     | 1970    | 1975    | 1976    | 1977    |
|---------------------|---------|---------|---------|---------|
| Iron ore            | 9 219.9 | 8 677.0 | 9 664.0 | 8 423.0 |
| Copper concentrates | ...     | 16.1    | 11.4    | 14.4    |
| Gypsum              | ...     | 5.1     | 11.0    | 10.2    |

Source: Bulletin de l'Afrique Noire, No. 958, 17 May 1978.

a/ Export figures.

(c) Manufacturing. The manufacturing sector in Mauritania is still small and contributed 7 per cent of the total value added in 1977. Apart from fish processing, the sector consists mainly of the abattoir at kaedi which has a capacity of 3,500 tonnes a year, a soft drinks plant, a matches factory and a building materials plant at Nouakchott. In 1975 an explosives factory which covers most of the country's needs for mining explosives was inaugurated at Nouadhibou.

Several industrial projects were actively under study in 1974. These included a sugar refinery, an oil refinery, a steel mill, a copper foundry, a cement factory and a textile complex. Of these only the oil and sugar refineries have so far been completed as planned in 1977. Production from these two plants has, however, not yet started because of technical problems.

(d) Electricity. Oil is used to generate all electricity produced. Total installed capacity was 44,000 KW in 1977. Production doubled between 1970 and 1975 to reach 33.3 million kWh. In 1976 output increased to 39.6 million kWh and there was a further rise to 44.1 million kWh in 1977.

(e) Construction. The share of value added originating from the construction industry rose slightly from 8 to 8.4 per cent of GDP between 1970 and 1977. A substantial share of public investment in recent years has been in road building, the extension of Nouadhibou port and various well-boring and other irrigation programmes.

(f) Transport. The total length of asphalted roads increased from 460 km in 1970 to 729 km in 1977. The national road network is now 4,660 km long. The road situation will improve significantly when current work on the Nema-Nouakchott road is completed. This road, which will be 1,093 km long, will improve access to the east of the country and to Mali.

Extension work on the port of Nouadhibou was completed in 1977. Port capacity is now 1 million tonnes for the commercial port and 300,000 tonnes for the fishing port. Studies have also been completed on a deep water port at Nouakchott. This new port will cost 2.3 billion ouguiyas and work is expected to begin shortly. There are also plans to build a river port at Rosso.

The number of passengers handled at the two main airports increased continuously from 105,700 in 1973 to 195,600 in 1977 but freight handled at the ports has fallen because of the reduced exports of iron ore in particular.

(g) Tourism. Mauritania has a considerable potential for tourism but this has yet to be exploited. The number of tourist arrivals by air is now estimated to be about 10,000 a year. A far greater number of visitors arrive by land from neighbouring countries.

#### 4. Expenditure and the GDP

In 1970 capital formation accounted for 20.9 per cent of GDP, private consumption 57.6 per cent and public consumption 12.8 per cent. Exports exceeded imports equal to 8.7 per cent of GDP. Comparison with later years is difficult because a different method of valuation was used to establish the data on GDP by expenditure for the period 1973 to 1977. According to these estimates, GDP at current market prices rose from 12,535 million ouguiyas in 1973 to 24,692 million ouguiyas in 1977 or by 97 per cent. During the same period total expenditure for consumption and gross investment including changes in stock rose from 12,857 million ouguiyas to 32,392 million ouguiyas or by 180 per cent. This rise in expenditure was to a large extent due to the rise in government consumption and investment which quadrupled in the four year period. The resource gap was met by increasing use of foreign resources.

Mauritania: Table 4. Expenditure and the GDP 1970 and 1975-1977 (millions of ouguiyas)

|  | 1970 <sup>a/</sup> | Per cent | 1975                 | 1976                 | 1977                 | Per cent |
|--|--------------------|----------|----------------------|----------------------|----------------------|----------|
| <u>At current prices</u>                   |                    |          |                      |                      |                      |          |
| Private consumption                        | 6 110              | 57.6     | 15 759 <sup>b/</sup> | 18 974 <sup>b/</sup> | 21 653 <sup>b/</sup> | 87.7     |
| Public consumption                         | 1 360              | 12.8     | 3 426                | 6 643                | 7 617                | 30.8     |
| Gross domestic capital formation           | 2 220              | 20.9     | 5 893 <sup>c/</sup>  | 5 841 <sup>c/</sup>  | 3 122 <sup>c/</sup>  | 12.6     |
| Exports less imports of goods and services | 920                | 8.7      | -3 974               | -6 768               | -7 700               | -31.1    |
| Total GDP at market prices                 | 10 610             | 100.0    | 21 104               | 24 690               | 24 692               | 100.0    |

Source: Banque Centrale de Mauritanie and Ministère du Plan et des Mines, Nouakchott Mauritania.

- a/ ECA estimates. b/ Includes private fixed capital formation.  
c/ Excludes private fixed capital formation.

The total expenditure on investment in 1977 was probably between 20 and 25 per cent of GDP and total consumption appears to have exceeded total GDP. There were no obvious domestic savings in that year.

5. External trade and balance of payments

Between 1970 and 1977 the value of exports from Mauritania increased by 5.4 per cent per annum while imports rose at a rate of 17.3 per cent. As a result a visible trade deficit appeared for the first time this decade in 1976. In 1977 exports fell by 10.7 per cent largely as result of a fall in both the volume and unit prices of iron ore exports. Imports on the other hand rose by 17.1 per cent and the trade gap widened significantly to 2,302 million ouguiyas.

Mauritania: Table 5. External trade and balance of payments, 1970 and 1975-1977  
(millions of ouguiyas)

|   | 1970    | 1975     | 1976     | 1977     |
|---|---------|----------|----------|----------|
| <u>External trade</u>                   |         |          |          |          |
| Exports                                 | 4 936   | 7 527    | 8 013    | 7 156    |
| Imports                                 | 3 103   | 6 931    | 8 072    | 9 458    |
| Balance                                 | +1 833  | + 596    | - 59     | -2 302   |
| <u>Balance of payments<sup>a/</sup></u> |         |          |          |          |
| Goods and services (net)                | -416.6  | -5 410.6 | -9 351.5 | -9 579.9 |
| Private transfers (net)                 | -294.4  | -889.5   | -1 173.4 | -1 201.5 |
| Government transfers (net)              | 438.8   | 3 424.2  | 6 739.3  | 5 198.8  |
| Capital                                 | 1 083.1 | 475.0    | 4 473.4  | 3 170.5  |
| Reserves and related items              | 100.0   | 2 448.4  | -422.6   | 2 325.3  |
| Errors and omissions                    | -910.9  | -47.5    | -265.2   | 86.8     |

Source: IMF, International Financial Statistics, vol. XXX, No. 11, November 1977 and vol. XXXI, No. 10, October 1978.

<sup>a/</sup> Converted from United States dollars.

Imports have risen particularly rapidly since 1975 reflecting the increased requirements for the larger investment programme. The deficit on goods and services account has consequently widened and reached about 9,580 million ouguiyas in 1977. Government aid receipts have also been at a relatively high level since 1975. They rose from 3,424.2 million to 6,739.3 million ouguiyas between 1975 and 1976 but then declined to 5,198.8 million ouguiyas in 1977. The inflow of capital was relatively small at 475 million ouguiyas in 1975 and in that year a substantial drawdown of the external reserves was necessary. In 1976 the net capital inflow increased ten-fold to reach 4,473.4 million ouguiyas and the reserves were replenished to some extent. In 1977 the reserves fell again by a large amount because of the large current account deficit and falls in both aid receipts and the capital inflow.

6. Development aid and external debt

Mauritania now relies heavily on external assistance to finance the large gap between domestic production and expenditure. This gap was 18.8, 27.4 and 31.2 per cent of GDP respectively in 1975, 1976 and 1977. The corresponding percentages of net official transfers to GDP for the same three years were 16.2, 27.3 and 21 per cent respectively. As noted above, capital inflows have also been substantial particularly in the past few years and the external public debt service burden, which was 196 million ouguiyas in 1972, rose to 600 million in 1976. Estimates showed that the debt service burden would reach 700 million ouguiyas in 1977, which would equal 15.1 per cent of total current receipts from goods and services.

Grants and capital from oil exporting Arab countries have become particularly important. China, EEC and the World Bank along with other donors are also involved in various infrastructural and agricultural development projects.

7. Government revenue and expenditure

Government current revenue more than trebled from 1,498 million in 1970 to 4,891 million ouguiyas in 1976. In 1977 there was a fall of 5.5 per cent. The rise in current expenditure was much faster and there was an even greater rise in capital expenditure. Current expenditure increased continuously from 1,354 million ouguiyas in 1970 to 8,752 million in 1977 and in 1977 there was a current deficit of 4,132 million ouguiyas. The rise in current expenditure in 1977 itself is associated mainly with increased expenditure on defence to cope with the security situation. Capital expenditure was particularly small in 1970 at only 168 million ouguiyas but had risen to 2,762 million in 1975 and then to 3,746 million ouguiyas in 1976. Because of high defence expenditure in 1977 the capital budget was reduced to 2,310 million ouguiyas.

Mauritania: Table 6. Government revenue and expenditure, 1970 and 1975-1977 (millions of ouguiyas)

|                     | 1970  | 1975  | 1976   | 1977   |
|---------------------|-------|-------|--------|--------|
| Current revenue     | 1 498 | 3 924 | 4 891  | 4 620  |
| Current expenditure | 1 354 | 4 263 | 7 821  | 8 752  |
| Capital expenditure | 168   | 2 762 | 3 746  | 2 310  |
| Total expenditure   | 1 522 | 7 025 | 11 567 | 11 062 |
| Financing required  | 24    | 3 101 | 6 676  | 6 442  |

Source: Compiled from official data from Mauritania.

The over-all budgetary deficit has widened substantially in the past few years. It reached 6,676 million ouguiyas in 1976 and narrowed only slightly to 6,442 million ouguiyas in 1977. The external public debt has consequently widened as external borrowing has been used to finance much of the deficit.

The 1978 budget estimates provide for a total expenditure of 10 billion ouguiyas compared with 11,062 million in 1977 and 11,567 million in 1976.

## 8. Money and banking

Money proper rose at an average annual rate of 20.5 per cent during the period 1970 to 1977. It continued to grow in the first few months of 1978 and reached 4,314 million ouguiyas in April 1978. Quasi-money also registered a rapid rate of expansion. It reached 825 million ouguiyas in December 1976 compared to 143 million in December 1970. There was a drop in 1977 but a rise from 703 million to 922 million ouguiyas from December 1977 to April 1978. Table 7 gives details of monetary developments since 1970.

Mauritania: Table 7. Monetary survey, 1970 and 1975-1977 (millions of ouguiyas)

|                                      | End<br>1970 | End<br>1975 | End<br>1976 | End<br>1977 | April<br>1978 |
|--------------------------------------|-------------|-------------|-------------|-------------|---------------|
| Net foreign assets                   | -28         | 2           | -14         | -1 969      | -3 267        |
| Domestic credit                      |             |             |             |             |               |
| Net claims on Government             | -132        | -718        | -242        | 1 393       | 2 142         |
| Claims on Government enterprises ... |             | 921         | 788         | 766         | 766           |
| Claims on private sector             | 1 553       | 4 841       | 5 773       | 7 304       | 7 623         |
| Money                                | 1 110       | 2 926       | 3 682       | 4 095       | 4 314         |
| Quasi-money                          | 143         | 768         | 825         | 703         | 922           |
| Other items (net)                    | 139         | 1 351       | 1 491       | 2 696       | 2 027         |

Source: IMF, International Financial Statistics, vol. XXX, No. 11, November 1977 and vol. XXXI, No. 12, December 1978.

The major factors affecting money supply during the period under review were the rapid expansion in private sector credit over the entire period, offset to some extent by the substantial decline in net foreign assets since 1975. There was also a sharp rise in net claims on Government since 1976. Private sector credit increased at a yearly average rate of 24.8 per cent to reach 7,304 million ouguiyas in 1977 and it continued to grow in 1978. Net foreign assets were at a peak level in 1974 when they reached 1,534 million ouguiyas. They dropped sharply in 1975 and have been increasingly negative since then. The deficit amounted to 3,267 million ouguiyas in April 1978. Up to December 1976 the Government was a net creditor to the banking system. But the situation was reversed in 1977 and net claims by the banking system on Government reached at 1,393 million ouguiyas at December 1977 and increased to 2,142 million ouguiyas in April 1978.

## 9. Wages and prices

The minimum guaranteed wage was doubled in 1974 and some adjustments to wages were effected in 1976 including a 10 per cent rise for employees in the State mining companies. However, in recent years Government policy has been to limit wage increases.

The consumer prices index for Nouakchott averaged an annual rate of increase of about 14 per cent during the period 1970 to 1977. The rate of inflation has continued at a high level over the past few years and the index rose by 10 per cent in 1975, 15 per cent in 1976 and 10 per cent in 1977.

## 10. Employment and unemployment

Unemployment is still substantial in Mauritania. The recurrence of drought in this decade has greatly aggravated the situation. The shift by nomads to sedentary life in the major towns has greatly increased the number of urban unemployed. Wage employment has increased in recent years but data are not available. The number of important projects under development should have had an appreciable impact on industrial employment.

## 11. Other social sectors

(a) Education. Primary school enrolment rose from 28,510 to 73,296 between 1970 and 1977 or by 14.4 per cent on average per annum. The primary enrolment ratio is however still very low at about 17 per cent of the eligible age group. In fact 70 per cent of nomadic children are estimated to be untouched by the educational system. Secondly school enrolments reached 6,571 in 1976 compared to 3,013 in 1970. In 1976 only 15 per cent the total number of children in secondary schools were girls, reflecting the influence of tradition on education for girls. Enrolments at the Technical College of Nouakchott and the School of Public Administration totalled 829 in 1977.

(b) Health. Health facilities are inadequate and the drought has compounded nutrition problems during this decade. A high mortality rate exists. Measured against the World Health Organization stipulated minimum requirements for health professionals during the 1970s; namely 1 doctor per 10,000 persons, 1 dentist per 30,000 and 1 pharmacist per 50,000, Mauritania has the following over-all deficits: 59 doctors, 38 dentists and 20 pharmacists in 1977.

(c) Housing. The influx of nomads into urban areas has accentuated the housing shortages. The population of Nouakchott, which was 110,000 in 1969, has more than doubled to 250,000. There is overcrowding, rents are high and substandard dwellings of the slum type have grown up.

## B. MAJOR PROBLEMS

The security situation has been a major source of most of Mauritania's economic problems in the past few years. The war has affected mineral production and thereby reduced export earnings and foreign reserves. A substantial proportion of revenues has been diverted from productive purposes to defence since 1976 and Government has had to introduce special taxes and insist on mandatory contributions from individuals for the defence budget. The defence burden was such that in 1978 about one third of current expenditure was expected to be financed from external sources.

The frequent occurrence of drought during this decade has aggravated the traditional deficit in the domestic food supply. Food imports have remained high throughout the period under review and in recent years have increasingly been in the form of donations. The level of commercial food imports is currently between 50,000 to 60,000 tonnes annually.

Unemployment and other social problems have become acute as nomads have moved into urban areas for a variety of reasons. In 1976 the proportion of nomads in total population was 30 per cent compared with about 70 per cent at the beginning of the decade. The difficulty of providing the remaining nomadic population with the necessary social services remains a basic problem.

Mauritania has received substantial sums in the form of loans and grants in the past few years towards the 1976-1980 development plan. The plan provided for a total capital investment of 33 billion ouguiyas. About 60 per cent of this amount was allocated to industrial and infrastructural projects. A number of the industrial projects have now been completed but have proved uneconomic. This is particularly true of the sugar and oil refineries which cost \$US 36 million and \$US 120 million respectively to build.

#### C. INTERNAL DEVELOPMENT POLICIES

In September 1978 the new Government which had come into power two months earlier announced a new strategy to redress the economic situation. Ways and means of ending the hostilities in the north of the country were to be found as a matter of urgency. Priority was given to the development of the rural sector, the expansion of fishing and the establishment of small-scale industries. The exploitation of the Guelbs iron ore deposits which calls for a total investment outlay of \$US 460 million in the first phase was also given a prominent place. At the same time, plans were announced to reactivate the private sector and to liberalize the investment code.

#### D. PROSPECTS FOR 1978 TO 1980

The prospects of hostilities ceasing were particularly bright towards the end of 1978 and, if they materialize, much needed resources will become available for capital formation and economic growth could be relatively substantial in 1979 and 1980. The new emphasis on rural development could benefit from these resources and the various projects now under way to expand agricultural production could help in 1980 in particular. With good rains the food supply situation could be greatly improved.

#### E. ECONOMIC CO-OPERATION

Mauritania is co-operating with Senegal and Mali in harnessing the waters of the Senegal River within the framework of the Organization for the Development of the Senegal River (OMVS). The most important projects now being implemented are the construction of barrages at Manantali and Diama for irrigation and hydro-electricity.

Mauritania is a member of the Arab League and benefits from a number of Arab funds for economic development. It has entered into various co-operative agreements with Morocco and has strong trade links with Senegal and Mali from which it imports grains and to which it exports meat products.

The Inter-State Committee for Drought Control in the Sahel (CILSS) is participating in a number of rural development projects within the country.

## MAURITIUS

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

#### 1. Introduction

The two development plans 1971 to 1974 and 1975 to 1980 had as their central objectives the elimination of unemployment by 1980. The growth rates of GDP set in these plans were 7.5 per cent a year to 1974 and 6.5 per cent a year from 1975 to 1980. From 1970 to 1976 the actual growth rate of GDP at constant prices averaged 8.9 per cent a year, a very high rate indeed and over this period the increase in employment was in excess of 5 per cent a year against plan targets of 4.1 per cent a year to 1974 and 4.7 per cent a year thereafter. In 1977 the GDP growth was 11.4 per cent at current prices. Consumer prices rose by 9.2 per cent but the volume of sugar exports increased by 18.4 per cent accompanied by a fall of 7.8 per cent in the unit value of such exports. There appears to have been a further substantial increase in GDP at constant prices in 1977 probably near the average for 1970 to 1976.

The average growth rate of the GDP at current factor cost was 24.3 per cent a year between 1970 and 1977 and the implicit GDP deflator was 14.1 per cent a year. This latter percentage may be compared with the increase in consumer prices of 12 per cent a year.

In 1977 sugar and molasses exports were 831,000 tonnes, an increase of 23 per cent over the 675,000 tonnes recorded in 1970. The value of exports multiplied more than five times between 1970 and 1977 increasing from 384.5 million Mauritius rupees to 2,041.2 million. However, imports rose even faster from Mau R's 419.9 million to Mau R's 2,950.8 million and the trade deficit which was only Mau R's 27.2 million in 1970 rose to Mau R's 816.4 million in 1977. Some part of the growth in export earnings was due to the opening of an export processing zone, (EPZ) with special customs privileges and total exports from this zone which were nil in 1970 rose to Mau R's 409.4 million in 1977. The volume of sugar exports rose by 15.3 per cent between 1970 and 1977 and allowing for other exports the overall growth of export volume was probably in the region of 5 per cent a year. For imports the growth in volume was much more substantial probably in excess of 15 per cent a year reflecting strong consumer demand and a high level of investment activity.

The wide trade deficit in 1976 and 1977 led to a very sharp fall in international reserves and net foreign assets which were Mau R's 1,696 million at December 1975 had fallen to Mau R's 290 million at December 1977.

In the monetary sector, money proper rose by 27 per cent a year between 1970 and 1977 and quasi-money by 26.5 per cent. These high rates were associated with a particularly large rate of growth in domestic credit of 40 per cent a year with the increase in net claims on Government by the banking system being much higher than for credit to the private sector.

In 1977/78 the overall deficit on government account was Mau R's 459 million and recurrent revenue was Mau R's 237 million less than recurrent expenditure. In 1970/71 there had been a small overall surplus in the Government budget. However, in 1977/78 total government expenditure was six times as great as in 1970/71.

## 2. GDP by industrial origin

Between 1970 and 1977 the main changes in the share of various sectors to total GDP were increases in construction from 5.3 to 7.9 per cent, in manufacturing from 15.5 to 18.3 per cent and a fall in services other than transport and commerce from 31.3 to 25.5 per cent. The share of agriculture was little changed, the percentage rising slightly from 22.9 to 23.7 per cent and the shares of transport and commerce stayed around 12 and 10 per cent respectively. These movements are shown in table 1.

One of the fastest growing sectors between 1970 and 1976 when measured at constant prices was manufacturing industry with an average rate of increase of 13.5 per cent a year. For agriculture the growth rate was much lower at 4.4 per cent a year.

Mauritius: Table 1. GDP by source, 1970 and 1975 to 1977 (millions of Mauritius Rupees)

|                                      | 1970 | Percent-<br>age | 1975  | 1976  | 1977  | Percent-<br>age |
|--------------------------------------|------|-----------------|-------|-------|-------|-----------------|
| <u>At current factor cost</u>        |      |                 |       |       |       |                 |
| Agriculture, forestry<br>and fishing | 209  | 22.9            | 1 034 | 1 035 | 989   | 23.7            |
| Mining and quarrying                 | 1    | ...             | 4     | 7     | 9     | 0.2             |
| Manufacturing                        | 141  | 15.5            | 564   | 660   | 763   | 18.3            |
| Electricity, water etc.              | 29   | 3.2             | 69    | 77    | 105   | 2.5             |
| Construction                         | 48   | 5.3             | 217   | 295   | 328   | 7.9             |
| Wholesale and retail trade           | 91   | 10.0            | 279   | 334   | 402   | 9.6             |
| Transport and communications         | 108  | 11.8            | 281   | 369   | 514   | 12.3            |
| Public administration )              | 285  | 31.3            | 140   | 244   | 247   | 5.9             |
| Other services )                     |      |                 | 502   | 645   | 816   | 19.6            |
| Total GDP at current<br>factor cost  | 912  | 100.0           | 3 090 | 3 666 | 4 173 | 100.0           |
| Total GDP at 1970 factor<br>cost     | 912  |                 | 1 303 | 1 526 | ...   |                 |

Source: Mauritius Central Statistical Office.

### 3. Selected economic sectors

(a) Agriculture, forestry and fishing. The cultivation and processing of sugar cane is still the predominant economic activity and only a small part of the island's cultivable area is not planted to sugar cane. Other crops include tea mainly for export and various foodstuffs for domestic consumption.

Sugar exports which account for 90 per cent of sugar production can be influenced adversely by cyclone damage to the crop as happened in 1975. However, exports have risen from 575,000 tonnes in 1970 to 636,400 tonnes in 1977 despite the fall to 497,400 tonnes in 1975 and the only partial recovery to 550,900 tonnes in 1976. Exports of molasses have virtually doubled between 1970 and 1977 from 100,400 to 194,700 tonnes illustrating the more extensive use of this by-product especially as an animal feed in the markets for Mauritius exports.

The annual quota for Mauritian sugar to the EEC under the terms of the Lomé Convention is 500,000 tonnes which takes up a large proportion of total output.

Tea production rose from 3,200 tonnes in 1970 to 4,100 tonnes in 1973 and then after a fall in 1975 reached 4,300 tonnes in 1976. This is a fairly important export product and the volume despatched in 1977 was 3,300 tonnes worth Mau R's 43.5 million; the value in 1977 was 49 per cent higher than in 1976 although the volume was little changed. In 1970 tea exports had been valued at Mau R's 14.1 million.

Mauritius is already self-sufficient in the production of pork, poultry and vegetables and is now striving for self-sufficiency in beef, fish and milk. The Government has guaranteed prices for a number of crops and subsidized fertilizer prices in order to encourage production. There will continue to be a need to import the main cereals especially rice as the cultivateable area is used extensively and almost exclusively for sugar cane production, a crop well suited to the growing conditions of the island.

(b) Manufacturing. This has been a high growth sector since 1970 with the development of export processing zone (EPZ) industries and a particularly rapid rate of increase in output from these industries. The external trade figures show that the value of products exported from these EPZ industries was nil in 1970 but Mau R's 196.5 million in 1975 and Mau R's 409.4 million in 1977. Constant price GDP estimates show an average growth rate of the manufacturing sector of 12.9 per cent a year between 1970 and 1976. The growth rate in 1977 should also have been substantial because of the rise in output from the EPZ industries and an increase in sugar production. There were large growth rates at current prices of 41 per cent in 1975, 29 per cent in 1976 and 20 per cent in 1977; the target growth rate at 1974 prices in the plan was 20.6 per cent a year and this rate may just have been met from 1975 to 1977.

After an initial rapid build-up of the EPZ industries, the growth of manufacturing industries has slowed down, some part of this slow-down being due to a slackening demand in the external markets established. Protectionist measures adopted in some developed countries also contributed to the slackening

of growth in the manufacturing sector. There were also difficulties relating to the operation of the port at the end of 1976 and the beginning of 1977 which led to the loss of some overseas orders. There were other factors contributing to a loss of productivity including increased absenteeism and frequent cuts in electricity production.

Development certificates and export certificates have been granted to encourage the growth of capacity in manufacturing industry giving tax holidays of eight years and ten years respectively and certain other benefits. Small scale industry is assisted by loans at concessionary rates and advisory services.

(c) Construction. Between 1970 and 1976 construction activities rose at an average growth rate of 17.6 per cent at constant prices. In 1977 it is likely that output at constant prices was the same as in 1976. The high growth in this sector has resulted from the trebling of expenditure on capital formation in real terms since 1970 in line with the attempt to raise the GDP growth rate and economic activity generally.

(d) Electricity. Excluding production for own consumption on the sugar estates, the total units generated rose from 113.7 million kWh in 1970 to 283.8 million kWh in 1977. The growth rate averages 14.1 per cent a year, a high rate of increase but in line with the growth of the economy as a whole. In 1977 a further 24.4 million kWh were purchased from sugar estates and fed into the distribution system.

(e) Transport services. The road system on the island is good and there are tarmac roads serving many areas. Air transport is used by foreign visitors and the port serves both vessels engaged in the country's export trade and other ships calling for supplies. The number of vessels entering Port Louis has fallen since 1970 and although vessels are now larger in size the tonnage calling at the port fell from an average of 2.73 million tonnes in 1967 to 1970 to 2.03 million tonnes in 1976 and 2.11 million in 1977. The data on cargo handled at Port Louis and passengers handled at the airport are given in table 2.

Mauritius: Table 2. Selected transport indicators, 1970 and 1975 to 1977

|                                   | 1970  | 1975  | 1976  | 1977  |
|-----------------------------------|-------|-------|-------|-------|
| <u>Port Louis</u>                 |       |       |       |       |
| Freight handled (thousand tonnes) | 1 261 | 1 433 | 1 494 | 1 690 |
| <u>Airport</u>                    |       |       |       |       |
| Passengers handled (thousand)     | 92    | 230   | 272   | 295   |

Source: National data from Mauritius.

The increase in passenger traffic at the airport has been large and was particularly fast in the years to 1973 as tourist arrivals were rising at a rapid rate. The average growth rate 1970 to 1973 was 31 per cent a year but in 1973 to 1977 was down to 10.5 per cent a year. The airport has also been used for greater imports and exports of freight. The total cargo handled in 1977 reached 7,775 tonnes including exports of 4,258 tonnes.

In contrast to the fast rise in airport traffic the cargo loaded and unloaded at Port Louis has grown only slowly this decade, the average rate of increase being 4.3 per cent a year.

(f) Tourism. From 1970 to 1975 the average annual growth rate of the industry was 22 per cent. Gross receipts from tourism increased at a faster rate with the total rising from Mau R's million in 1971 to Mau R's 184 million in 1976. The balance of payments statistics suggest a further increase in 1977. There were 102,300 visitors in 1977 compared with 74,597 in 1975 and the number of hotel beds has grown rapidly and was probably in the region of 4,000 or even 5,000 in 1977.

#### 4. Expenditure and the GDP

There has been a very marked change in the distribution of expenditure in Mauritius between 1970 and 1977 with private consumption falling from 70 to 62.3 per cent of GDP at market prices and capital formation rising from 13.8 per cent to 35 per cent of GDP. There has been a particularly high level of capital formation since 1975.

Mauritius: Table 3. Expenditure and the GDP, 1970 and 1975 to 1977  
(millions of Mauritius Rupees)

|  | 1970  | Percent-<br>age | 1975  | 1976                | 1977  | Percent-<br>age |
|--|-------|-----------------|-------|---------------------|-------|-----------------|
| <u>At current prices</u>                             |       |                 |       |                     |       |                 |
| Private consumption                                  | 734   | 70.0            | 1 878 | 2 296 <sup>a/</sup> | 2 942 | 62.3            |
| Public consumption                                   | 166   | 15.9            | 443   | 591                 | 726   | 15.4            |
| Gross domestic capital formation                     | 145   | 13.8            | 1 138 | 1 450               | 1 650 | 35.0            |
| Exports <u>less</u> imports of goods<br>and services | 3     | 0.3             | -43   | -259                | -600  | -12.7           |
| GDP at current market prices                         | 1 048 | 100.0           | 3 416 | 4 078               | 4 718 | 100.0           |

Source: Based on National data from Mauritius.

a/ Revised from original data.

In 1970 there was a very small export surplus but by 1977 the inflow of resources to pay for the much increased level of capital formation had led to net imports of goods and services reaching a level equal to 12.7 per cent of GDP.

Domestic savings were 14.1 per cent of GDP in 1970 and more than the total capital formation; in 1977 these savings had risen to 22.3 per cent of GDP but only covered about two-thirds of capital formation.

#### 5. External trade and balance of payments

Imports have risen much more rapidly than exports since 1970 and the result has been the emergence of a substantial trade deficit. As shown in table 3 this deficit reached the high figure of Mau R's 816.3 million in 1977 despite a rise in exports of Mau R's 300 million in that year.

Mauritius: Table 4. External trade and balance of payments, 1970 and 1975 to 1977 (millions of Mauritius Rupees)

|                            | 1970  | 1975    | 1976    | 1977    |
|----------------------------|-------|---------|---------|---------|
| <u>External trade</u>      |       |         |         |         |
| Exports                    | 392.7 | 1 912.1 | 1 834.6 | 2 134.5 |
| Imports                    | 419.9 | 1 995.3 | 2 397.7 | 2 950.8 |
| Balance                    | -27.2 | -83.2   | -563.1  | -816.3  |
| <u>Balance of payments</u> |       |         |         |         |
| Goods and services (net)   | 21.7  | 36.2    | -283.3  | -600.6  |
| Private transfers (net)    | 7.8   | 36.8    | 26.7    | 35.0    |
| Government transfers (net) | 13.9  | 33.8    | 15.4    | 24.4    |
| Capital                    | 23.3  | 226.6   | -299.4  | 236.9   |
| Reserves and related items | -74.5 | -314.6  | 505.9   | 248.1   |
| Errors and omissions       | 7.8   | -18.8   | 34.7    | 56.2    |

Source: National data (for external trade). IMF, International Financial Statistics, vol. XXX-No. 12, December 1977, vol. XXXI No. 11 November 1978 (for balance of payments converted from United States dollars).

Sugar is the most important export but as indicated earlier products manufactured in the export processing zone industries have grown rapidly in relative importance. In 1977 such EPZ exports accounted for 19.2 per cent of total exports while sugar and molasses represented 68.8 per cent. Ships stores and bunkers are important exports with the total reaching Mau R's 93.3 million in 1977.

Imports include substantial quantities of food required to supplement domestic production. The value of imports of mineral fuels has risen particularly rapidly since 1973 and in 1977 high totals were recorded for imports of machinery and transport equipment and for manufactured products including chemicals.

In 1974 and 1975 the high prices for sugar exports enabled the country's international reserves to be built up but in 1976 and 1977 these reserves were run down to help pay for the high level of imports in those two years. The net deficit on goods and services in the last two years has been much lower than the trade deficit because of the earnings from tourism and other services but in 1976 there was a net outflow of capital. The overall result was a fall in reserves of Mau R's 505.9 million in that year and despite a capital inflow of Mau R's 236.9 million in 1977, reserves also fell by a further Mau R's 248.1 million.

In March 1977 an import deposit scheme was introduced to try to slow down the growth of imports but this scheme was abolished in June 1978 as it had served its purpose. In 1977 Mauritius made a purchase of Mau R's 42.4 million under the gold tranche from the IMF and another one of Mau R's 84.9 million under the compensatory financing facility (for deviations of export earnings from a medium-term trend). However, despite these purchases, as shown above the reserves continued to fall in 1977.

In the first half of 1978 imports were 8.5 per cent higher than in the first half of 1977, while exports were lower by 2.5 per cent. This could suggest a further widening to the trade deficit for Mauritius in 1978 although the position for the year as a whole is particularly difficult to forecast as most sugar exports are made in the second half of the year. The level of the country's net foreign assets which had fallen to Mau R's 289.8 million at December 1977 were Mau R's 325.8 million at August 1978.

#### 6. Development aid and external debt

The balance of payments figures given in table 4 show that aid to Mauritius in grant form has not been substantial, the capital inflow in contrast is much greater but this type of inflow of foreign resources carries with it the need to service an increasing level of foreign debt.

The outstanding public debt had risen from Mau R's 586.3 million at June 1973 to Mau R's 1,406.7 million at June 1977 with the external public debt rising from Mau R's 178.2 million to Mau R's 323.0 million. The World Bank shows that service payments on external public debt were only 1 per cent of earnings from goods and services in 1976 having stayed at this level since 1974. The position of service payments on private external debt is not clear.

#### 7. Government revenue and expenditure

Total expenditure was six times as great in 1977/78 than in 1970/71 but the growth in capital expenditure was faster than for recurrent expenditure. Recurrent revenue was estimated at Mau R's 1,260.0 million in 1977/78 compared with Mau R's 259.7 million in 1970/71; the average growth rate was 25.3 per cent, somewhat ahead of the GDP annual growth rate of 24.3 per cent. For recurrent expenditure the increase was from Mau R's 254.5 million to an estimated Mau R's 1,381.6 million or 27.3 per cent a year; there appears to have been a budgetary deficit on current account of Mau R's 121.6 million in 1977/78.

Capital expenditure was forecast at Mau R's 638.8 million in 1977/78 nearly eight times the level of Mau R's 84.4 million recorded in 1970/71. The 1977/78 capital expenditure was financed from internal and external borrowing and at June 1978 net claims on Government by the Mauritian banking system were Mau R's 1,205.4 million compared with Mau R's 778.4 million at June 1977, an increase of Mau R's 427 million over the financial year 1977/78. The balance to cover the overall deficit in 1977/78 appears to have come from external sources.

Mauritius: Table 5. Government revenue and expenditure, 1970/71 and 1975/76 to 1978/79 (millions of Mauritius rupees)

|                                   | 1970/71            | 1975/76             | 1976/77             | Estimates<br>1977/78  | Estimates<br>1978/79 |
|-----------------------------------|--------------------|---------------------|---------------------|-----------------------|----------------------|
| Recurrent revenue                 | 259.7              | 1 075.7             | 1 210.7             | 1 260.0 <sup>a/</sup> | 1 500.0              |
| Recurrent expenditure             | 254.5              | 991.0               | 1 261.0             | 1 381.6               | 1 600.0              |
| Capital expenditure <sup>b/</sup> | 84.4               | 423.4               | 485.4               | 638.8                 | 705.1                |
| Overall balance                   | -79.2              | -338.7              | -535.7              | -760.4                | -805.1               |
| Financed internally               | 67.7 <sup>c/</sup> | 300.6 <sup>c/</sup> | 454.5 <sup>c/</sup> | ...                   | ...                  |
| Financed externally               | 11.5 <sup>d/</sup> | 38.1                | 84.2                | ...                   | ...                  |

Source: National data from Mauritius and ECA estimates

a/ Estimated actual.

b/ Includes loans of Mau R's 100.1 million 1975/76 and 119.4 million in 1976/77.

c/ Balancing item.

d/ Increase in external public debt.

## 8. Money and banking

Between 1970 and 1977 the net foreign assets of Mauritius first rose rapidly until they reached a peak of Mau R's 1,696.4 million at December 1975 and then fell precipitously to total Mau R's 289.8 million at December 1977, virtually the same as the Mau R's 280.8 million of December 1970. Over this same period 1970 to 1977 domestic credit increased from Mau R's 233.5 million to Mau R's 2,508.0 million or by an average of 40.4 per cent a year. There was a faster increase in net claims on Government than in claims on the private sector.

Money supply also rose rapidly, money proper by 26.8 per cent a year and quasi-money by 26.5 per cent a year. These rates may be compared with the average increase in consumer prices of 12 per cent a year. Mauritius has enjoyed a high growth in its real GDP of more than 8 per cent a year from 1970

to 1977 but the particularly large increase in domestic credit leading to a high growth in money supply has undoubtedly had a marked inflationary impact on the economy.

Mauritius: Table 6. Monetary survey, 1970 and 1975 to 1978 (millions of Mauritius rupees)

|                          | End<br>1970 | End<br>1975 | End<br>1976 | End<br>1977 | August<br>1978 |
|--------------------------|-------------|-------------|-------------|-------------|----------------|
| Net foreign assets       | 280.8       | 1 696.4     | 1 188.3     | 289.8       | 325.8          |
| Domestic credit          |             |             |             |             |                |
| Net claims on Government | 23.6        | 493.8       | 710.9       | 1 075.2     | 1 205.9        |
| Claims on private sector | 209.9       | 746.6       | 1 157.2     | 1 432.8     | 1 416.4        |
| Money                    | 229.6       | 993.2       | 1 098.6     | 1 219.2     | 1 205.8        |
| Quasi-money              | 231.6       | 953.4       | 985.3       | 1 198.4     | 1 294.2        |
| Other items (net)        | 53.1        | 990.2       | 972.5       | 380.4       | 448.1          |

Source: IMF, International Financial Statistics, vol. XXX, No. 12 December 1977, vol. XXXI, No. 11 November 1978.

Between December 1977 and August 1978 there was a rise of 12.4 per cent in net foreign assets accompanied by an increase of 4.6 per cent in domestic credit despite a fall in claims on the private sector. Money proper fell slightly but quasi-money increased by 8 per cent in this period.

Government policies to contain inflation have been accompanied by a policy by the Bank of Mauritius of restrained credit expansion since 1973. Minimum cash balances which banks are required to maintain were raised progressively from 5 per cent to 12 per cent of total deposits by 1975 and a minimum cash deposit of 25 per cent on the import of non-essential goods was imposed in 1975. A number of measures were taken to restrain credit expansion in 1976, 1977 and 1978. Bank rate was raised to 9 per cent in 1978. Various fiscal measures were also introduced.

#### 9. Wages and prices

Because of inflation a general wage increase of 12 per cent was granted in 1972 to most wage regulated sectors; there was a further 20 per cent rise in July 1973 to workers in all industries except the civil service which had its own award. Various wage increases were granted at intervals subsequently and one result is that the daily wage of a male agricultural worker in the sugar industry was raised from Mau R's 5.88 in 1971 to Mau R's 20.78 in July 1977. In 1977 an award for civil servants gave 17 per cent to lower wage groups and reducing percentages to higher salary earners; at the top the increase was only 3 per cent.

Consumer prices rose sharply in the period 1973 to 1976 and in these years the rise averaged 13.6 per cent in 1973, 29.0 per cent in 1974, 14.8 per cent in 1975 and 13.4 per cent in 1976. There was some slowdown in the rate of

price increase in 1977 to 9.2 per cent and between August 1977 and August 1978 the rise was only 6.2 per cent. From 1970 to 1977 the average rate of increase was 12 per cent a year.

#### 10. Employment and unemployment

There is an active policy of creation of wage employment in the non-agricultural sector; this is essential because there is only limited scope for increasing employment in agriculture. The working age population is increasing at about 2.7 per cent a year. Wage employment in large establishments is estimated at 195,400 in 1977 having risen by 51 per cent since 1970 when the total was 129,300. This is a high rate of employment creation and in excess of targets given in the two development plans. A substantial proportion of the additional jobs created in the industrial sector has been for semi-skilled female labour working in clothing factories in the Export Processing Zone. The total labour force in June 1975 was estimated at 273,000 including 56,000 females. A shortage of labour in agriculture was felt during the 1976 crop season and one result has been to resort to certain forms of mechanical loading.

Emphasis in employment has shifted to the creation of more skilled and better paid jobs in the industrial sector and appropriate training programmes in basic skills have been started. There are a substantial number of training centres now in operation for various sectors of the economy.

Unemployment is still a problem in Mauritius especially of well educated young persons.

#### 11. Other social sectors

(a) Education. The growth rate in the secondary enrolment has been substantial since 1970 but the numbers at primary school have actually fallen, to some extent due to lower birth rates. The totals were: primary, 146,859 in 1970 and 136,019 in 1977; secondary, 43,707 in 1970 and 78,038 in 1977.

There were also 967 students at the University of Mauritius in 1977 giving a total for pupils and students of 215,024 excluding persons in specialized training centres.

Thus the emphasis of policy has been to educate more persons to a higher level and to better equip those who leave education and training for the work they will be doing.

Among training institutions in 1977 were the Government Hotel and Catering Training School, the Co-operative Agricultural Youth Training Centres, the Sea Training School and the Industrial Trade Training Centre.

(b) Health. For a total population estimated at 881,760 in 1977 there were 2,837 hospital beds, 376 doctors and 1,249 registered nurses. The population/bed ratio has not improved much since 1970 but there has been a halving of the population/doctor ratio and a distinct improvement in the number of nurses available. The ratios in 1977 were 310 persons per hospital bed, 2,345 persons per doctor and 706 persons for each registered nurse.

(c) Income distribution. The windfall increases in sugar earnings in 1974 and 1975 had the effect of reducing the share of wages in total national income but wage rises granted subsequently have raised the proportion to around 65 per cent in 1977. Wage rises in the more recent period have provided larger percentage increases for the lower level wage earners than for higher salary levels and this has had some impact on reducing income differentials.

## B. MAJOR PROBLEMS

The basic problem is how to generate enough economic growth to provide employment for all. It was projected that 76,000 new jobs would need to be created between 1975 and 1980 to attain the objective of full employment. Technical subjects have been increasingly introduced into the schools and as has been shown earlier the enrolment in secondary schools has risen very rapidly this decade but this sort of additional education and training has only served to postpone the entry of the young persons concerned to the labour force. Now increasing numbers of relatively well-educated persons are looking for work. The emphasis in job creation is on the manufacturing sector.

A policy of attracting new industry has been pursued for some time, now there is an emphasis in seeking to attract industries which use a higher level of technology than those industries already established. However, Mauritius is now in competition for markets in EEC with all ACP member countries and other EEC associated states and this has probably had the effect of reducing the attraction of its Export Processing Zone for investors.

There has been a drastic fall in sugar prices since 1975 and as a result the terms of trade deteriorated after the substantial gains in 1974 and 1975. A continuation of stagnant prices for sugar and rising prices for imports will impose problems for the balance of payments. The rise in earnings from tourism and the export zone industries have helped over the last two years but the increase in such benefits seems likely to be less in the years to 1980.

The size of the budget deficit increased rapidly in the years to 1977/78 and the budget estimates for 1978/79 indicate some further increase in the deficit.

## C. INTERNAL DEVELOPMENT POLICIES

These are formulated in the 1975-1980 development plan. The overriding objective is to substantially increase incomes by creating employment in the productive sectors. Measures are also being taken to narrow the gap in rural/urban incomes.

The rural development programme is expected to bring a substantial improvement in the conditions of life of the people in the countryside thus checking migration to the urban areas. There is a programme for improving 29 of the poorest villages and this will be extended to cover all non-urban areas.

While the agricultural sector is being encouraged to adopt more modern methods, there is a particular effort being made to ensure a fast rate of industrialization.

Mauritius has also given a high priority to the need to increase local food production and is striving to reach self-sufficiency in beef, fish and milk.

Self-reliance and sustained economic growth are key elements of the plan. There is an emphasis on the need to minimize reliance on foreign resources capital requirements. More attention is being given to the development of professional manpower using local institutions.

Mauritius is strengthening its capital base and there is a comprehensive programme of investment in the economic infrastructure. The slow pace of infrastructural development has to some extent constrained the development of the economy as a whole especially manufacturing and the rural development sectors. Investment in water development and road works has been particularly affected by lack of capacity in the construction sector.

A number of parastatal bodies have been created to deal with the problems of effective capacity. Training programmes have been launched to equip local personnel as at present some of the posts in these parastatals are filled by expatriates.

#### D. PROSPECTS FOR 1978 TO 1980

There are substantial growth elements in the plan to 1980 and if realized these will provide a continuation of the high rate of growth experienced since 1970. The target is an average annual rate of increase in GDP of 6.5 per cent a year. This rate is achievable unless balance of payments problems become serious but as indicated in an earlier section the fast growth rate of industry may now be less realizable than in earlier years. At the same time the world sugar market shows little sign of improvement.

The effect of a continued high level of investment will help the economy but on balance it seems likely that the GDP growth rate achieved from 1978 to 1980 will be less than the plan target and probably around 5 per cent a year.

## MOROCCO

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

#### 1. Introduction

In the seven years to 1977 the economy, measured by gross internal production at constant prices, grew by 5.3 per cent a year. In 1976 and 1977 there was a high average annual growth of 7.9 per cent. At current prices growth averaged 15.6 per cent a year between 1970 and 1977 to the implicit GDP deflator was 9.8 per cent annually. This may be compared with the rise in consumer prices of 8.3 per cent a year.

In 1974 the price of the major export product, crude phosphates increased fourfold but after increasing in volume in 1974 itself, increased competition occurred in 1975 and the total quantity exported was only 77 per cent of that of 1974. Prices were reduced substantially in 1976 and this led to some recovery in the volume exported but this did not regain the 1974 level in 1976 to 1978. The performance of this major product had an important impact on the total export earnings of Morocco and after rising from 3,746 million dirhams in 1973 to 7,440 million dirhams in 1974 they fell subsequently to DH 5,579 million in 1976 before recovering to some extent to record DH 5,858 million in 1977 and an estimated DH 6,100 million in 1978. Imports also rose substantially in 1974 but unlike exports the total value has continued to increase so that in 1977 they were worth DH 14,400 million or three times the level of 1973. The likely total in 1978 is about DH 12,500 million. The trade deficit has increased at a fast rate and has been covered by much larger inflows of workers' remittances and capital.

Morocco has been able to increase its investment expenditure in line with the higher level of economic activity and the increasing inflow of capital. Fixed capital formation and the increase in stocks were worth DH 2,550 million in 1970 and DH 14,587 million in 1977. Such a high rate of increase has itself helped stimulate activity in sectors such as construction and building materials industries and in the economy as a whole. The growth of the construction sector between 1970 and 1977 was 60 per cent at constant prices or an average of 7 per cent a year. The increasing investment effort is in line with the policies laid down in the 1973-1977 plan and has played an important part in increasing employment in Morocco and laying the foundation for future growth in the economy.

~~For 1978 the agricultural season ending in that year produced a cereal output of 5.8 million tonnes or twice as high as the season ending in 1977. Most economic sectors were expected to show increases but in the construction sector there would be a fall because of lower investments due to the need to ensure a better balance on external payments account. The large fall in the construction sector seems likely to outweigh most of benefits accruing from growth in other sectors leading to an over-all growth rate in gross internal production of only 2 per cent at constant prices.~~

#### 2. GDP by industrial origin

The figures available on GDP relate to the gross internal production i.e., they exclude administrative services and household services. The series in table 1 shows measurement at 1960 prices for the years 1970 to 1975 and at 1969 prices for 1975 to 1977. The new base year for the GDP of 1969 was introduced in 1977 to take account of the changing structure of the economy.

While table 1 cannot give a true reflection of the changes in the economic structure between 1970 and 1977 because of the measurement for the two periods at different prices, a noticeable development is the fall in the share in gross internal production of agriculture, forestry and fishing from 31 per cent in 1970 to only 13.9 per cent in 1977. The share of manufacturing industry has risen from 14.2 per cent to 18.9 per cent and of construction from 5.8 to 9.5 per cent. In the commerce sector the contribution to gross internal production rose from 22.7 to 29.2 per cent and for other services including transport and communications the increase was from 18.2 per cent to 22.0 per cent.

If the 1970 figures were converted to 1969 prices by making use of the two series for 1975 these would show that the share of agriculture, forestry and fishing in gross internal production in 1970 would have been 21.8 per cent, that of manufacturing industry would have been 18.6 per cent, commerce 27.3 per cent and other services including transport and communications 21.2 per cent. Thus measured at 1969 prices there was still a sharp fall in the contribution of agriculture, forestry and fishing to gross internal production between 1970 and 1977 but for the other sectors mentioned the changes are relatively small. However, the share of construction in gross internal production measured at 1969 prices has increased from 5.1 per cent to 9.5 per cent between 1970 and 1977.

Morocco: Table 1. GDP<sup>a</sup> by source, 1970 and 1975-1977 (millions of dirhams)

| At constant prices              | At 1960 prices |             |        | At 1969 prices |        |        | Per-centage |
|---------------------------------|----------------|-------------|--------|----------------|--------|--------|-------------|
|                                 | 1970           | Per-centage | 1975   | 1975           | 1976   | 1977   |             |
| Agriculture, forestry, fishing  | 3 720          | 31.0        | 3 660  | 3 694          | 4 084  | 3 538  | 13.9        |
| Energy                          | 350            | 2.9         | 560    | 644            | 709    | 758    | 3.0         |
| Mining                          | 620            | 5.2         | 730    | 739            | 778    | 901    | 3.5         |
| Manufacturing                   | 1 700          | 14.2        | 2 230  | 4 186          | 4 479  | 4 802  | 18.9        |
| Construction                    | 700            | 5.8         | 1 390  | 1 735          | 2 099  | 2 414  | 9.5         |
| Commerce                        | 2 730          | 22.7        | 3 590  | 6 174          | 6 824  | 7 411  | 29.2        |
| Transport & communications      | 2 190          | 18.2        | 2 800  | 1 091          | 1 189  | 1 248  | 4.9         |
| Other services                  |                |             |        | 3 589          | 4 041  | 4 334  |             |
| Total gross internal production | 12 010         | 100.0       | 14 960 | 21 852         | 24 203 | 25 406 | 100.0       |

Source: Official data from Morocco.

a/ Gross internal production.

The fall in the relative share of agriculture between 1970 to 1977 indicates some stagnation in the sector as a whole but the results for the agricultural sector in 1977 were particularly disappointing having been influenced adversely by the poor rainfall in North Africa in general.

3. Selected economic sectors

(a) Agriculture, forestry, fishing. In 1976 this sector contributed 16.9 per cent of gross internal production but as shown earlier there was a fall to only 13.9 per cent in 1977 because cereal production in particular was only half that of 1976. Many other crops also showed greatly reduced output, an exception being citrus fruit, production of which increased to 800,000 tonnes in 1976/77 from 641,000 tonnes in 1975/76. The quantity of citrus fruit exported rose from 470,000 to 594,000 tonnes.

The major problem of the agricultural sector in Morocco is its dependence on very erratic climatic conditions which in a good year can result in bumper crops meeting much of the country's requirements for major food items and in a bad year as in 1977 can lead to serious shortfalls in relation to demand and high importations.

Morocco: Table 2. Output of selected agricultural crops, 1970/71 and 1974/75 - 1976/77 (thousands of tonnes)

|                  | 1970/71 | 1974/75 | 1975/76 | 1976/77 |
|------------------|---------|---------|---------|---------|
| Wheat            | 2 189   | 1 575   | 2 135   | } 2 857 |
| Barley           | 2 572   | 1 585   | 2 860   |         |
| Maize            | 390     | 371     | 493     |         |
| Citrus fruit     | 731     | 610     | 641     | 800     |
| Sugar-beet       | 1 584   | 1 790   | 2 356   | 1 470   |
| Olives           | 506     | 201     | 312     | ...     |
| Leguminous crops | 311     | 450     | 500     | 158     |

Source: Based on official data from Morocco.

One of the major development objectives is to diversify the agro-industrial base and to move to more self-sufficiency in food production. To achieve these objectives, the water resources are being harnessed more effectively by building up the water storage capacity; this involves a number of large-scale dam-building projects.

The livestock herds have been growing in recent years despite some increase in the numbers slaughtered. In 1977 there were 3,620,000 cattle, 14,300,000 sheep and 5,750,000 goats. Total recorded slaughterings were 3.4 million head producing 102,500 tonnes of meat. In 1970 there had been 3,062,000 cattle, 13,078,000 sheep, 6,387,000 goats as well as 15.6 million chickens.

The fish catch varies annually depending on the shoals off the coast. In 1970 the catch was 251,800 tonnes, in 1975 it was 235,800 tonnes, in 1976 292,897 tonnes but there was a fall of nearly 30 per cent in 1977.

(b) Energy. Morocco has a heavy deficit in its supplies of energy related to demand which is met by increasing importations of crude petroleum.

Electricity production was 4,055 million kWh in 1977 having doubled from 2,026 million kWh in 1970. The average growth rate was 10.5 per cent a year. Capacity for production has been greatly augmented over this period.

Morocco produces small quantities of crude petroleum and natural gas but output of crude petroleum in 1977 was only 22,100 tonnes compared with 44,100 tonnes in 1970; natural gas production has risen from 43.6 million cubic metres in 1970 to 83.9 million in 1977. The petroleum refineries imported 2,850,000 tonnes of crude oil in 1977, nearly twice the level of 1,515,000 tonnes in 1970.

Coal is also mined and output has risen from 433,000 tonnes in 1970 to 792,200 tonnes in 1976.

(c) Mining. The main mineral is crude phosphates and price changes for this product have had an important influence on the value of output of the sector as a whole as well as on the value of the country's exports.

The record production level for crude phosphates was achieved in 1974 when output reached 19,721,000 tonnes but the high price rises in that year and 1975 caused a marked decline in demand and production fell heavily in 1975 and has only recovered in 1976 and 1977 because of reductions in price.

Morocco: Table 3. Mineral production, 1970 and 1975-1977  
(in thousand tonnes)

|                        | 1970   | 1975   | 1976   | 1977   |
|------------------------|--------|--------|--------|--------|
| Crude phosphates       | 11 424 | 14 119 | 15 650 | 17 600 |
| Zinc                   | 32     | 36     | 30     | 22     |
| Iron ore               | 872    | 554    | 343    | 407    |
| Lead                   | 121    | 104    | 99     | 156    |
| Chemical manganese ore | 112    | 131    | 117    | 114    |

Source: Official data from Morocco.

Exports of phosphates were 11.5 million tonnes in 1970 valued at DH 572 million, they reached a record level of 18.7 million tonnes worth DH 4,075 million in 1974, fell to 12.9 million tonnes valued at DH 3,431 million in 1975 but while increasing in quantity to 14.6 million tonnes in 1976 the value fell to DH 2,190 million. In 1977 15.8 million tonnes were exported valued at DH 2,111 million.

Other important minerals apart from those shown in table 3 are copper and cobalt.

The volume index of production of mineral output based on 1970 showed 114 in 1975 and 120 in each year 1976 and 1977.

(d) Manufacturing industry. The growth of this sector based on the volume index of output was 60 per cent between 1969 and 1977 or an average annual rate of 6.0 per cent. In terms of value added to GDP at constant prices the average growth rate between 1970 and 1977 was 6 per cent a year. There is a wide range of products

made in this sector and it is being continuously increased. In 1976 growth was particularly strong in subsectors of industry producing capital goods and intermediate goods, in metal industries and chemical factories. Among consumer goods, food production increased, textiles continued to recover and there was a particular advance from the oils and fats plants. Strong advances were recorded in radio and television assembly, automobile assembly and electric and electronic equipment.

In 1977 there was a rise in overall production of 7.2 per cent but in some subsectors falls were recorded. For example in fish canning, because the fish catch fell sharply, output was substantially reduced. The textile sector also showed a fall resulting to some extent from protectionist policies in EEC markets. Sugar output was reduced because of the poor production of sugar-beet while poor sales of automobiles reduced output in this subsector.

However, production increases were recorded for other foodstuffs and beverages, for chemicals and fertilizers. Fertilizer sales to farmers rose by 10 to 20 per cent depending on the product and 1.5 million tonnes of phosphate were delivered to domestic factories.

The development plan 1973-1977 covered investments in 2,080 projects in the industrial sector including 600 new enterprises. Phosphoric acid, other chemicals, the extension of the Mohammedia oil refinery, three sugar factories and the extension of two cement plants were among the larger projects developed.

(e) Construction. Here the share of the sector in total GDP has risen from 5.1 per cent in 1970 to 9.5 per cent in 1977 when measured at 1969 prices. This virtual doubling of the construction industry has been associated with the much greater effort in investment designed to raise the growth rate of the economy. Cement production was 2.6 million tonnes in 1977 as against 1,421,000 tonnes in 1970. However, cement consumption in 1977 had risen to 3.6 million tonnes. The entry into production shortly of new cement plants will reduce the deficit between production and demand.

(f) Transport services. The transport indicators given in table 4 show high growth for port traffic unloaded and for passengers handled at airports but lesser rates of increase for railway freight and for goods loaded at ports. The volume increases average 3.9 per cent annually for freight loaded at ports, 8.8 per cent for goods unloaded, 5.4 per cent for railway freight and 15.8 per cent for passengers handled at airports between 1970 and 1977.

Morocco: Table 4. Selected transport indicators, 1970 and 1975-1977

|                                  | 1970   | 1975   | 1976   | 1977   |
|----------------------------------|--------|--------|--------|--------|
| <u>Ports</u>                     |        |        |        |        |
| Freight loaded (thousand tonnes) | 14 043 | 15 448 | 17 341 | 18 398 |
| Freight unloaded " "             | 4 534  | 7 283  | 7 903  | 8 198  |
| <u>Railways</u>                  |        |        |        |        |
| Freight (million tonne/km)       | 2 406  | 2 890  | 3 137  | 3 469  |
| <u>Airports</u>                  |        |        |        |        |
| Passengers handled (thousand)    | 1 078  | 2 168  | 2 436  | 3 013  |

Source: Official data from Morocco.

(g) Tourism. There were 853,000 visitors in 1970 and 1,334,000 in 1975; after a fall in 1976 to 1,218,000 the total rose to 1,502,000 in 1977. The number of hotel beds has been increasing at a fairly sharp rate and there were well in excess of 40,000 in 1977. Receipts from tourism help the country towards a better balance in its external payments account and gross earnings were 1,500 million dirhams in 1977 more than twice the level of 683 million recorded in 1970.

#### 4. Expenditure and the GDP

The extent of the effort made to raise the level of investment and the growth rate of the economy is reflected in the figures for gross fixed capital formation in 1970 and 1977. In 1970 a total of 2,610 million dirhams or 15.4 per cent of GDP at current market prices went on capital formation; the comparable figures in 1977 were 15,200 million dirhams and 30.4 per cent.

Morocco: Table 5. Expenditure and the GDP, 1970 and 1975-1977  
(millions of dirhams)

| At current prices                                 | 1970   | Per-centage | 1975   | 1976   | 1977   | Per-centage |
|---|--------|-------------|--------|--------|--------|-------------|
| Private consumption                               | 12 250 | 72.2        | 25 232 | 27 931 | 32 238 | 68.7        |
| Public consumption                                | 2 460  | 14.5        | 5 747  | 8 968  | 9 775  | 20.9        |
| Gross fixed capital formation                     | 2 610  | 15.4        | 8 863  | 11 778 | 15 200 | 32.4        |
| Change in stocks                                  | -60    | -0.3        | -29    | +200   | -613   | -1.3        |
| Exports <u>less</u> imports of goods and services | -300   | -1.8        | -3 469 | -7 476 | -9 700 | -20.7       |
| Total GDP at market prices                        | 16 960 | 100.0       | 36 344 | 41 401 | 46 900 | 100.0       |

Source: Based on official data from Morocco.

This admirable increase in investment expenditure has only been possible because the inflow of resources into Morocco rose very significantly; in 1970 the net inflow was equal to 1.8 per cent of GDP, by 1977 this proportion increased to 20.7 per cent.

Consumption expenditure was 86.7 per cent of GDP in 1970 and domestic savings 13.3 per cent; by 1977 consumption expenditure had risen to 89.6 per cent and domestic savings had fallen to 10.4 per cent. It was the much higher proportion of resources consumed by the public sector that accounted for this increase in total consumption expenditure; private consumption was actually reduced from 72.2 per cent to 68.7 per cent of GDP from 1970 to 1977.

In 1977 only one third of capital formation was financed from domestic savings.

#### 5. External trade and balance of payments

The very exceptional performance of the major export item - crude phosphates, has already been mentioned. The steep rise in price followed by a substantial customer reaction leading to lower volume sales and then reduced prices had a very important influence of Morocco's total export earnings. At the same time investment projects which had suddenly become possible earlier because of the increased earnings from phosphates in 1974 led to large rises in imports especially from 1974 onwards. These two movements resulted in exports in 1977 being 137 per cent higher than in 1970 while

imports rose by 315 per cent resulting in a much larger trade deficit of 8,542 million dirhams in 1977 or more than eight times the deficit recorded in 1970.

Morocco: Table 6. External trade and balance of payments, 1970 and 1975-1977  
(millions of dirhams)

|                            | 1970   | 1975   | 1976   | 1977                  |
|----------------------------|--------|--------|--------|-----------------------|
| <u>External trade</u>      |        |        |        |                       |
| Exports                    | 2 470  | 6 238  | 5 579  | 5 858                 |
| Imports                    | 3 471  | 10 398 | 11 555 | 14 400                |
| Balance                    | -1 001 | -4 160 | -5 976 | -8 542                |
| <u>Balance of payments</u> |        |        |        |                       |
| Goods & services (net)     | -997   | -4 227 | -8 401 | -10 877 <sup>a/</sup> |
| Private transfers (net)    | 349    | 2 075  | 2 325  | 2 589                 |
| Government transfers (net) | 20     | -20    | -97    | 63                    |
| Capital                    | 708    | 2 350  | 5 161  | 8 208                 |
| Reserves and related items | -80    | 122    | 239    | ...                   |
| Errors and omissions       | ...    | -300   | -227   | ...                   |

Source: IMF, International Financial Statistics, vol. XXX No. 12, December 1977; vol. XXXII, No. 1, January 1979.

a/ Moroccan estimates.

Apart from phosphates, Morocco's exports include citrus fruit, tomatoes and fish. These items and phosphates accounted for 52.4 per cent of total exports in 1977 and 50 per cent in 1970 but in 1974 the proportion had been as high as 78.5 per cent.

The distribution of imports in 1977 included 34.5 per cent for capital equipment, 13.5 per cent for foodstuffs, 11.6 per cent for energy and lubricants and 20.0 per cent for semi-finished products; consumer products other than food made up 9.4 per cent of imports. In 1970 capital goods imports were 24 per cent of imports, foodstuffs 16.8 per cent, fuel and lubricants 5.4 per cent and semi-finished products 24.9 per cent. Thus the large changes comparing 1970 and 1977 were in the imports of capital equipment and of energy and lubricants.

The large and increasing trade deficit has been covered by the inflow of private transfers (representing earnings remitted by Moroccans abroad) and by a larger capital inflow. Earnings from tourism have been high and have also helped to bridge the payments gap. However, in 1976 and 1977 the net capital inflow was 14,369 million dirhams, a very large sum indeed, and this inflow enabled the international reserves to be increased to some extent.

#### 6. Development aid and external debt

The substantial expansion of the volume of investments in recent years had meant an increasing call on external resources. Morocco receives very little in the form

of grant aid but it has been borrowing substantially for both private and public sector projects. It has been estimated that the debt coefficient i.e., the relationship between debt service charges and earnings from the export of non-factor goods and services rose from 11.6 per cent in 1976 to 17.3 per cent in 1977.

According to the OECD Development Co-operation 1978 Review, the total recorded net flow of resources to Morocco in the three years 1975 to 1977 was \$US 1,762 million or approximately 7,612 million dirhams. This is substantially below what is shown in Morocco's own balance of payments where the net total capital inflow is given as 16.4 billion dirhams.

The situation of the balance of payments was such in 1978 that fixed capital formation has been cut back by some 3 billion dirhams and this will mean a lower call on external resources in that year.

#### 7. Government revenue and expenditure

From 1970 to 1977 the GDP at current market prices grew by 177 per cent and government recurrent revenue increased by 230 per cent. The higher figure for recurrent revenue shows that the Government has increased its proportionate share of the country's resources. In fact the share of GDP represented by government recurrent revenue in 1977 was 23 per cent compared with 19.2 per cent in 1970.

Recurrent expenditure was 214 per cent higher in 1977 than in 1970 and there was a larger current account surplus in 1977 which was used to help finance the high level of capital expenditure. The annual average growth rates of recurrent revenue and recurrent expenditure from 1970 to 1977 were 18.6 and 17.8 per cent respectively.

Morocco: Table 7. Government revenue and expenditure, 1970 and 1975-1977  
(millions of dirhams)

|                       | 1970  | 1975                | 1976                | 1977                |
|-----------------------|-------|---------------------|---------------------|---------------------|
| Recurrent revenue     | 3 261 | 8 479               | 8 322               | 10 784              |
| Recurrent expenditure | 3 023 | 7 567               | 8 231               | 9 502               |
| Surplus               | 238   | 912                 | 91                  | 1 282               |
| Other revenue         | 196   | ...                 | 372                 | 885                 |
| Capital expenditure   | 1 145 | 4 454               | 8 121               | 10 306              |
| Financing required    | 711   | 3 542               | 7 658               | 8 139               |
| Domestic borrowing    | 380   | 1 196 <sup>a/</sup> | 1 254 <sup>a/</sup> | 2 302 <sup>a/</sup> |
| Foreign borrowing     | 266   | 1 635 <sup>b/</sup> | 5 625 <sup>b/</sup> | 7 653 <sup>b/</sup> |

Source: Based on national data from Morocco.

a/ Increase in net claims on Government by banking system.

b/ From balance of payments statistics.

Capital expenditure was 1,145 million dirhams in 1970 and 10,306 million in 1977. This very high increase in capital spending by the Government involved a much greater call on external resources and in 1977 net foreign borrowing by the Government reached 7,653 million dirhams compared with only 226 million dirhams in 1970.

The total net inflow of capital for government account from 1975 to 1977 was 14,913 million dirhams, over the same period net claims on the Government by the domestic banking system rose by 4,752 million: these two sums were slightly more in total than the capital expenditure for the three years of 19,339 million dirhams.

In 1978 because of the pressure building up on the balance of payments, it was decided to reduce the level of public and private capital expenditure by 20 per cent. This reduction would be shared by the public sector and is expected to result in a reduced requirement for external borrowing by the Government. As regards domestic borrowing net claims on the Government at September 1978 were higher by 1,392 million dirhams than at December 1977.

#### 8. Money and banking

There was a substantial rise in the level of Morocco's net foreign assets between 1970 and 1975 but there has been a moderate decline in these assets since December 1975. Over the period 1970 to 1978 domestic credit expansion has been relatively rapid and this has been accompanied by a similar increase in the money supply.

Morocco: Table 8. Monetary survey, 1970 and 1975-1978 (millions of dirhams)

|                          | End<br>1970 | End<br>1975 | End<br>1976 | End<br>1977 | September<br>1978 |
|--------------------------|-------------|-------------|-------------|-------------|-------------------|
| Net foreign assets       | 601         | 1 901       | 1 815       | 1 805       | 1 688             |
| Domestic credit          |             |             |             |             |                   |
| Net claims on Government | 2 962       | 6 558       | 7 812       | 10 114      | 11 506            |
| Claims on private sector | 2 605       | 6 323       | 7 693       | 8 743       | 9 666             |
| Money                    | 5 540       | 12 839      | 15 168      | 18 085      | 19 145            |
| Quasi-money              | 408         | 1 437       | 1 756       | 2 180       | 2 691             |
| Other items (net)        | 221         | 505         | 396         | 399         | 1 024             |

Source: IMF, International Financial Statistics, vol. XXX No. 12, December 1977; vol. XXXII No. 1, January 1979.

The average annual rate of expansion of net claims on Government between 1970 and 1977 was 21.4 per cent, for private sector credit it was 20.6 per cent and for the money supply including quasi-money it was 20.4 per cent. In the period December 1977 to September 1978 net claims on Government rose by 13.8 per cent, claims in the private sector by 10.6 per cent and money including quasi-money rose by 7.8 per cent. The relatively small increase in money supply was helped by a fall of 6.5 per cent in net foreign assets.

These figures for the first nine months of 1978 suggest that the inflationary impact of monetary expansion in Morocco has been reduced to some extent.

## 9. Wages and prices

There have been periodic wage adjustments made at different times this decade in line with the rise in consumer prices. For example in 1974/1975 there was a substantial average increase in state employees' salaries of 23 per cent while a 10 per cent increase in the agricultural and industrial minimum wage was granted in 1975. In 1976 no adjustments were made to wages and salaries in the public sector in line with Government policy. However, in January 1977 the minimum wages in the private sector were raised by from 9.8 to 10.2 per cent and increases in the public sector were between 8 and 12.5 per cent.

The rise in consumer prices between 1970 and 1977 was 74.6 per cent or an annual average of 8.3 per cent. There were higher than average price rises in 1974 of 17.6 per cent and in 1977 of 12.5 per cent. In the period December 1977 to July 1978 consumer prices rose by 4.1 per cent and there was an actual fall recorded between April and July.

## 10. Employment and unemployment

Out of a total population estimated at 18,247,000 in 1977, 39 per cent were in the urban areas while the economically active population was estimated at 5,073,000. There are large numbers of Moroccans working in Europe and in 1971 there were 700,000 in wage employment in Morocco. The creation of domestic wage employment has been comparatively rapid in recent years and in 1976 41,700 new jobs were created in the private sector by investments made under the auspices of SAI. There appears to have been a larger increase in 1977.

Unemployment is still high in Morocco being estimated at 6.7 per cent of the labour force.

## 11. Other social sectors

(a) Education. The enrolment in public sector education establishments in 1977 was 1,741,155 in primary schools, 538,413 in secondary schools and 57,554 in higher education. In 1970 the comparable figures were 1,175,000, 305,900 and 16,000; there were also 2,923 Moroccans being educated abroad. Thus the annual average growth rates at various levels since 1970 have been 5.8 per cent for primary education, 8.4 per cent for secondary education and 20.1 per cent for higher education. The primary enrolment rate in 1977 was about 54 per cent.

(b) Health. The five-year plan to 1977 envisaged the enlargement of the health infrastructure with more institutions being built and others enlarged. There were 23,669 hospital beds available in 1977 compared with 22,570 in 1970 so the hospital bed/population ratio has not improved over this period. In 1977 on average there was one hospital bed for every 771 people in Morocco.

In 1977 there were 1,577 doctors compared with 1,144 in 1969. There has been a faster rate of growth of doctors in service than total population so that the population/doctor ratio has improved to 11,570 persons per doctor in 1977. There have also been improvements in the numbers of paramedical personnel related to population.

(c) Housing. The allocation of funds for housing has risen at a fast rate in recent years, the major objective being to clear the shanty towns from the urban areas. In the first four years of the 1973-1977 plan period a total of 94,000 housing units were constructed and in 1978 despite a fall of 20 per cent in the total capital expenditure envisaged, the sums for buildings including housing were increased by 18 per cent.

#### B. MAJOR PROBLEMS

In 1976 and 1977, the last two years of the 1973-1977 plan period, the policy of high investment coming at a time of reduced export earnings and a poor agricultural season in 1976/77 had led to a high call on foreign resources. This intensification of the foreign resource inflow in the form of capital has increased the share of the earnings of goods and services which must be allocated for debt service payments. One result has been that the Government has decided to reduce the investment programme in 1978 in order to reduce the dependence on a foreign inflow of resources.

While employment creation has been comparatively rapid especially since 1974, the difficulties created for new employment for Moroccans in the European Economic Community have meant that the unemployed and the new entrants to the labour force must rely for work on what is available in Morocco itself. The policy of high investment was designed to help create more new jobs and to prevent the level of unemployment increasing. Any slackening of the investment drive could lead to more unemployment.

The actions taken to limit imports into the E.E.C. has had an impact on Morocco's textile industries.

#### C. INTERNAL DEVELOPMENT POLICIES

Policy aims are to diversify the industrial base and to seek self-sufficiency in agricultural and especially food production. Exports are being encouraged while external borrowing is being related to what is required without causing future problems for the economy.

Negotiations are being conducted with the EEC in order to find a solution to the problems created by the limitations imposed on imports of Morocco's textile products. The widening of markets for phosphate exports is being arranged through various agreements negotiated with different countries.

Various measures have been taken in the fight against inflation including price controls for particular products, and subsidies on others.

Monetary policy is designed to encourage the production sectors, exports and investments in productive sectors.

The year 1978 is the first year of the three year plan 1978-1980. Under this plan the objectives of working towards a full mobilization of all the country's resources and an equitable distribution of the fruits of economic expansion which were the bases of the 1973-1977 plan will continue. However, for 1978-1980 a new dimension is the relationship of these objectives to the new economic and financial situation of Morocco and its foreign partners. Thus 1978-1980 is to be a period of transition and reflection but it will also be a period in which

there will be a level of economic growth compatible with the need to combat unemployment and also the improvement of the country's external payments position.

It is considered necessary to mobilize to a maximum the country's resources in order to finance the investments in this three-year development plan. Similarly the best use will be made of existing investments while current expenditure of the Government will be rationalized in order to reduce the over-all treasury deficit.

Social objectives are to continue to improve education and training, public health and housing.

The key to the realization of the plan is the financing of the investments and this is being pursued with a fuller participation of Moroccan private capital in those projects which will increase employment and safeguard the balance of payments. A better balance in commercial exchanges and improvement of the balance of payments would have important repercussions in the pursuit of harmonious economic development. As well as promoting merchandise exports it will also be necessary to find the means of increasing other external earnings.

At the same time imports will have to be reduced and a careful examination will be needed so that only essential imports are made. There is a target to reduce imports by 20 per cent by 1980.

Invisible earnings should benefit from preferential exchange rates which have been granted to Moroccan workers abroad to encourage them to remit more funds to the country.

#### D. OUTLOOK FOR 1978-1980

The three-year plan 1978-1980 is framed on the basis that this period will be one of transition and will be followed by a new period of high growth in the years 1981-1985.

In 1978 itself the economy will benefit from the good agricultural season in 1977-1978 when cereal output was twice as high as in 1976-1977. However, a substantial reduction in capital formation, public expenditure and imports will have their own impact on total economic activity and it has been forecast that overall the gross internal production at 1969 prices will be only 2 per cent higher in 1978 than in 1977 with a 36 per cent fall in the construction sector offsetting advances in other sectors of the economy. Fixed capital formation at current prices is expected to be 20 per cent lower at 12,275 million dirhams.

In the first half of 1978 there was an external trade deficit of 3,359 million dirhams compared with 4,022 million in the same period in 1977. Imports were reduced by nearly 9 per cent and exports rose marginally. A continuation of this trend will have a substantial impact on the external financing requirement to balance the external payments account. At October 1978 the net foreign assets were lower by 117 million dirhams than at December 1978.

The position of 1979 and 1980 is uncertain but it seems likely that there will be some growth in the volume of exports and perhaps stability in the level of capital formation.

## NIGER

### A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

#### 1. Introduction

Despite the drought of the first years of the decade which reached its greatest intensity in 1973 and during which Niger lost a substantial part of its animal stock, growth of GDP at constant prices for the period 1970-1977 as a whole was probably about 4 per cent per year. This means that GDP per head has grown by about 2 per cent a year. At current prices GDP has increased by 15.4 per cent a year so the implicit GDP deflator averages 11.1 per cent a year. This result has been achieved in part because of the strong recovery of agricultural production after 1973, but the main impulse has come from the rise in the production of uranium and much higher prices for this product. Uranium exports which were valued at CFAF 2.0 billion in 1971 rose to CFAF 29.5 billion in 1977, and the trade balance traditionally in deficit was for the second time in surplus in that year. The large proceeds from uranium mining have helped the Government increase its budget from only CFAF 10.8 billion in 1969/70 to CFAF 56.7 billion in 1978/79, investment expenditures rising from CFAF 1.58 billion in 1970/71 to CFAF 21.0 billion in the budget for 1978/79.

Niger has become another African country which has found its economic fortunes revolutionized by the exploitation of its mineral resources. However, agriculture is still poorly developed despite the recovery from the drought. Yields are still very low reflecting the poor productivity and the climatic constraints on the agricultural sector continue to act as a bar to its development.

After the particularly high rate of growth of 19 per cent recorded in 1976 which was mainly due to the fact that agricultural production had returned a more normal result after the set-back in 1975, GDP rose by 7.5 per cent in 1977. There was sufficient rainfall so that the crop was good and crop production increased by 7.4 per cent in volume with the cereal crop in particular reaching 1,500,000 tonnes, 16 per cent more than in 1976. There was a slight drop of uranium production but higher prices raised the total value of mining production to CFAF 27.6 billion in 1977 from CFAF 20.6 billion in 1976. The balance of payments was in surplus and foreign assets increased by CFAF 4.24 billion. Unfortunately the high level of inflation continued and the index of consumer prices rose by 23.3 per cent in 1977 after 23.5 per cent in 1976. These rates are three times the average of 7.6 per cent a year for the period 1970 to 1975.

Economic prospects for 1978 are good, the rains have been abundant and good crops are expected. The entry into production of new uranium mines means that receipts from mining exports will continue to grow. The rate of inflation seems to have been reduced in 1978. The budget for 1979 is 30 per cent higher than that for 1978 and large sums are earmarked for investment. On balance a high growth rate seems likely for the period 1978 to 1980.

#### 2. GDP by industrial origin

Since 1970, the structure of the GDP has changed to the extent that mining accounted for 8.4 per cent of GDP in 1977 compared with 0.1 per cent in 1970. However, despite the fall of from 64 to 54 per cent for agriculture this still remains the dominant sector. In general the share of other economic sectors has changed little except that the

contribution of commerce has fallen from 19.2 per cent of GDP in 1970 to 14.9 per cent in 1977.

Niger: Table 1. GDP by source, 1970 and 1975 to 1977 (billions of CFA francs)

|                              | 1970                | Percentage | 1975  | 1976  | 1977  | Percentage |
|------------------------------|---------------------|------------|-------|-------|-------|------------|
| <u>At current prices</u>     |                     |            |       |       |       |            |
| Agriculture                  | 64.0                | 60.4       | 69.7  | 125.6 | 156.8 | 54.1       |
| Mining                       | 0.1                 | 0.1        | 6.8   | 12.0  | 24.3  | 8.4        |
| Manufacturing and energy     | 6.9                 | 6.5        | 13.4  | 14.8  | 16.6  | 5.7        |
| Construction                 | 3.5                 | 3.3        | 8.1   | 9.0   | 11.4  | 3.9        |
| Wholesale and retail trade   | 20.3                | 19.2       | 30.0  | 32.0  | 43.0  | 14.9       |
| Transport and communications | 2.7                 | 2.5        | 6.9   | 8.1   | 10.8  | 3.7        |
| Public administration        | 5.9                 | 5.6        | 9.8   | 13.5  | 19.0  | 6.6        |
| Other services               | 2.6                 | 2.4        | 4.9   | 5.8   | 7.7   | 2.7        |
| Total GDP at factor cost     | 106.0               | 100.0      | 149.6 | 220.8 | 289.6 | 100.0      |
| GDP at 1972 prices           | 108.7 <sup>a/</sup> |            | 104.4 | 123.9 | 133.2 |            |

Source: ECA estimates.

a/ 1972.

### 3. Selected economic sectors

(a) Agriculture, forestry and fishing. At least 95 per cent of the population is dependent for its livelihood on agriculture. Because of poor rainfall most of the land is unsuitable for crops, so that out of an area of 634,209 km<sup>2</sup>, only 150,000 km<sup>2</sup> can be used for crop production. Four-fifths of the population is concentrated in the southern area where rainfall exceeds 350 mm on average a year, the remainder being mainly engaged in nomadic livestock raising. There is thus division of labour and complementarity between the southern area engaged in sedentary rainfed agriculture, and the northern area whose resources are more suited for livestock. During the period 1970-1977 because of the drought agriculture production has not kept pace with population and according to FAO, the average rate of growth has been only 1.8 per cent per year, which is less than the population growth rate.

Among crops, the main groups are cereals where millet and sorghum dominate, pulses and beans, groundnuts which has been a major commercial crop, roots, cotton which is the second most important commercial crop and sugar-cane. Production fell by a third in 1973 because of the drought, then recovered sharply in 1974, to fall again by around 18 per cent in 1975.

Niger: Table 2. Agriculture production (major items) 1970 and 1975 to 1977 (thousand tonnes)

|  | 1970 | 1975 | 1976 | 1977  |
|--|------|------|------|-------|
| Millet   | 871  | 581  | 977  | 1 130 |
| Sorghum  | 230  | 254  | 280  | 342   |
| Rice (paddy)                                     | 37   | 29   | 29   | 27    |
| Beans  | 113  | 231  | 222  | 223   |
| Groundnuts                                       | 205  | 42   | 79   | 83    |
| Cassava  | 182  | 175  | 197  | 180   |
| Potatoes   | 8    | 13   | 55   | 41    |
| Seed cotton                                      | 10   | 10   | 7    | 6     |
| Sugar-cane                                       | 37   | 135  | 107  | 131   |
| Value of output at 1976 prices<br>(CFAF billion) | 46.5 | 36.0 | 51.5 | 55.3  |

Source: National data, FAO estimates.

Output grew by 43 per cent in 1976 when the rains were good and by a further 7.4 per cent in 1977. In 1977 the millet and sorghum crop was 1,472,000 tonnes compared with 1,255,000 tonnes in 1976. However, while the cereal crop was back to normal levels in 1976 and rose substantially in 1977, this was not the case for groundnuts and cotton. In 1970 groundnut production was 205,000 tonnes and of cotton was 10,000 tonnes. The lowest figures for groundnuts were obtained in 1974 with only 42,000 tonnes and for cotton in 1973 with 4,000 tonnes. In 1977 despite the normal weather conditions, groundnut production was only 83,000 tonnes and that of cotton was 6,000 tonnes probably reflecting a disinclination on the part of many peasant producers to return to the production of these crops after disastrous experiences in the drought years. As a consequence of lower production, the oil mills have been operating below capacity even with imported supplies. The fall in marketed quantities of agricultural products was general in 1977. This phenomenon in contradiction with figures of increased production and higher prices may reflect a disinclination to use official marketing channels. Otherwise the inference must be that production figures are being seriously over-estimated.

Livestock was devastated in the drought years. Cattle which numbered 4 million head in 1970 fell to only 2 million in 1973. Sheep fell from 2.8 million to 1.8 million and goats from 6.1 million to 5.3 million. After these falls livestock holdings have been rising as herds are constituted. However, reconstitution of herds takes substantially longer for cattle than for the small animals such as sheep and goats and for cattle the herds in 1977 were only 2.7 million. Production of meat is still low. Recorded slaughterings in 1976 include 36,729 cattle against 83,924 in 1973 which was a peak year because of the drought. In 1977, figures for the first six months point to some recovery in meat production with 22,295 cattle slaughtered. Slaughterings of goats are back to normal, but not those of sheep.

Despite the improvement in agriculture and the easing of the food situation, problems remain. Production is too dependent on rainfall variations and the irrigated area is not more than 6,000 hectares. Yields are very low: only 407 kg per hectare for millet which is a basic food crop. Agricultural techniques are backward and seeds need

renewal to improve quality. At the same time population density in the agricultural areas is creating problems since the amount of good land is limited. The cost of irrigating further crop areas is very high being estimated at CFAF 3 million per hectare and such costs will limit the expansion of the irrigated area. Thus rainfed agriculture will remain the basic method of cultivation in the foreseeable future. The strategy for agriculture is to increase productivity through the training of peasants, improved techniques, the provision of fertilizers, the use of better seeds and plant varieties, and other agronomic measures combined with the right economic policies on prices and other support measures from the Government.

A number of projects were in progress within the framework of the 1976-1978 development programme. The most important are the so-called "productivity projects" which are aimed at increasing productivity in specific zones by bringing to the peasant a combination of inputs and services. At the same time hydro-agriculture projects are being developed which will increase the irrigated area. A large project which will have considerable repercussions on agriculture is the realization of the Kandadji dam planned for 1985. Another important project is for a sugar plantation at Tillabery which will cost CFAF 20 billion.

(b) Mining. Up to 1971, Niger produced only cassiterite, a tin ore exploited since 1965 in small quantities. The mining of uranium since 1971 has brought considerable revenues to the country and opened entirely new perspectives for economic development. Uranium production from the Arlit deposit in Air desert region has grown from 410 tonnes of concentrates to 1,441 tonnes and the value of exports jumped from CFAF 1,978 million in 1971 to CFAF 29,500 million in 1977. In 1978 a new deposit was being exploited at Arlit and production is expected to grow to 2,000 tonnes in 1980. In the near future six other uranium deposits are to be exploited which will increase production further. Prospecting for uranium is still being actively pursued.

Apart from uranium a deposit of coal at Anou Araren, containing 4.8 million tonnes is to be mined from 1980 to supply power stations at Agadès, Arlit and other mining towns; investments being estimated at CFAF 41 billion. To facilitate uranium exploitation a road is being built between Tahoua and Arlit through Agadès over a distance of 651 km at a cost of CFAF 30 billion.

Niger: Table 3. Mineral production, 1970 and 1975 to 1977

|                            | 1970 | 1975  | 1976  | 1977  |
|----------------------------|------|-------|-------|-------|
| Uranium (tonnes)           | ...  | 1 305 | 1 459 | 1 441 |
| Cassiterite (tonnes)       | 106  | 127   | 118   | 105   |
| Gross value (CFAF billion) | 0.06 | 13.18 | 20.58 | 27.58 |

Source: BCEAO, Statistiques économiques et monétaires, No. 263 juillet 1978.

Apart from uranium, coal and tin ore, traces of oil have been found and research is being carried out by the Government. There are known deposits of other minerals including an iron deposit at Say with reserves of 650 million tonnes, a phosphate deposit near the Benin border on which feasibility studies are being made. Another phosphate deposit at Tahoua is already under development.

Mineral potentialities are already considerable in Niger despite the fact that the territory has only been partially surveyed.

(c) Energy. Apart from wood used mainly in the rural areas, energy needs are covered by oil imports. In 1977 the consumption of oil products had reached 132,895 m<sup>3</sup>, up 9.8 per cent relative to 1976, and since 1970 the average annual growth rate has been 8.6 per cent. Electricity production has grown by 9.0 per cent a year on average and reached 64.9 million kWh in 1976. The position in 1977 is not yet clear but Niger is receiving supplies from the Kaindji dam in Nigeria, so generating capacity in Niger is now being kept in reserve. Consumption of electricity has increased at a high rate; in 1977 both energy supplies from Nigeria and local production amounted to 85.7 million kWh or 11.1 per cent than in 1976. Electricity production is scheduled to rise sharply over the next 10 years as various projects are brought into production. The first will be a thermal power station based on coal at Anou-Araren.

(d) Manufacturing. This sector is still very small and has grown only moderately since 1970. The most important branches are food industries (44 per cent of turnover in 1975-1976), textiles (20.5 per cent of turnover) and building material industries (11.2 per cent). Because of the importance of food industries and others based on agricultural raw materials, manufacturing production is sensitive to fluctuations in agricultural output. It has thus been affected by the drought which has cut supplies of grain, cotton and other products. There are three oil mills in Niger with a capacity to mill 150,000 tonnes of unshelled groundnuts, but quantities available from local crops have fallen substantially so that imported supplies must be obtained. New industrial projects include the extension of the soap factory now in progress, an oil refinery, a second cement factory being studied in Malbaza, while the first one will triple its capacity. A large project is the sugar complex of Tillabery already mentioned, which will ultimately produce 20,000 tonnes of sugar a year.

(e) Construction. There is at present a very high level of activity with a great number of projects being developed. New projects being planned include some very large ones like the Kandadji dam together with the new mines being brought into production. A period of continuing high activity is in prospect.

(f) Transport services. Most indicators show growth in transportation services. The traffic in the railway to Cotonou, has been traditionally unbalanced with the quantity of goods transported to Niger far outstripping the quantity of goods sent out. With the drought and the fall in the volume of marketed agricultural products, goods sent out of Niger have fallen to negligible quantities, only 3,802 tonnes in 1977 against 43,602 tonnes in 1970. Quantities imported reached a maximum because of substantial grain deliveries to Niger in 1974 but have fallen since although in 1977 imports were 109,804 tonnes compared with 151,674 tonnes in 1976, 190,491 tonnes in 1974 and 144,281 tonnes in 1970. For the roads the number of motor vehicles registered has increased regularly and reached 23,402 in 1976 as against 13,134 in 1970. Passengers handled at airports in 1977 were 63 per cent higher than in 1972 and there has also been increasing use of air cargo.

Niger: Table 4. Selected transport indicators, 1970 and 1975 to 1977

|                                   | 1970               | 1975  | 1976  | 1977  |
|-----------------------------------|--------------------|-------|-------|-------|
| <u>Railways</u>                   |                    |       |       |       |
| Freight carried (thousand tonnes) | 187.9              | 201.5 | 163.9 | 173.6 |
| <u>Roads</u>                      |                    |       |       |       |
| Motor vehicles (thousand)         | 13.13              | 21.28 | 23.40 | ....  |
| <u>Airports</u>                   |                    |       |       |       |
| Passengers handled (thousand)     | 89.8 <sup>a/</sup> | 120.1 | 127.6 | 146.6 |

Source: BCEAO, Statistiques économiques et monétaires, No. 263 juillet 1978.

a/ 1971.

#### 4. Expenditure and the GDP

ECA estimates show that private consumption's share in GDP has fallen between 1970 and 1977 and that of public consumption has risen slightly. However despite what appears to have been quite a boom in construction activity and substantially higher imports the share of GDP on fixed capital formation is only higher from 6.7 per cent to 7.9 per cent. As the build up of stocks is down the total capital formation is lower. The inflow of resources to supplement domestic production was equal to 7.1 per cent of GDP in 1970 but was reduced to 5.4 per cent in 1977. Domestic savings increased from 2.3 to 4.2 per cent of GDP over this period but most investment expenditure was financed externally. These expenditure estimates must be considered as very tentative and are likely to understate the level of capital investment in recent years.

Niger: Table 5. Expenditure and the GDP, 1970 and 1975 to 1977 (billions of CFA francs)

|   | 1970  | Percentage | 1975  | 1976  | 1977  | Percentage |
|---|-------|------------|-------|-------|-------|------------|
| <u>At current prices</u>                          |       |            |       |       |       |            |
| Private consumption                               | 94.9  | 85.5       | 133.1 | 196.2 | 256.6 | 83.1       |
| Public consumption                                | 13.5  | 12.2       | 21.0  | 28.6  | 39.3  | 12.7       |
| Gross fixed capital formation                     | 7.5   | 6.7        | 15.0  | 20.0  | 24.3  | 7.9        |
| Change in stocks                                  | 3.0   | 2.7        | 4.1   | 5.2   | 5.1   | 1.7        |
| Exports <u>less</u> imports of goods and services | -7.9  | -7.1       | -14.5 | -17.3 | -16.7 | -5.4       |
| GDP at market prices                              | 111.0 | 100.0      | 158.7 | 232.7 | 308.6 | 100.0      |

Source: ECA estimates.

5. External trade and balance of payments

The value of exports has grown considerably from CFAF 8,795 million in 1970 to CFAF 39,900 million in 1977, because of the high earnings from uranium. In 1977, uranium exports earned CFAF 29,500 million or 74 per cent of the total. By 1977 groundnut exports had fallen to negligible proportions, after representing 65 per cent of total exports in 1970. The total value of imports has grown both because of greater volume and higher prices. The unit price index of imports was 100 in 1970 and 147 in 1975 and there were further rises in 1976 and 1977. Total imports were valued at CFAF 37 billion in 1977, being 128 per cent higher than in 1970 and probably higher in volume by about 40 per cent. As export earnings rose faster than those for imports the trade deficit of 1970 of CFAF 7.4 billion had turned into a surplus of CFAF 2.9 billion in 1977.

Detailed information on the balance of payments does not go beyond 1975, but monetary data show that there has been a growing over-all balance of payments surplus since then. Net foreign assets have grown from CFAF 11.0 billion at December 1975 to CFAF 22.9 billion at December 1977.

Niger: Table 6. External trade and balance of payments, 1970 and 1975 to 1977 (billions of CFA francs)

|                            | 1970  | 1975   | 1976  | 1977  |
|----------------------------|-------|--------|-------|-------|
| <u>External trade</u>      |       |        |       |       |
| Exports                    | 8.80  | 19.56  | 31.98 | 39.90 |
| Imports                    | 16.21 | 21.81  | 30.38 | 37.00 |
| Balance                    | -7.41 | -2.25  | 1.60  | 2.90  |
| <u>Balance of payments</u> |       |        |       |       |
| Goods and services (net)   | -7.94 | -15.58 | ...   | ...   |
| Private transfers (net)    | -0.33 | -3.49  | ...   | ...   |
| Government transfers (net) | 8.25  | 17.17  | ...   | ...   |
| Capital                    | 6.53  | 8.12   | ...   | ...   |
| Reserves and related items | -2.78 | -1.11  | ...   | ...   |
| Errors and omissions       | -3.73 | -5.11  | ...   | ...   |

Source: IMF, International Financial Statistics, vol. XXX No. 12, December 1977 and vol. XXI No. 11, November 1978. BCEAO, Statistiques économiques et monétaires, No. 263 juillet 1978 (for 1977 trade figures).

As the balance of payments data to 1975 show, while the goods and services account was in deficit the current account was virtually balanced by substantial net receipts of Government transfers (aid payments). There was also a sizable capital inflow although the size of the errors and omissions suggests that the figures given in table 6 may overstate the position. In both 1970 and 1975 there was a small over-all surplus. The much larger surpluses in 1976 and 1977 result from a combination of an over-all trade surplus and high net transfer receipts on Government account together with substantial capital inflows.

6. Development aid and external debt

From 1974 to 1978 external assistance totalled CFAF 135 billion of which grants and subsidies represented 90 billion and loans 45 billion. Capital investments probably accounted for about half the aid disbursed. Apart from those investments carried out by the Government, substantial investments were also made by private funds in mining ventures and financed by other sources. These considerations reinforce the view that the figures given earlier for capital investment in 1976 and 1977 probably understate the position. The foreign debt has increased from CFAF 16.7 billion in 1970 to 31.1 billion in 1976 but the debt service remains very reasonable equal to only 6.6 per cent of exports of goods and services in 1976. For the external public debt the proportion was only 3.4 per cent.

7. Government revenue and expenditure

Uranium sales have helped raise government revenues and total revenue has grown according to budget estimates from CFAF 10.8 billion in 1969-1970 to CFAF 43.4 billion in the 1977-1978 budget. For the 1978-1979 budget revenues are estimated at CFAF 56.75 billion. This increase in revenue has led the Government to eliminate certain taxes that were collected from the rural population, first in 1974 after the drought the livestock tax was abolished to ease the dramatic plight of the cattle raisers who had been the worst hit. Then in the 1976-1977 budget the head tax was halved to be abolished completely in 1977-1978.

Expenditures have followed the receipts, but the greatest increase has been recorded in sums allocated to the national investment fund. The sums transferred were CFAF 1.6 billion in 1970/71 and grew to CFAF 13 billion in 1977/78; in 1978/79 the allocation was CFAF 21 billion. Thus based on the budget estimates total recurrent expenditure excluding investment allocations rose by 181 per cent between 1969/70 and 1977/78 equal to a growth rate of 13.8 per cent a year which is below the GDP growth rate at current prices. This is one reason why it has been possible to use budget surpluses on an increasing scale for investment.

Niger: Table 7. Government revenue and expenditure, 1969/70 and 1974/75 to 1977/78  
(billion CFA francs)

|                                     | 1969/a/<br>1970 | 1974/a/<br>1975 | 1975/a/<br>1976 | 1976/a/<br>1977 | 1977/a/<br>1978 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Recurrent revenue                   | 10.81           | 15.32           | 24.31           | 34.18           | 43.40           |
| Recurrent expenditure <sup>b/</sup> | 10.81           | 13.00           | 20.90           | 26.18           | 30.40           |
| National investment fund            | ...             | 2.32            | 3.41            | 8.00            | 13.00           |

Source: Bulletin de l'Afrique Noire, No. 950, 15 mars 1978, 952, 5 avril 1978, 971, 20 septembre 1978. BCEAO, Statistiques économiques et monétaires, No. 263 juillet 1978.

a/ Budget estimates.

b/ Excludes contribution to National Investment Fund.

The banking statistics for this decade show that the Government has been able to increase its deposits in the banking system quite substantially. These net deposits rose to CFAF 16.41 billion at December 1977 compared with CFAF 3.40 billion at December 1973 and CFAF 7.15 billion at December 1974. Some part of the additional revenues obtained have not been spent.

8. Money and banking

The growth of net foreign assets after 1975 has been particularly rapid and this has been accompanied by a high growth rate in credit to the private sector since 1973. Net claims on the Government have been negative all the years this decade with the total of Government net deposits in the banking system rising from CFAF 1.64 million at December

1977. Private sector credit rose at an average rate of 18.3 per cent a year between 1970 and 1977 and net foreign assets by 26.4 per cent a year. The fall in net claims on Government was at a high rate and as a result total domestic credit rose by only 9.9 per cent a year.

Niger: Table 8. Monetary survey, 1970 and 1975 to 1978 (billions of CFA francs)

|                          | End<br>1970 | End<br>1975 | End<br>1976 | End<br>1977 | May<br>1978 |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Net foreign assets       | 4.47        | 11.02       | 18.69       | 22.93       | 20.89       |
| Domestic credit          |             |             |             |             |             |
| Net claims on Government | -1.64       | -11.49      | -12.33      | -16.41      | -10.15      |
| Claims on private sector | 10.05       | 28.55       | 28.56       | 32.67       | 38.61       |
| Money                    | 8.83        | 20.13       | 24.78       | 32.33       | 38.99       |
| Quasi-money              | 0.77        | 2.17        | 4.46        | 5.31        | 6.46        |
| Other items (net)        | 3.28        | 5.77        | 5.69        | 1.56        | 3.91        |

Source: IMF, International Financial Statistics, vol. XXX No. 12, December 1977, vol. XXXI No. 11, November 1978.

The effect on money supply was that money proper increased at a rate of 20.4 per cent a year and quasi-money at the higher rate of 31.8 per cent a year. In 1977 these money growth rates were 30.5 per cent and 19.1 per cent respectively.

In the first five months of 1978 net foreign assets fell from CFAF 22.93 billion to 20.89 billion, Government net deposits in the banking system were reduced from CFAF 16.41 billion to 10.15 billion and credit to the private sector rose by 18.2 per cent to CFAF 38.61 billion. Money proper rose by 20.6 per cent and quasi-money by 21.7 per cent which is likely to have a continuing inflationary impact on the economy.

#### 9. Wages and prices

Minimum legal wages were unchanged from 1970 to 1974, at which time they were raised from CFAF 30 to 48 an hour. In May 1977 a further increase to 58.21 francs was made and in May 1978 the level was raised to 75.67 CFA francs. The minimum wage is no real indicator of true trends in wages but it is most likely that monetary wages have risen faster than the consumer prices index so far this decade.

As for inflation, food prices started to rise in 1972 and after a lull in 1974 have been increasing ever since. The consumer prices index rose by an average of 7.2 per cent a year from 1970 to 1974 and by 9.1 per cent in 1975. Then the growth rate rose to 23.5 per cent in 1976 and 23.3 per cent in 1977. At June 1978 consumer prices were 7.5 per cent higher than at June 1977 indicating a substantial slowing down in the rate of inflation.

#### 10. Employment and unemployment

The population is estimated at 4.86 million and is growing at 2.7 per cent a year. The proportion in the rural areas is more than 90 per cent of the total. There is a high rate of rural emigration to the towns and this is creating its own unemployment problem in those urban areas. This exodus was intensified by the drought and has been further encouraged by the mineral boom. Workers from Niger also emigrate to coastal countries to find employment.

## 11. Other social sectors

(a) Education. In 1977 there were 178,425 students and pupils in Niger. A comparison of this number with the estimated total population gives a ratio of only 3.7 per cent indicating that only a small proportion of the eligible age groups are at school. In fact according to the Ministry of Planning although the primary enrolment rate has risen by 60 per cent since 1970 it was still only 16 per cent in 1977.

(b) Health. Since 1970 there has been continual effort to improve health services through the building of health centres and more training. As in many other African countries, Niger has a preventive health service which checks on the population's health in a continuous way so that the whole population is examined at regular intervals. Despite these developments over-all progress is slow and there are continuing high mortality rates and the persistence of endemic diseases. The doctor/population ratio is still extremely low with more than 50,000 persons per doctor on average in 1975 and only moderate improvement since then.

## B. MAJOR PROBLEMS

The drought was the major problem confronting Niger in the 1970-1977 period. Food production fell, large losses were incurred in cattle and other animals, the nomad population threatened with starvation was forced to abandon its natural habitat and to move to the towns. As a direct result food prices have risen substantially and inflation has also been accentuated by new demands created through mining developments. The climate with erratic rainfall can cause substantial variations in crop production and the periodic droughts have a particularly serious impact on livestock holdings and meat production.

Niger is subjected to high transportation costs because of its geographic situation. This has its own impact on potential developments especially industries dependent on imported materials.

## C. INTERNAL DEVELOPMENT POLICIES

Since the beginning of this decade great efforts have been made by the Government to organize food relief and rehabilitate the population affected by the drought. New policy is oriented towards improving agricultural output and a greater share of resources has been diverted to agricultural development and services. Projects have been started in all regions, wells have been dug and several major projects like the Kandadji dam will increase the area under irrigation.

However the uranium boom has completely changed the economic outlook and funds have become increasingly available to increase the level of investment. A new plan for the period 1979-1983 is being prepared. It will aim for a much higher level of investment than in the past. The objectives are not yet known in quantitative terms but the main strategy for the plan includes aiming at food self-sufficiency and the fastest possible rebuilding of animal herds; in industry, agro-industries and mineral-based industries will be favoured to take account of the country's natural resources; the infrastructure will be developed and this will help end the geographical isolation of the country; in the social field, the plan will aim for better services in health, education, spread clean water supply as far as possible and improve housing.

D. PROSPECTS FOR 1978 TO 1980

Immediate prospects for Niger are good. The 1978 crop will be excellent because of the good rains. At the same time uranium production is increasing bringing in new revenue from the country's resources. The higher level of investment especially in the government budget will add further to the economic activity of the country. It seems safe to assume that in 1978 the level of growth should be of the same order as in 1977. The development of new projects in many fields in the years 1979 to 1980 will help keep economic growth at a high level but there is always the question mark of the weather which can have a good or bad effect on total production. On balance it should be possible to look for a good GDP growth rate in 1979 and 1980.

NIGERIA

A. ECONOMIC AND SOCIAL DEVELOPMENT, 1970-1978

1. Introduction

During the period 1970/1971 to 1977/1978 GDP at constant prices grew at an average annual rate of 7.9 per cent. At current prices the rate of increase was 21.2 per cent a year and the GDP deflator showed an average annual rate of increase in prices of 12.3 per cent. The pace of economic growth has been dictated to a large extent by the performance of the oil sector and there was a marked slowdown in over-all growth in 1977/1978, when, as a result of unfavourable demand conditions, crude petroleum production fell. Real GDP rose by only 5.5 per cent in 1977/1978 compared to 10.6 per cent in 1976/1977.

Mining was the fastest growing sector during the period under review with an annual average rate of increase of 24.5 per cent. Manufacturing also expanded substantially at an average annual rate of 7.5 per cent. Unfortunately, agriculture on the other hand registered a net decline of about 1 per cent a year. Substantial revenues from oil financed a high level of public development expenditure and gross domestic capital formation reached 6,760.7 million naira in 1977/78 compared with only ₦ 882.7 million in 1970/71.

Total exports from Nigeria increased by 36 per cent a year at current prices to reach ₦ 7,620.4 million in 1977 from ₦ 885.4 million in 1970 and imports rose by 38.2 per cent on average per annum from ₦ 756.4 million to ₦ 7,296.8 million in 1977 which indicates a high import elasticity. A substantial trade surplus was characteristic of the external trade sector throughout the period. The surplus was at a peak level in 1974 when it reached ₦ 4,057.5 million. In 1977 it had fallen to ₦ 323.6 million. The over-all balance-of-payments position was generally favourable until 1976 but in that year there was a deficit following a rapid rise in imports of goods and services. The deficit was even greater in 1977.

Government revenue rose strongly in the years under review and current expenditure was easily financed even though it expanded at a fast rate to reach ₦ 3,819.2 million in 1977 from ₦ 909.1 in 1970. In the 1978/79 budget estimates substantial cuts were introduced in the original demands of ministries because of the tighter financial situation arising from the fall in oil revenues.

Monetary expansion was rapid with money proper having increased at an average annual rate of 34.7 per cent between 1970 and 1977. Strong inflationary pressures dominated the economic scene. The composite consumer price index for the lower-income group rose by 15.9 per cent a year while the index for the middle-income group increased by 14.2 per cent on average per annum between 1970 and 1977.

Crude oil production was down to 1.7 million barrels a day at mid-1978 compared with an average daily rate of production of 2.2 million barrels attained during the first half of 1977. Production was expected to drop further by the end of 1978. The outlook for 1978/1979 was for GDP to grow at below the 5.5 per cent rate of real growth achieved in 1977/1978.

2. GDP by industrial origin

The fastest growing component of GDP during the period 1970/1971 to 1977/1978 was the mining sector. Value added in the sector rose by 24.5 per cent a year at constant prices during this period. Its share in total GDP thus advanced from 12.2 per cent in 1970/1971 to 33.1 per cent in 1977/1978. The share of agriculture in GDP which accounted for 43.8 per cent in 1970/1971, fell to only 24.1 per cent in 1977/1978. The share of manufacturing and crafts in total GDP fell slightly from 7.6 to 7.5 per cent during the period under review despite an average rate of increase in real terms of 7.5 per cent a year.

Electricity, construction and transport all grew at a rate higher than GDP as a whole between 1970/1971 and 1977/1978. No major change was however registered in the proportionate share of services in GDP while the contribution of wholesale and retail trade fell from 12.3 to 9.7 per cent, reflecting the unsatisfactory nature of development in this sector.

In 1977/1978 total GDP at constant factor cost rose by 5.5 per cent. The slowdown in the rate of economic expansion in 1977/1978 was due mainly to a fall in the growth in real output in the mining sector of only 1 per cent in 1977/1978 compared to a decline of 12.3 per cent in 1976/1977 and as a result the proportionate contribution of the sector to GDP fell slightly compared to the previous year. Manufacturing also grew by less than 1 per cent in 1977/1978 compared to the 21.6 per cent recorded in 1976/1977. Agriculture grew by 5.5 per cent in 1977/1978 and, with the growth of 3.5 per cent in 1967/1977, looked well set to recover from the disastrous period between 1970/1971 and 1974/1975.

Nigeria: Table 1. GDP by source at constant 1974/1975 factor cost, 1970/1971 and 1975/1976 to 1977/1978 (millions of naira)

|                                   | 1970/71 <sup>a/</sup> | Percentage | 1975/76  | 1976/77  | 1977/78  | Percentage |
|-----------------------------------|-----------------------|------------|----------|----------|----------|------------|
| Agriculture, forestry and fishing | 3 914.3               | 43.8       | 3 362.1  | 3 480.8  | 3 657.6  | 24.1       |
| Mining                            | 1 085.2               | 12.2       | 4 433.2  | 4 979.8  | 5 028.0  | 33.1       |
| Manufacturing                     | 677.2                 | 7.6        | 924.6    | 1 124.9  | 1 127.5  | 7.5        |
| Electricity and water             | 52.2                  | 0.6        | 71.2     | 82.0     | 111.2    | 0.7        |
| Construction                      | 567.6                 | 6.3        | 817.7    | 959.0    | 1 112.1  | 7.3        |
| Wholesale and retail trade        | 1 098.7               | 12.3       | 1 293.2  | 1 408.3  | 1 468.2  | 9.7        |
| Transport, etc.                   | 294.7                 | 3.3        | 440.1    | 506.1    | 582.0    | 3.8        |
| Services                          | 1 239.0               | 13.9       | 1 665.5  | 1 853.2  | 2 093.7  | 13.8       |
| GDP at constant factor cost       | 8 928.9               | 100.0      | 13 007.6 | 14 394.1 | 15 180.3 | 100.0      |
| GDP at current factor cost        | 5 205.1               |            | 14 655.0 | 17 917.5 | 20 016.4 |            |
| Indirect taxes less subsidies     | 415.4                 |            | 793.9    | 888.1    | 1 110.9  |            |
| GDP at current market prices      | 5 620.5               |            | 15 448.9 | 18 805.6 | 21 127.3 |            |

Source: Compiled from official data from Nigeria.

a/ 1970/1971 constant prices estimates at 1973/1974 prices are ECA estimates.

3. Selected economic sectors

(a) Agriculture. Agriculture was the mainstay of the Nigerian economy in the early 1970s but performance in this sector so far this decade has been seriously affected by the incidence of drought and rural emigration into other economic sectors. Value added in the sector was at a particularly low level in 1973/1974 but since then there has been a substantial recovery following intensified Government efforts to revive both food and export crop production. The sectoral value added rose by 4.3 per cent on average per annum in the period 1975/1976 to 1977/1978 compared with an average annual rate of decline of 3.1 per cent recorded for the first five years of the decade.

Nigeria: Table 2. Commercial agricultural production<sup>a/</sup>, 1970/1971 and 1974-1977  
(thousands of tonnes)

|              | 1970/71 | 1974  | 1975  | 1976  | Provisional<br>1977 |
|--------------|---------|-------|-------|-------|---------------------|
| Cocoa        | 302.4   | 240.0 | 220.2 | 200.2 | 165.0               |
| Seed cotton  | 114.7   | 115.9 | 140.0 | 149.2 | 181.1               |
| Groundnuts   | 285.8   | 113.8 | 165.4 | 148.2 | 140.0               |
| Palm kernels | 306.9   | 310.1 | 300.4 | 295.1 | 301.9               |
| Palm oil     | 31.4    | 25.7  | 60.0  | 55.2  | 47.0                |

Source: ECA economic data summaries for Nigeria compiled January 1975. Central Bank of Nigeria: Annual Report and Statement of Account, 1977.

a/ Based on returns by the Commodity Boards and estimates from other agencies.

Table 2 shows that in 1977 the level of output of cocoa, groundnuts and palm oil as reflected in the purchases of the Commodity Boards fell below the 1976 level. Purchases of seed cotton rose by 21.4 per cent while there was a small rise in purchases of palm kernels. The figures for 1977 were below those of 1970/1971 for cocoa (a fall of 45 per cent) and groundnuts (down by 51 per cent) but were higher for seed cotton and palm oil.

Farmers' incomes from the sale of major commodities increased substantially in 1977. Total farmers' income from the sale of benniseed, cocoa, cotton, groundnuts, palm kernels, palm oil and soya-beans amounted to ₦ 328.3 million in 1977 representing a rise of 18.9 per cent over the preceding year. The larger income was wholly attributed to higher producer prices which, through Government intervention, have risen strongly since 1974. The rise in the producer price for cocoa has been particularly sharp. It rose by 56.1 per cent in 1977 and has more than doubled since 1974. Other price increases in 1977 were for soya beans (31.1 per cent), palm oil (11 per cent), groundnuts (10 per cent) and seed cotton (7.1 per cent).

Estimates of the livestock population in Nigeria, and which includes cattle; goats, sheep, pigs and poultry, are uncertain. There is evidence that the livestock population, which dropped by about 10 per cent as a result of the drought years to 1974, has not yet fully recovered. Emergency measures have had to be taken to increase the meat supply through imports but this has still not been adequate to satisfy the demand for meat in the country. This demand has risen substantially from the substantial increase in incomes since 1970.

Annual fish production in Nigeria is estimated at about 740,000 tonnes and, as fish is an important consumption item, imports are also needed to supplement local supply.

Government development activities in fishing are directed towards the improvement of both small-scale and industrial fisheries. Through the National Accelerated Fish Production Schemes small-scale fishermen are being equipped with better craft, out-board motors and modern fishing nets. The scheme also involves the propagation of better methods of fish preservation and marketing. Development activities for industrial fishing include plans for a fishing harbour complex and three coastal fishing terminals.

(b) Petroleum and natural gas. The output of crude petroleum rose from 396 million barrels in 1970 to a peak level of 824 million barrels in 1974. Production fell by 20 per cent in 1975 but rose again in 1976 to reach 756 million barrels. In 1977 output reached 768 million barrels or 1.6 per cent higher than the preceding year. The value of exports of crude petroleum was ₦ 515.5 million in 1970. By 1974 it had reached ₦ 5,670.9 million following increased output and substantial price increases. The lower output level in 1975 brought the value of exports of crude oil down by 16.5 per cent in that year but in 1976 prices improved further and crude petroleum exports rose to a new peak of ₦ 5,917.7 million.

During the second half of 1977, demand for Nigerian crude declined following the glut in the international petroleum market. Consequently production, which was at an average daily rate of 2,225 million barrels during the first half of the year, fell to 1,964 million barrels. The sluggish demand continued in 1978 and in mid-1978 production was down to 1.7 million barrels a day.

There are plans to build two plants to liquefy natural gas. In 1976 over 27 billion cubic metres of gas was produced but much of this output was flared.

(c) Other mining. In the period 1970 to 1972 coal production recovered from the effects of the civil war; peak output was reached in 1972 with 341,200 tonnes but has since fallen progressively to only 267,100 tonnes in 1977. Production of cassiterite has fallen continuously since 1970 with the total in 1977 only 41 per cent of that of 1970. A similar situation exists for columbite with production 50.5 per cent in 1977 of the level achieved in 1970.

Nigeria: Table 3. Production of major minerals, 1970 and 1974-1977

|                                   | 1970   | 1974    | 1975    | 1976    | 1977    |
|-----------------------------------|--------|---------|---------|---------|---------|
| Crude petroleum (million barrels) | 396.0  | 823.3   | 651.3   | 757.6   | 765.7   |
| Cassiterite (tonnes)              | 10 754 | 7 373.0 | 6 268.0 | 5 009.0 | 4 440.0 |
| Coal (thousands of tonnes)        | 61     | 304.0   | 248.8   | 298.8   | 267.1   |
| Columbite (tonnes)                | 1 616  | 1 312.0 | 991.0   | 673.0   | 816.0   |
| Limestone (thousands of tonnes)   | ...    | 1 810.9 | 1 650.3 | 1 553.4 | 1 437.0 |

Source: Central Bank of Nigeria, Economic and Financial Review, vol. 15, No. 2, December 1977. ECA Economic data summaries for Nigeria compiled in January 1975.

(d) Manufacturing. The range of enterprises and the production capacity in the manufacturing sector have both expanded substantially during the 1970s. However the sector remains dominated by low technology and light and medium industries. The index of manufacturing production based on 1972 as shown in table 4 stood at 194.5 in 1977 showing an average annual rate of expansion of 14.2 per cent. The fastest growing industries have been textiles other than cotton, vehicle assembly, soap and detergents, pharmaceuticals, soft drinks and beer. A declining trend has been observed in the production of vegetable oils since 1972 and in rubber and tin metal since 1975.

In 1977 the aggregate index rose by 6.7 per cent compared with a rise of 23.2 per cent in 1976. The slowdown in rate of expansion was due largely to frequent electricity power cuts as well as shortages in both domestic and imported raw materials.

The largest increases in output in 1977 were in vehicle assembly with a rise of 49.1 per cent, sugar confectionary 47.7 per cent and soap and detergents 43.4 per cent. Declines were substantial in vegetable oil (49.2 per cent) and soft drinks (37.6 per cent). Production of refined petroleum also contracted in 1977 owing to technical difficulties.

Nigeria: Table 4. Index of manufacturing production 1973-1977 (1972 = 100)

|                            | 1973  | 1974  | 1975  | 1976    | 1977    |
|----------------------------|-------|-------|-------|---------|---------|
| <u>Total index</u>         | 123.6 | 119.5 | 147.7 | 182.2   | 194.5   |
| <u>Selected subsectors</u> |       |       |       |         |         |
| Vegetable oil              | 151.2 | 43.8  | 35.7  | 24.4    | 12.4    |
| Sugar confectionary        | 101.0 | 86.9  | 118.4 | 127.1   | 187.7   |
| Soft drinks                | 161.5 | 154.0 | 224.9 | 322.1   | 300.1   |
| Beer                       | 130.5 | 198.4 | 178.5 | 191.0   | 191.4   |
| Cigarettes                 | 89.7  | 96.7  | 107.0 | 128.3   | 129.7   |
| Cotton textiles            | 127.3 | 118.8 | 144.9 | 161.0   | 163.8   |
| Other textiles             | 133.5 | 393.7 | 611.0 | 1 051.8 | 1 143.0 |
| Soap and detergents        | 161.3 | 168.6 | 177.9 | 228.1   | 327.1   |
| Refined petroleum products | 127.0 | 124.4 | 105.4 | 128.0   | 123.6   |
| Pharmaceuticals            | 141.2 | 84.9  | 148.3 | 239.8   | 216.2   |
| Cement                     | 112.5 | 108.7 | 115.6 | 115.4   | 118.4   |
| Vehicle assembly           | 118.4 | 130.7 | 302.2 | 698.6   | 1 041.9 |

Source: Central Bank of Nigeria, Annual Report and Statement of Accounts, December 1977.

According to the Annual Business Survey, costs of production increased by 25.4 per cent in 1977 compared with 20.9 per cent in 1976. The bulk of the increase in costs was attributable to both local and imported raw materials. The rise in other costs was only marginal. Between 1976 and 1977 employment in manufacturing increased by about 6.2 per cent and total capacity utilized declined from 84.3 to 80.2 per cent. The rate of increase in new investment also declined from 31.5 per cent in 1976 to 20.4 per cent in 1977.

(e) Electricity. Total generating capacity in the public sector increased from 804.7 MW in 1970-71 to 926.2 MW in 1975-1976 and to 1,125.6 MW in 1976-1977. Total electricity generated rose from 1,541 million kWh in 1970-1971 to 4,106.2 million in 1976-1977. The average annual rate of increase in electricity produced was 17.7 per cent and in 1976-1977 generation increased by 18.5 per cent.

Steady progress was maintained in the implementation of the federal electrification programmes. Some 95 towns and villages were electrified by 1976-1977.

Despite the increase in generating capacity in recent years, frequent interruptions in electricity supply are continuing to pose problems. The National Electricity and Power Authority (NEPA) has been experiencing acute shortages of engineering staff and this has made it difficult for the authority to maintain an efficient production pattern.

Planned increases in capacity expected to come on stream in 1978 included two additional generating units at Kainji with a capacity of 240 MW and the first 120 MW generating unit at the Sapele thermal power station.

(f) Construction. The construction industry in Nigeria has expanded rapidly since 1970. Investment expenditure has risen at a high rate since the launching of the third national development plan. Major public works have been executed at sea ports, airports, roads and dams and in the private sector on housing and offices.

The total amount of cement consumed rose from 3.3 million tonnes in 1975 to 8.2 million tonnes in 1977. A substantial portion of the supply was imported since domestic supply is still inadequate.

(g) Transport. The growth of the Nigerian economy has raised the demand for all forms of transport very significantly during this decade. Table 5 provides some details on traffic developments in this sector in 1970 and between 1975 and 1977.

Nigeria: Table 5. Selected transport indicators, 1970 and 1975-1977

|   | 1970  | 1975  | 1976  | 1977 <sup>a/</sup> |
|---|-------|-------|-------|--------------------|
| <u>Ports</u> : Freight loaded <sup>b/</sup> (thousands of tonnes) | 1 802 | 1 977 | 894   | 684                |
| Freight unloaded (thousands of tonnes)                            | 4 291 | 6 545 | ...   | 11 323             |
| <u>Railways</u> : Freight (millions of tonnes/km)                 | 1 584 | 1 035 | 1 409 | 1 593              |
| <u>Roads</u> : Registered vehicles and tractors (thousands)       | 32    | 137   | 260   | 410                |
| <u>Airports</u> : Passengers handled (thousands) <sup>b/</sup>    | 111   | 408   | 529   | 582                |

Source: Central Bank of Nigeria, Annual Reports and Statement of Accounts, December 1973 and December 1977.

a/ Provisional.

b/ Excludes crude petroleum.

c/ Domestic air services only.

Road transportation remains the dominant mode of domestic transport. Road haulage activity accounted for 78 per cent of total haulage to and from Nigeria ports in 1970; in 1977 the proportion had risen to 95 per cent. The share of railways in contrast declined from 22 per cent in 1970 to 5 per cent in 1977.

Congestion at the Lagos port complex has been greatly relieved by expansion and remedial measures taken including more intensive use of cargo handling facilities and improved organization of dock labour. The completion of the new harbour at Tin Can Island in October 1977 also contributed to a better performance at the ports.

(h) Tourism. The Nigerian tourist industry was once a useful foreign exchange earner. The industry has, however, declined because of a long period of virtual neglect and the number of tourist arrivals dropped from 109,415 in 1971 to 6,900 in 1976.

Efforts to reactivate the sector were started in November 1976 with the establishment of the Nigerian Tourist Board to replace the non-profit-making Nigerian Tourist Association which had existed since 1962. The Board is responsible for promoting tourism and providing tourist facilities. In October 1977, the Federal Government approved a grant of N 1 million for each of the 19 States of the Federation for the development of tourist amenities.

#### 4. Expenditure and GDP

Since 1970 an increasing share of GDP has been spent on gross domestic capital formation. In 1970/1971 capital formation accounted for 15 per cent of total GDP. By 1977/1978 the ratio had risen to 32 per cent. Within capital formation there have been relatively higher rates of growth fixed capital formation in manufacturing and transport equipment, and these higher growth rates have been associated with the strategy of rapid industrialization and building up an adequate transport infrastructure.

Public consumption has also risen faster than GDP, and in 1977/1978 took 13 per cent of GDP compared with 10.3 per cent in 1970/1971.

The data on private consumption since 1975/1976 are incomplete and it is therefore difficult to comment on the trends for the last few years. Between 1970/1971 and 1975/1976 private consumption's share of GDP fell from 73.7 per cent to 52.4 per cent but it is probable that the proportion has increased somewhat since.

The balance-of-payments figures given below show that in 1977 there was a deficit of N 480 million on goods and services account which indicates that some part of the capital expenditure in 1977/1978 was financed from foreign resources. In practice this was mainly by allowing international reserves to decline.

Nigeria: Table 6. Expenditure and GDP, 1970/1971 and 1975/1976-1977/1978 (millions of naira)

|  | 1970/1971      | 1975/1976       | 1976/1977       | 1977/1978       |
|--|----------------|-----------------|-----------------|-----------------|
| <u>At current prices</u>                   |                |                 |                 |                 |
| Private consumption                        | 4 143.4        | 8 094.3         | ...             | ...             |
| Public consumption                         | 577.6          | 2 084.0         | 2 298.3         | 2 754.6         |
| Gross domestic capital formation           | 882.7          | 4 806.0         | 6 222.0         | 6 760.7         |
| Exports less imports of goods and services | 16.8           | 464.4           | ...             | ...             |
| <b>Total GDP at market prices</b>          | <b>5 620.5</b> | <b>15 448.7</b> | <b>18 805.6</b> | <b>21 127.3</b> |

Source: Compiled from official data from Nigeria.

5. External trade and balance of payments

Nigeria's external trade has been in surplus since 1970. The trade surplus reached a peak level of ₦ 4,057.5 million in 1974 owing to the record rise in the value of crude oil exports in that year. In 1975, as shown in table 7, the surplus fell to ₦ 1,203.2 million. It rose in 1976 to ₦ 1,474.5 million but fell sharply in 1977 to ₦ 323.6 million. During the period 1970 to 1977 exports increased at an average annual rate of 36 per cent and imports by 38.2 per cent.

Nigeria: Table 7. External trade and balance of payments, 1970 and 1975-1977 (millions of naira)

|                               | 1970   | 1975     | 1976     | 1977    |
|-------------------------------|--------|----------|----------|---------|
| <u>External trade</u>         |        |          |          |         |
| Exports, including re-exports | 885.7  | 4 924.7  | 6 623.0  | 7 620.4 |
| Imports                       | 756.4  | 3 721.5  | 5 148.5  | 7 296.8 |
| Balance                       | +129.3 | +1 203.2 | +1 474.5 | +323.6  |
| <u>Balance of payments</u>    |        |          |          |         |
| Goods and services (net)      | -307.9 | 103.4    | -125.3   | -479.6  |
| Private transfers (net)       | 13.6   | -65.9    | -85.8    | -107.6  |
| Government transfers (net)    | 31.4   | -11.7    | -3.1     | 9.0     |
| Capital                       | 242.9  | 115.1    | 18.8     | 81.9    |
| Reserves and related items    | -52.1  | -115.7   | 237.4    | 524.0   |
| Errors and omissions          | 72.1   | -25.2    | -42.0    | -27.7   |

Source: IMF, International Financial Statistics, vol. XXX, No. 11, November 1977 and vol. XXXI, No. 9, September 1978, (converted from United States dollars).

The share of crude petroleum exports in the total value of exports decreased from 93.6 per cent in 1976 to 90.2 per cent in 1977. The exports of the non-oil sector on the other hand reached a record level in 1977 after rising by 75 per cent over the previous year. The rise was partly due to increases in the prices of some commodities such as cocoa beans, palm kernels and timber and partly to increases in the quantity of timber, raw cotton and hides and skins exported. Export of commodities like groundnuts, groundnut oil and palm oil have been banned in Nigeria in an attempt to help to meet the local demand for these commodities.

In 1977 capital goods represented 44.4 per cent of the total value of imports and second in importance came raw materials with 25.2 per cent while non-durable consumers' goods accounted for 21.7 per cent.

From the balance-of-payments data in table 7 it can be seen that the trade surplus in 1976 and 1977 was not sufficient to pay for the net cost of services and transfers. With only a small capital inflow there were significant declines in foreign reserves in both years. The fall was particularly sharp in 1977 when it amounted to ₦ 524 million compared to ₦ 237.4 million in 1976. The net inflow of capital was ₦ 81.9 million in 1977 and ₦ 18.8 million in 1976.

In July 1978, the level of international reserves was 57 per cent below the level at the end of 1977 and 67 per cent below that of the end of 1975. Exports in January to June 1978 were valued at ₦ 3.07 billion or running at a rate 20 per cent less than in 1977. This fact means that the current account of the balance of payment is likely to be heavily in deficit in 1978 with part of the deficit covered by a run-down of the country's international reserves and part by foreign borrowing.

#### 6. Development aid and external debt

When the third national development plan, 1975-1980, was prepared, a wide measure of internal self-sufficiency was assumed with oil revenues expected to continue to rise. However, in view of low world demand, the performance of the oil sector in the more recent period has necessitated the reordering of development priorities and an increased resort to external financial resources. Thus while in 1974 there was a net export of capital, in 1977 the net capital inflow was ₦ 82 million and will be much higher in 1978.

The level of public external debt advanced by 7.2 per cent to ₦ 380.1 million between March 1976 to March 1977. In the year ending March 1978, the rate of increase rose to 78.7 per cent, bringing the total public debt outstanding in that period to ₦ 675.4 million. A high capital budget accompanied by lower revenues in 1978/79 is necessitating a heavy call on external borrowing. As shown below the estimates for 1978/79 forecast foreign borrowing of ₦ 1,543 million.

#### 7. Government revenue and expenditure

The Federal Government budget has grown sharply since 1970 as increasingly large funds have become available for expenditure on services and development. As indicated in table 8, total recurrent revenue rose from ₦ 633.2 million in 1970 to ₦ 5,514.7 million in 1975 and reached ₦ 8,042.4 million in 1977. The average annual rate of increase was 36.3 per cent during this period. Although since 1975 performance in the oil sector has been below expectation, recurrent revenues have benefited from general increases in taxable incomes as well as increases in the rates of taxation and higher customs and excise duties.

Recurrent expenditure increased from ₦ 909.1 million in 1970 to ₦ 3,819.2 in 1977, which represented an average annual rate of increase of 22.8 per cent. The rise was due to the rapid expansion in the scope of government activities especially after the creation of a large number of new States. Despite the expansion in current expenditure the current surplus which appeared in the budget in 1971 has increased continuously since to reach ₦ 4,223.2 million in 1977. However a sharp fall in the level of the current surplus is expected for 1978/79.

Capital expenditure amounted to only ₦ 221 million in 1970. By 1975 it had grown to ₦ 3,207.7 million and has grown further to reach ₦ 5,004.6 million in 1977.

In financing the over-all budgetary deficits in the period 1975 to 1977 recourse was made mainly to internal borrowing.

Nigeria: Table 8. Government revenue and expenditure, 1970 and 1975-1978/79 (millions of naira)

|                                   | 1970   | 1975    | 1976     | 1977    | 1978/9 <sup>a/</sup> |
|-----------------------------------|--------|---------|----------|---------|----------------------|
| Current revenue                   | 633.2  | 5 514.7 | 6 765.9  | 8 042.4 | 6 826.0              |
| Current expenditure <sup>b/</sup> | 909.1  | 2 734.9 | 3 815.4  | 3 819.2 | 4 426.0              |
| Current balance                   | -275.9 | 2 779.8 | 2 950.5  | 4 223.2 | 2 400.0              |
| Capital expenditure <sup>c/</sup> | 221.0  | 3 207.7 | 4 041.3  | 5 004.6 | 5 200.0              |
| Over-all balance                  | -496.9 | -427.9  | -1 090.8 | -781.4  | -2 800.0             |
| Financed by internal borrowing    | ...    | 400.4   | 1 066.1  | 790.9   | 1 257.2              |
| External borrowing                | ...    | 27.5    | 24.7     | -9.5    | 1 542.8              |

Source: Central Bank of Nigeria. Annual Report of Statement of Accounts, December 1977, and Recurrent and Capital Estimates of the Government of the Federal Republic of Nigeria, 1978/79.

a/ Budget estimates for fiscal 1978/79.

b/ Excludes transfers to development fund.

c/ Excludes loans to States.

Because of the anticipated fall in oil revenues in 1978, estimates of current revenue for the financial year 1978/79 are ₦ 6,826 million while estimates for recurrent expenditure for 1978/79 amount to ₦ 4,426 million. The Government introduced cuts in some areas of expenditure and attempted to streamline the administration. It decided to consolidate the development effort and estimates for the capital budget amount to ₦ 5.2 billion. Substantial increases in both internal and external indebtedness are necessary to bridge the estimated over-all budgetary gap of ₦ 2.8 billion and more than half this amount is to be raised externally.

## 8. Money and banking

As indicated in table 9, the supply of money proper expanded at an average annual rate of 34.7 per cent between 1970 and 1977. Quasi-money grew at a yearly average rate of 31.2 per cent during the same period.

Between 1970 and 1975 the most important factors behind the rapid rate of expansion in the money supply were the growth of domestic private credit and net foreign assets. From 1975 onwards it was the influence of both private and public sector credit expansion while net foreign assets fell.

Private sector credit increased at an average yearly rate of 32.8 per cent between 1970 and 1977 to reach ₦ 3,464.6 million in 1977. Net foreign assets which were only ₦ 153.8 million in 1970 rose to ₦ 3,667.4 million in 1975 before falling to ₦ 3,395.7 million in 1976 and further in 1977 to ₦ 2,961.3 million. At May 1978 they were down to ₦ 2,618.8 million.

Nigeria: Table 9. Monetary survey, 1970 and 1975-1978 (millions of naira)

|                            | End<br>1970 | End<br>1975 | End<br>1976 | End<br>1977 | May<br>1978 <sup>a/</sup> |
|----------------------------|-------------|-------------|-------------|-------------|---------------------------|
| Net foreign assets         | 153.8       | 3 667.4     | 3 395.7     | 2 961.3     | 2 618.8                   |
| Domestic credit            |             |             |             |             |                           |
| Claims on Government (net) | 694.1       | -641.4      | 551.0       | 2 309.2     | 2 677.5                   |
| Claims on private sector   | 475.5       | 1 798.0     | 2 423.2     | 3 464.6     | 3 545.0                   |
| Money                      | 642.5       | 2 594.9     | 3 752.6     | 5 184.1     | 5 535.1                   |
| Quasi-money                | 336.7       | 1 572.4     | 1 979.2     | 2 255.1     | 2 226.0                   |
| Other items (net)          | 344.2       | 656.6       | 638.2       | 1 295.9     | 1 080.2                   |

Source: IMF, *International Financial Statistics*, vol. XXX, No. 11, November 1977, and vol. XXXI, No. 9, September 1978.

a/ Contains some estimates.

The Government sector played a contractionary role vis-à-vis monetary expansion in 1974 and 1975 when it was a net depositor to the banking system. However, from 1976 onwards owing to a less satisfactory budgetary situation, the position has been reversed and net claims on Government stood at ₦ 551 million at the end of 1975 and ₦ 2,309 million at the end of 1977. An increase in Government borrowing has occurred to date in 1978.

The combination of high government and private sector borrowing in 1977 led to a rise of 38.1 per cent in money proper in that year.

#### 9. Wages and prices

The rapid rate of monetary expansion which far outstripped the rate of real growth of the economy during the period 1970 to 1977 greatly accentuated inflationary pressures. The composite consumer price index for the lower-income group based on 1960 rose from 150.6 in 1970 to 423.1 in 1977 or by 181 per cent equal to 15.1 per cent a year. The corresponding figures for the index of the middle-income group were 152.7 in 1970 and 387.4 in 1977, a rise of 154 per cent or 14.2 per cent a year. In 1976 and 1977 the lower income group index rose by 22.2 and 21.5 per cent while the respective rates of increase of the middle income index were 16.7 and 20.9 per cent.

The most important action on wages during the period under review was taken in 1975 with the implementation of the Udoji Commission Report in January 1977. This report advocated substantial wage increases in both the public and private sectors. Since these increases, controls have been imposed on all wage increases except for wages and salaries below ₦ 3,000 per annum. Wage earners in this category were granted increases of up to 7 per cent in June 1977.

#### 10. Employment and unemployment

In September 1976 there were 1.35 million persons registered with the National Provident Fund. At the end of July 1977 the number of unemployed persons registered at the various labour exchanges was 18,287, a decline of 13 per cent from the level at the end of July 1976. Of the total number of registered unemployed persons 98.7 per cent were of the lower-grade categories and 27.2 per cent of these were recent school leavers. Only 1.3 per cent represented professional grades.

Nigeria continues to face manpower shortages especially in the technical and professional categories. A nation-wide manpower survey revealed that in April 1976 the vacancy rate in government ministries was 65 per cent for professional and technical staff and 55 per cent for senior administrative staff including accountants. In most of the State corporations the corresponding vacancy rates as of April 1976 were 75 per cent for professional and technical staff and 50 per cent for administrative staff.

## 11. Other social sectors

(a) Education. Primary school enrolment have increased on a massive scale following the introduction in September 1976 of the Universal Primary Education Scheme. Primary enrolment reached 6,185,000 in 1976 compared to 3,516,000 in 1970. A further 1.5 million new entrants were registered in 1978. Implementation of the scheme has been hampered by such problems as inadequacy of classrooms, shortage of trained teaching personnel and lack of classroom equipment and teaching aids.

Government is giving serious attention to the expansion of technical and higher education in order to remedy the severe manpower shortages. In 1977/78 there were about 19,000 students in technical colleges and some 35,681 in universities.

(b) Health. The health sector is accorded high priority in the national development plan. Some 285 basic health units are to be constructed under the plan as part of a network of basic health services spread throughout the country. Implementation of the key projects in the sector has, however, not kept pace with plan targets but a number of university teaching hospitals have been built or are under development.

In 1976 there were 58,004 hospital beds, 4,492 doctors and 18,916 registered nurses.

(c) Housing. In 1977 the Federal Housing Authority completed an estimated 12,000 housing units compared with 10,000 in 1976 and 5,000 in 1975. The bulk of the units were in Lagos and Kaduna States. While the number of units is thus rising it is still far short of the existing demand. The Federal Government's Housing Scheme under the Development Plan has been revised upwards from 60,000 to 200,000 units, the latter estimated to cost ₦ 1.5 billion.

Measures have recently been introduced to stimulate private estate development to supplement the Federal and State Governments' housing programmes. Commercial and merchant banks, for instance, have been asked to reserve 5 per cent of their loanable funds for residential buildings. The Mortgage Bank has been established to grant credit to all mortgage institutions for lending to individuals. State Governments have also been required to acquire and develop land for residential purposes around major towns.

### B. MAJOR PROBLEMS

While the massive spending of the greatly expanded revenues from petroleum has led to rapid rates of economic growth in the period since 1974, structural imbalances have appeared in the Nigerian economy and have continued to act as brakes on the over-all pace of development. Oil revenues have fallen in the past year and this has presented Nigeria with problems of financing its development effort.

Agriculture has become weak spot in the economy due to various causes including the Sahel drought but up to 1975 this sector was not given appropriate priority. Agricultural output has barely kept pace with population growth during the period under review. The food import bill has risen significantly. As noted earlier, of the cash crops only cocoa remains a significant foreign exchange earner. The production of other crops such as groundnuts has been barely adequate to satisfy the domestic market. This limited progress in the agricultural sector has accentuated the urban-rural gap and has accelerated migration from the farms to the further detriment of agriculture.

Excessive expansion in disposable income and money supply has led to persistent inflationary pressures. Price increases have been particularly sharp in food items because of the poor supply situation in agriculture.

The recent fall in oil revenues following changes in the international oil market has led to some changes in budgetary operations. The third plan, which was revised in 1976, provides a total capital investment of ₦ 43.3 billion for the period 1975-1980. This compared with the planned investment of ₦ 3 billion in the second plan 1970-74. In view of the current financial constraints the Government is now concentrating mainly on projects that have already been started.

### C. INTERNAL DEVELOPMENT POLICIES

The Federal Government has taken a number of measures to revive the lagging agricultural sector. Through the National Accelerated Food Production Programme, the Government is establishing agro-service centres to provide farmers with a mix of inputs and supporting services including improved technology, storage, processing, marketing and credit facilities. The programme has now effectively spread to 18 of the 19 States. The Agricultural Credit Guarantee Scheme Fund has been set up with a capital of ₦ 100 million to guarantee bank loans to farmers and corporate institutions. A further ₦ 100 million has been provided to various co-operatives for the purchase of seeds, fertilizer and pest control chemicals.

In the area of direct production, large-scale food crop production projects are being executed through the National Grains and Root Crop Production Companies established in 1975 to produce, process and market rice, maize, guinea corn, millet, yams, cassava and other root crops. The Gusau, Funtuna and Gombe agricultural development projects are now fully operational and large-scale food production is expected in 1979 from the South Sokoto and Chad river basins where some 55,000 hectares of irrigated land are being planted with rice, wheat and other food crops.

There are in addition various tree crop rehabilitation programmes and efforts in livestock development are being directed to tse-tse fly and disease control.

In 1975 the Government took steps to fix guaranteed maximum prices for basic food and export crops. Producer prices have since been revised upwards several times. Farmers' income have consequently grown. A number of other incentives, notably tax holidays and duty-free entry for imported agricultural machinery are being used to boost production.

In the oil sector Nigeria has adopted OPEC policies on pricing, production and relations with foreign oil companies. In April 1977 the Nigerian National Petroleum Corporation replaced the Nigerian National Oil Corporation. The new corporation is now the senior partner in terms of equity participation in all the foreign oil companies.

Government anti-inflationary measures in the more recent period have included a wage freeze which has continued with slight modification to compensate the lowest wage-earning categories, cuts in public expenditure and a simultaneous expansion of the tax base. The prices of a number of commodities are also subjected to strict controls.

The growing balance-of-payment deficits in the recent period have prompted measures to conserve foreign exchange reserves. Imports of a number of items have been banned. Ceilings have been imposed on the remittances of management and consultancy fees. In 1977 these ceilings were reduced from 60 to 50 per cent. Educational fees are subject to control and personal travelling allowances have been reduced.

The indigenization programme introduced in 1972 entered its second phase in 1976 with the promulgation of second Nigerian Enterprises Promotion Decree. The policy of progressive indigenization has greatly improved indigenous private and public participation in industrial ventures.

D. PROSPECTS FOR 1978 TO 1980

With the possibility of oil revenues falling and taking into consideration the consequent budgetary constraints including the cut-backs in expenditure, the rate of real growth in 1978/1979 may turn out to be less than the 5.5 per cent achieved in 1977/1978

Prospects for the revival of the earlier growth momentum depend partly on the reversal of the current demand in the world oil market. If the current glut on the international market ends, the resultant increase in oil revenues will combine with the expected increased earnings from the export of liquefied gas to boost foreign earnings. Nigeria will then be in a better position to proceed with the full implementation of its ambitious development programmes. Present policy is to seek external resources to assist in maintaining the current level of capital expenditure. Efforts to revive agricultural production have begun to produce results and agricultural experts should benefit from increased production while the current level of food imports should be reduced.

Nigeria is a senior partner in a number of subregional economic groupings and these were fully operational during the period under review.

The Economic Community of West African States (ECOWAS) was undertaking feasibility studies of a number of projects in trade development, transport and agriculture. The Nigeria-Niger Joint Commission for Co-operation was considering industrial projects in cement, gypsum, flour milling, the manufacture of light agricultural equipment, iron ore mining and transport and telecommunication links. A programme of action costing \$US 25.3 million in the first five-year phase was approved for the Niger River Basin Commission. The Lake Chad Basin Commission made progress in agriculture, fisheries and animal husbandry and projects were envisaged in transport and telecommunications.

Nigeria has entered into partnership agreements for particular projects with some of its neighbours. Thus a cement and sugar complex costing a total of ₦ 105 million will be built in Benin with Nigerian capital. Nigeria is to provide Togo with oil in return for phosphates. And with the Ivory Coast an agreement has been recently concluded on Nigerian participation in an asphalt plant. The Ivory Coast will in turn participate in a petro-chemical project in Nigeria.