CHAPTER 4

Developing Economies

Common Features

Notwithstanding their great diversity, the economies of Africa have many features in common.

African economies are comparatively small and heavily dependent on the production of a few agricultural or mineral products that are exported to the industrial countries of the northern hemisphere, mostly in unprocessed form and subject to the vagaries of international demand. All countries are struggling to overcome widespread poverty and destitution, including food shortages, unemployment, inadequate housing, stagnating or even falling standards of health and education, inadequate infrastructure, and escalating public indebtedness. Except for the extraction of oil and minerals, African economies have attracted little foreign investment.

Even though South Africa and Egypt are far more developed and diversified industrially than the rest of the continent, they face these problems too. Elsewhere, agriculture (including forestry and fishing) and mining are the only relevant productive sectors. In most countries agriculture is the foremost source of employment.

Growth Without Development

With a few exceptions, African countries were dependencies of Britain, France, Portugal, Italy and Spain, administered with the interests of the colonial power foremost in mind. The economic development of countries and peoples hardly featured as colonial policy objectives. Upon gaining independence the new states accorded high priority to development and "catching up" with the developed world. Most of them saw the creation of their own manufacturing industries as essential to that end. An indigenous manufacturing sector was expected to lessen their overwhelming dependence on the sale of raw materials to the former metropolitan powers who were also their main source of manufactured products.

Most of the new states were seriously short of indigenous technical, entrepreneurial and managerial skills, but at the same time they were deeply distrustful of foreign business and of market forces in general. They believed that the state had to shoulder the task of initiating and implementing industrial and other development. However, civil servants tend to be inept at running business ventures, and this was particularly true of the fledgling African bureaucracies, which had neither the skills nor the experience for the all-embracing management of an entire economy.

Droves of foreign advisers could not make up for these deficiencies because all too often their expertise was not appro- priate to African conditions. Together with the ideologically inspired belief in centralised economic planning, this resulted in ill-conceived policies. Matters were made worse by declining administrative capabilities, largely on account of the profuse growth of state bureaucracies and the proliferation of politically rather than efficiency – orientated parastatals.

Pervasive corruption lowered the efficacy of the public sector even further. The emphasis on industry or, in some countries, over-reliance on oil or other minerals,

AFRICA

Total population (2011): 1.032 billion
Total GDP (2009): US$1.184 Trillion Percentage of world GDP: 2%
Gross National Income (GNI) per capita (2009): US$875

Sub-Saharan Africa (SSA)

Total population (2010): 853 million
Total GDP (2010): US$1.1 *Trillion Percentage of Africa's GDP:* 50%
Gross National Income (GNI) per capita (2010): US$1188
Total external debt (2010): US$195 billion
Development aid received (2001): US$13.9 billion
Total merchandise exports (2009): US$298 billion
Total merchandise imports (2009): US$317.9 billion
Life expectancy at birth (2010): 54 years
Infant mortality (2009): 129 per 1 000 live births
Adult literacy (2009): 67%

typically led to agriculture being neglected. This undermined the economic foundations by reducing export revenues, domestic food supplies, employment opportunities, and the supply of raw materials for local processing. Africa seems to be losing the ability to feed itself and is becoming increasingly dependent on food imports from overseas.

These self-created economic problems were aggravated by factors over which governments have little or no influence, such as high population growth rates, drought, insect pests, political instability, intergroup conflict, declining international demand for raw materials, and shrinking economic support from the outside world. The oil crises of 1973 and the late 1970s had a particularly severe impact on African economies because the resulting global recession reduced demand for commodities, while steeply rising prices of mineral fuels and petroleum-based products further worsened the external payments position of oil-importing countries.

This combination of adverse factors accounts for the economic decline that virtually all African countries have suffered, especially since the early 1970s.

Although there has been significant progress in various fields – education and health care in particular – levels of living today are roughly the same as three decades ago. By virtually any economic or social indicator, Africa performs worse than any other developing region. While other developing regions of the world are advancing strongly, sub-Saharan Africa has retrogressed in many respects. In 1957, for instance, Ghana was more prosperous than South Korea, and in 1965 Indonesia's economic output was about the same as Nigeria's. By the end of the 21st century, Indonesia's output was 5 times greater than that of Nigeria, while South Korea's economy was about 35 times larger than Ghana's. Africa has experienced socio-economic growth, but development, leading to higher and sustainable levels of living, has been largely absent.

Reform Programmes

During the 1970s' and early 1980s African countries came under increasing pressure from international agencies – notably the International Monetary Fund (IMF) and the World Bank, but also the United States Agency for International Development (USAID) and the European Union (EU) – to reform their economies. New loans and other forms of assistance were made conditional upon specific changes – primarily to devalue the exchange rate and balance government budgets. Budgets were to be balanced by ending subsidies to consumers and producers, cutting back the number of state and semi-state employees, trimming defence expenditure, and privatising loss-making public enterprises (parastatals).

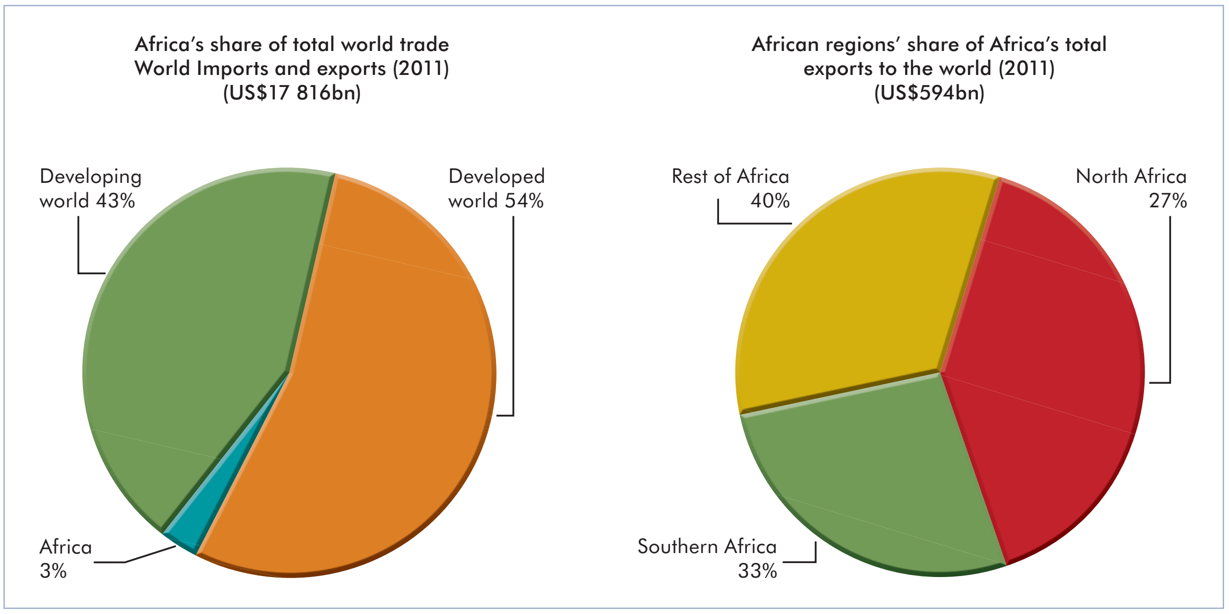
These enforced measures, known as structural adjustment programmes (SAP), profoundly affected the daily lives of people, particularly those in urban areas. Devaluation of the exchange rate lowered the external price of exports, which helped to stimulate demand for the country's exports while at the same time discouraging imports by raising their cost. The price-raising effects of devaluation and, even more, the curbs on government spending, fell particularly heavily on wage and salary earners as well as on students and other beneficiaries of state social spending. As governments are generally reluctant to reduce spending on the military and other security services, they tended to cut the allocations for education and health. Since at the same time state subsidies on basic daily needs were curtailed, ordinary people in urban areas experienced a decline in their standard of living.

Structural adjustment programmes may be theoretically sound, but their high social costs and uncertain macro-economic benefits have led to a great deal of controversy. In 1994 the World Bank studied 29 sub-Saharan countries that had undertaken adjustment strategies in the 1980s. The study concluded that no African country had firmly established, in the broadest sense, a sound macro-economic policy. While finding that the six countries whose macro-economic policies had improved most between 1981 and 1991 also performed best in economic terms, it also established that 11 countries had actually deteriorated. The countries that had devalued their currencies also increased per capita economic growth rates by an average of 2,3% as against an average decline of 1,7% for those countries that had allowed their currencies to appreciate.

Most observers believe there is little doubt that the numerous structural adjustment programmes have played an important role in arresting Africa's sharp economic decline in the 1980s. During 1988–1990, 20 sub-Saharan countries engaged in the World Bank-led Special Programme of Assistance (SPA), which generally comprised structural adjustment programmes. Economic growth in these countries increased from an annual rate of 1% at the start of the 1980s to about 4% by 1992. As this was higher than population growth, it indicated improved living conditions. Economic growth in countries not engaged in the SPA programmes was approximately one-half that of those pursuing SPA, as well as below population growth rates.

In September 2000 the Millennium Summit of the United Nations resolved to give the highest priority to sustained development and the elimination of poverty throughout the world. It adopted eight Millennium Development Goals (MDGs): (1), to eradicate extreme poverty and hunger, aiming at 2015 as the target date for reducing the proportion of people living on less than one US dollar per day (29% in 1990) to 14.5% and cutting the number of undernourished people (777 million in 1997) by half; (2), to achieve universal primary education by 2015; (3), to promote gender equality and empower women; (4), to reduce child mortality by at least two-thirds during the folowing 25 years; (5), to improve maternal health; (6), to combat HIV/AIDS, malaria and other diseases; (7), to ensure environmental sustainability; and (8), to develop a global partnership for sustained development based on appropriate policies, good governance, a more equitable global trading system and programmes for financial aid to and debt reduction for those developing countries working to meet these development goals.

Figure 25 Africa and African Regions' Share of Trade



Source: World Trade Organisation

South and Southern Africa

South Africa's development during the past three to four decades differed substantially from that in the rest of sub-Saharan Africa. While most African dependencies became free during the 1960s, South Africa experienced growing international isolation and sanctions on account of its apartheid policy, and was forced into a siege economy where policy revolved around survival of the existing order rather than sound development. Established markets were lost and new ones had to be found; oil and other strategic materials had to be purchased at inflated prices; a huge armaments industry was created regardless of cost; foreign loans and investment dried up; standards of living dropped. From the mid-1970s the country was increasingly involved in armed conflict in Angola. All this, including spending on apartheid schemes, entailed astronomical costs, gravely distorted the economy, and undermined its capacity for growth.

Beginning with Southern Rhodesia's In an attempt to lessen their dependence on South Africa, these neighbouring countries joined ranks in 1980 by forming the ten-member Southern African Development Co-ordination Conference (SADCC). Despite liberal financial and other support from overseas donors, SADCC made only very modest progress. However, SADCC'S pragmatic approach, as well as the bonds created by the fight against a common enemy, clearly went some way to preparing the ground for meaningful regional co-operation and development. In 1992–93 SADCC was restructured as the Southern African Development Community (SADC) and was subsequently joined by South Africa, Mauritius and the Democratic Republic of Congo. Since then Southern Africa undoubtedly has had better prospects for economic progress than any other part of sub-Saharan Africa. (See also Chapter 5.)

Small Economies

A country's total output of goods and services measured over a period (usually one year), in terms of either gross domestic product (GDP) or gross national income (GNI), indicates the size of its economy. GDP measures the contribution of a country's residents, including foreigners, while GNI is concerned with the value of the output of a country's citizens, including their income earned abroad. The smallness of African economies becomes apparent when compared with non-African ones. Thus, in 2010, the GNI of sub-Saharan Africa's more than 670 million inhabitants was comparable to that of a single country such as NewZealand, with only 4.2 million people. Africa's largest economy, South Africa (population 50 milllion) in 2010 recorded a GNI of US$558 bn, which was comparable to that of Iceland (pop10 milllion).

In an expanding economy GDP and GNI are growing in real terms, that is, if growth rates are still positive after the distorting effect of inflation has been eliminated. Moreover, in order to provide for a growing population GDP/GNI must increase at higher rates than the number of people in the economy. Although sub-Saharan Africa's real GDP was growing by 6% during the 21st century, the region's population increased with a lower rate and, consequently, the African populations experienced economic advancement in per capita terms.

The impact of population on the economy is reflected by per capita GDP and GNI. Both indicators are averages – derived by dividing total GDP/GNI by total population – indicating the average share in the national economy accruing to each person.

Sub-Saharan Africa has the lowest GDP/GNI per capita and per capita growth rates in the world, together with the world's highest population growth rates. In 2002 only two African countries (Seychelles and Libya) had a per capita GNI exceeding the world average of US$5 080, while four countries (Botswana, Gabon, Mauritius and South Africa) recorded per capita GNIs ranging from US$2 500 to US$5 000. Other African countries were below US$2 500, with 36 of them below US$1 000. (See also Figure 26.)

African economies, in general, fail to create wealth, that is to expand to levels where each person's average share in the national 'cake' grows significantly bigger.

The low growth rate of total and per capita GDP/GNI of most African countries is an indication of widespread poverty. Sub-Saharan Africa has the highest proportion of people living below the extreme poverty line of less than one US dollar per day (49% in 1999).

Nevertheless, there have recently been hopeful indications. The number of African countries with a real GDP growth rate in excess of 3% has been increasing since the mid-1990s, while the number of those with a negative growth rate has been declining. (Economic growth is usually taken to be GDP growth, measured in constant prices). The forecast annual rate of GDP growth for Africa as a whole rose to 5,2% in 2010, compared with 4,2% actual growth in the previous year. Only eight African countries recorded growth rates of over 7% in 2002, which is the minimum growth rate that economists estimate has to be achieved in order to meet development goals and to reduce poverty. Since the beginning of the 21 st century development efforts in all parts of the developing world have become focused on alleviating poverty.

Growing Unemployment

The proportion of working-age people (15–64 years) in the total population is much smaller in sub-Saharan Africa than in other parts of the world, just over half the population of a country, compared with at least two- thirds in the developed countries. However, as African populations are increasing at a faster rate than national output, growing numbers of those reaching working age cannot find gainful employment in the formal sector of the economy. Unemployment is on the increase, especially in the cities, where it is rising at anything above 9% a year. In the rural areas some young people might make a modest living in subsistence farming; many migrate to the cities in the hope of finding a job or earning money through odd jobs. All too often, however, they are disappointed because thousands are in the same position, and at least one-fifth of the working-age population is unemployed.

Large numbers of people earn a living by becoming domestic servants, vendors, producers of crafts, taxi drivers, etc. They are therefore self-employed or work for a small family business. These people form part of the so-called informal sector of the economy, the output of which is usually not reflected in the country's economic statistics. In many African countries the informal economic sector is much larger than the formal one. Some people are forced by circumstance to become beggars, while others resort to criminal activities. Both in rural and urban areas, many become hangers-on to someone with a regular income. It is estimated that, in some Western African countries, on average seven persons depend on every income-earner.

According to the World Bank, sub-Saharan Africa's labour force is increasing at an annual rate of 2,6%, about the same rate as for the total population. In all parts of Africa vast numbers of people are migrating within their own countries – or, more likely, to neighbouring countries, either on a short-term basis or permanently – looking for jobs.

Backlogs in Social Services

There have been substantial increases in the numbers of young people enrolled in schools, colleges and universities in all African countries since independence. Striking advances have been made, too, in the provision of health care and housing. Yet despite the expansion in services, illiterate persons and the numbers of school-age children requiring schools and teachers, and people without medical services, adequate housing, por-table water supplies and sanitary facilities, are increasing faster than the ability of authorities to provide these needs, let alone improve their quality.

Moreover, with only about half of African populations being in the 15–64 years or working-age group – compared with about two-thirds in the developed countries – and a still smaller proportion gainfully employed – the taxpaying populations are relatively small, while social services require ever larger allocations from the national budgets, though these services already absorb a major share of government revenue. Much of the foreign aid donated to African countries is spent on social services.

At the beginning of the 21st century, 62% of adult Africans (age 15 and over) were literate, compared with an adult literacy rate of about 75% for the developing world as a whole and over 90% for the developed countries. Of the four major groups of developing countries (sub-Saharan Africa, East Asia, South Asia, and Latin America), sub-Saharan Africa has the lowest school enrolment rates. The combined enrolment ratio (primary, secondary and tertiary levels) for sub-Saharan Africa was 42% in 1999, compared with 53% for South Asia, 71% for East Asia and the Pacific, and 74% for Latin America. A major stumbling block in the provision of universal and quality education in Africa is the shortage of suitably qualified teachers. On average, there are 40 primary school pupils per teacher in sub-Saharan Africa.

Another serious problem is the failure of the bulk of learners to complete their schooling. More than 40% of primary school pupils in sub-Saharan Africa do not complete the primary school phase and less than 40% of those who do proceed to the secondary (high) schools. Although more than half the primary school- age population in the whole of sub-Saharan Africa do receive primary education, the proportions of the relevant age groups enrolled at secondary schools and tertiary institutions are much lower. The bias in favour of obtaining university degrees is slowly changing towards the training of more technically orientated students, for whom there is a dire need in developing economies. Unfortunately, many highly qualified Africans (medical doctors for instance) leave their countries or do not return after studying abroad – the so-called 'brain drain' – because they can make a better living in developed economies. South Africa has become a favoured destination for both highly and less skilled African migrants.

In the latter part of the 20th century the deadly HIV/AIDS disease spread across the world. As virtually everyone who is affected by the HIV virus eventually dies, the most immediate effect of the epidemic is to increase mortality. Sub-Saharan Africa, and Southern Africa in particular, has the world's highest incidence of the disease. The drug therapy that can delay the onset of AIDS is largely inaccessible or unaffordable in most African countries. Owing to the high number of deaths due to AIDS, life expectancy in sub-Saharan Africa has decreased during the 1990s and is expected to fall below 48 years in 2000–2005. In the absence of AIDS, life expectancy in sub-Saharan Africa would have surpassed 57 years in 2000–2005.

In addition to AIDS, tuberculosis and malaria are leading killer diseases in sub-Saharan Africa. These and other diseases are often fatal for persons already suffering from AIDS.

The focus in health care is on the control and prevention of diseases, yet generally only about half of the children in sub-Saharan Africa are immunised against childhood diseases and 162 children out of every 1 000 die before reaching the age of five. Although this figure is still too high, it is significantly less than the 223 child deaths per 1 000 live births recorded in 1970. The latter part of the 20th century also saw significant reductions in the infant mortality rate (less than one-year-olds), down from 135 per 1 000 live births in 1970 to 107 in 2000. Infant mortality is considered one of the best indicators of the socio- economic development of a population.

The level of social welfare in Africa is measured by the United Nations Human Development Index (HDI). It takes into account, for each country, life expectancy,

Table 1 Principal Agricultural Products and Leading Producers (2002)

Product	African production		Leading African producers' share of total African production
	Volume '000 ton	Share of world production	
Food			
Cassava	121 360	52,90%	Nigeria 31%, Democratic Republic of Congo 12.%
Maize	64 256	7,60%	South Africa 20%, Egypt 10.9 %, Nigeria 11%
Millet	15 312	52,30%	Nigeria 27%, Niger 25%, Mali 8.9%
Rice	22 855	3,40%	Egypt 18%,Nigeria 20.%, Madagascar 20%
Sorghum	20 949	37,60%	Nigeria 23%, Sudan 12%, Ethiopia 14%
Wheat	22 061	3,00%	Egypt 32%, Morocco 22%, South Africa 6%
Red meat	17 328	5,90%	South Africa 17%, Nigeria 8%, Ethiopia 4%
Cash crops			
Cocoa beans	2 735	64,60%	Cote d'Ivoire 45%, Ghana 23%, Nigeria 15%
Coffee beans	907	10,80%	Ethiopia 30%, Cote d'Ivoire 11%, Uganda 17%
Cotton lint	1 235	5,30%	Egypt 11%, Mali 6.3%, Nigeria 13%
Groundnuts	10 298	10,30%	Nigeria 26%, Senegal 12.5%, Sudan 7.4%
Palm oil	2 138	4,70%	Nigeria 50%, Cote d'Ivoire 14%, DR Congo 8%
Sisal	76	21,70%	Tanzania 31%, Kenya 39%
Sugar cane Tea	91 074	5,40%	South Africa 17.6%, Egypt 17%, Mauritius 5%
Leaves	629	14,00%	Kenya 53%, Malawi 10%, Uganda 6.5 %
Leaves	711	10,00%	Zimbabwe 15%, Malawi 30%, South Africa 2%
Roundwood*	690 834	20,00%	Ethiopia 15%, Democratic Republic of Congo 18%, Nigeria 10.5%
* '000 cubic metres			

Source *FAO Production Yearbook 2010*,Rome, Food and Agriculture Organization of the United Nations.

adult literacy and standard of living, based on GDP per capita. The world's countries, 175 in all, are then ranked into high, medium and low categories. The HDI Report for 2004 showed only one African country (Seychelles) in the "high" category. The HDI of 18 countries, including Mauritius, Namibia, South Africa and five Northern African countries had reached the "medium" level, while 27 countries were ranked in the "low" category, with Burkina Faso, Niger and Sierra Leone at the bottom of the list.

Agriculture: The Economic Mainstay

The general neglect of agriculture has been a foremost factor behind Africa's economic decline. Agriculture accounts for about one-fifth of the continent's GDP, an estimated two-thirds of employment, and around 25% of export revenue. In half of sub-Saharan Africa's 48 countries, agriculture's share of GDP ranges from 30% to 60%. For most African economies the major agricultural exports consist of one or perhaps two or three industrial crops such as coffee, tea, cocoa, sugar, palm oil, cotton and groundnuts whose prices fluctuate widely on world markets.

As the World Bank puts it, "If agriculture is in trouble, Africa is in trouble," and agriculture has been in trouble for several decades. For reasons of political expediency, many governments kept exchange rates artificially high, to benefit urban supporters, and the prices of agricultural products low (the stronger the exchange rate, the less people have to pay for imported goods). This harmed the whole economy by depressing outputs of both food and cash crops, thereby reducing exports of agricultural commodities and necessitating more imports of foodstuffs. Agricultural output was discouraged still further by export taxes on agricultural products, by neglect of rural infrastructures, by inefficient marketing procedures, and lack of credit facilities and extension services for farmers.

Even though agricultural output has increased over time, food production has consistently lagged behind population growth. Whereas Africa's overall food production increased by 34% between 1991 and 2002, per capita output remained virtually stagnant in this period. As a result, food has to be imported from abroad, including food aid donated by international agencies during periods of drought or flooding. The level of nutrition, as measured by daily calorie supply, exceeds the minimum daily requirement in only a minority of African countries.

Livestock breeding, especially of cattle, is an important farming activity in Southern and Northeastern Africa and in the savanna regions of Western and Central Africa. Sudan, Ethiopia and Nigeria have the largest cattle herds, but most cattle are slaughtered in South Africa, the leading African producer of red meat. Sudan has the largest sheep herd in Africa, but South Africa is the continent's leading wool producer. Cattle carcass mass and cereal yields in Africa tend to be low and compare unfavourably with other parts of the world. In Africa average carcass mass in 2002 was 144 kg, compared with the world average of over 200 kg and over 300 kg in the United States. In the same year the average yield of cereals per hectare in Africa amounted to just over one tonne, compared with the world average of nearly 3 tonnes and over 4 tonnes in Europe.

A wide variety of agricultural, fish and forestry products is produced in Africa, but only the most important crops as well as the foremost producers can be referred to here (see Table 1, based on 2002 production figures).

Minerals and Mining: A Non-renewable Resource

Foreign investors are showing increasing interest in African mining – virtually the only sector, apart from tourism, where this is the case. While some years ago practically no prospecting took place, today Africa's mining industries attract the bulk of foreign direct investment in the continent. In several countries, notably Ghana, Mali, Tanzania and Zambia, the number of licences issued to prospect and exploit minerals has expanded considerably. The World Bank has identified 25 countries with extensive mining potential. Ghana, Angola, Namibia and the Democratic Republic of Congo top the list. South African mining houses are increasingly active in Africa and are filling the vacuum left by France in Western Africa. They are, however, facing stiff competition from other mining companies and consortiums.

A growing number of African countries are welcoming foreign investment in mining and have introduced new investment codes. However, in quite a few countries development is still obstructed by instability, rampant bureaucracy and corruption, poor infrastructure, hostility towards outside investment, and smuggling of minerals (such as gold and diamonds) across international borders. Diamonds, in particular, were smuggled by some rebel groups to finance their activities, leading to protracted wars and disruption in several African countries. To counter the trade in conflict or blood diamonds, more than 70 countries supported a recent international initiative (2002), known as the Kimberley Process, which introduced a certification scheme for rough diamonds before such diamonds can be sold in the world's diamond markets.

Table 2 Principal Mineral Products and Leading Producers (2010)

Mineral	African production		Leading African producers' share of African production
	Volume '000 metric tons	Share of world production	
Bauxite	14 900	8%	Guinea 91%
Chromium	7 130	38%	South Africa 96%
Cobalt	33 000	51%	DR Congo 88%
Copper	11 170	8%	Zambia 58%, Congo 24%
Diamonds	53 800 000 carats	49%	Botswana 39%, DR Congo 24%
Gold	455 000	22%	South Africa 49%, Ghana 18%
Iron Ore	68 900	3%	South Africa 44%, Egypt 32%
Manganese	3 350	28%	South Africa 57%, Gabon 25%
Petroleum	3 590 000 barrels	12%	Nigeria 22%, Algeria 18%, Libya 6%, Angola 19%
Phosphate	43 500	27%	Morocco 58%, Tunisia 17%
Platinum Group	152 000 kg	96%	South Africa 96%, Zimbabwe 3.7%
Uranium	9 950	18%	Niger 38%, Namibia 55%

Source *Africa South of the Sahara 2005*, London, Europa Publications.

Manufacturing: Still in the Infant Stage

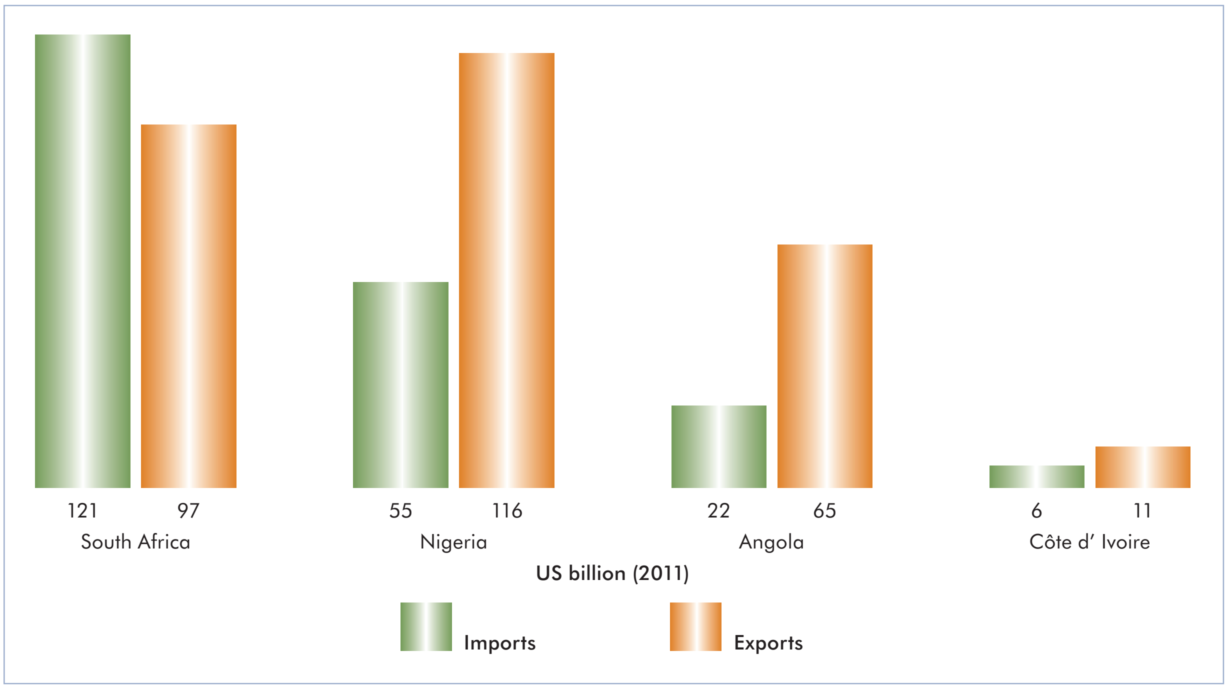
Manufacturing, together with construction, the generation of electric power and the supply of water, is commonly referred to as the secondary sector – as distinct from the primary sector (agriculture, forestry, fishing, and mining) and the services, or tertiary sector which includes commerce, transport and communications and the civil service, amongst others. The colonial economic system was designed to furnish raw materials for the manufacturing industries of the metropolitan countries and actively discouraged the processing of raw materials in the countries of origin. As pointed out above, efforts to establish indigenous manufacturing sectors after independence have not been very successful, and in many instances manufacturing has been a drain on economic resources rather than an "engine of growth".

In most African countries one finds some import-substituting activities such as the production of cloth, footwear, soap, cigarettes, soft drinks, liquor and basic agricultural implements. Many countries have small engineering works. What predominates almost everywhere is the processing of agricultural and, to a much lesser extent, mineral raw materials. Examples are sugar and grain milling, oil extraction from palm kernels, canning of meat and fish, saw milling, tanning of hides and skins, cement production, and the smelting of minerals. Among the few countries with substantial and growing manufacturing sectors are South Africa, Egypt, Morocco, Tunisia, Mauritius, Nigeria and Kenya.

According to the World Bank, manufacturing in sub-Saharan Africa grew at an average annual rate of 5.5% during the 1990s, which increased only marginally during the last decade. By 2010 manufacturing contributed only 13% of sub-Saharan Africa's GDP. However manufacturing contributed only 13% of sub-Saharan Africa's GDP. However, manufacturing industries are primarily focused on the domestic and regional markets.

Only South Africa, Mauritius and some of the Northern African countries export significant quantities of manufactured

Figure 26 Principal sub-Saharan Markets



Source: World Development Indicators, World Bank

products to other parts of the world. South Africa is by far the most important industrial producer in sub-Saharan Africa, responsible for the bulk of the area's output of steel, cement and electricity. In 2010 manufacturing (including construction and electricity and water provision) accounted for 15% of South Africa's GDP.

Services: Largest Contributor

Although the services sector usually receives less attention than the directly productive sectors of the economy, it is the largest contributor to the economy in most countries. Its proper functioning is in fact vital for the health of the economy and the country as a whole. The sector comprises wholesale and retail trade, banking, insurance and other financial services, hotels, tourism, transport and communications and – very important – government services, including the public administration. In 2011 the contribution of services to sub-Saharan Africa's GDP (excluding South Africa) amounted to 56%, compared with 64% for South Africa.

Physical Infrastructure: The Foundation of Wealth

Physical structures are indispensable to the functioning of a modern economy, that is, transport (rail, road, air and water), postal and telecommunications services, and water and power supplies. Educational and South Africa Nigeria health services are part of what is commonly referred to as 'social infrastructure'. (See also Chapter 1.)

The infrastructure established by the colonial powers was designed to serve the extraction and exportation of raw materials, as well as rudimentary administrative needs. After independence, African governments felt the need to expand and strengthen physical infrastructure in step with their quest for economic development. In view of their limited financial means, they rely heavily on funding from overseas donor countries and international agencies such as the World Bank, and regional institutions such as the African Development Bank. To the extent that this funding is in the form of loans, it imposes the obligation to repay with interest. However, a better road or enhanced power supplies take time to produce the extra revenue that the state needs to meet its debt obligations. As a consequence the strengthening of infrastructure often plunges states deeper into arrears with external debt repayments. Beyond that, constrained finances cause many states to neglect maintenance of infrastructures, leading to the deterioration or even collapse of facilities. Inevitably, this entails inconvenience and increased costs to producers.

Although Africa's major cities are well served by international air carriers and are linked with seaports by roads, railways and pipelines, the extent of the continent's transport networks is limited. Only about 30% of Africa's main roads are paved. Poor transport services lead to undue delays for passengers and goods and cause heavy wear and tear on vehicles. The extremely poor state of rail and road transport in much of sub-Saharan Africa acts as a severe brake on agricultural development as it impedes farmers' access to the market. Electric power generation is generally inadequate, serving only urban areas. Frequent interruptions of power supplies reduce industrial output and increase production costs. Breakdowns in telecommunications services lead to business being lost. Naturally, all this deters foreign investors.

Reliable electricity supplies at affordable prices are an important means to prevent environmental degradation. Wood, however, supplies approximately 80% of Africa's fuel requirements for cooking and heating. Population growth, well in excess of the natural increment of fuel wood, has already led to wide-spread deforestation and destruction of soil structures over large parts of Africa, especially around urban areas.

With few exceptions, Africa's manufacturing sectors face serious obstacles that prevent them from serving as pacemakers of development and from competing in overseas markets: lack of skilled technical and managerial personnel; lack of foreign exchange to import essential inputs and spares; obsolete plant and equipment; heavy infrastructural costs; narrow and slow-growing domestic and regional markets; and misguided government policies – especially wage, employment and foreign exchange rate policies. Wage rates tend to be higher in Africa than in other developing regions while productivity is lower.

Parastatals: Destined for Restructuring

As mentioned above, most African states, on gaining their independence, involved themselves directly in productive and infrastructural activities, usually by means of state-owned public enterprises (parastatals or state corporations), which are owned by the state.

There is little precise data on the size of the public sector in Africa. However, in the 1980s public enterprises accounted for as much as 33% of GDP in Egypt, 22% in Zambia, and 20% in Tanzania. In several countries, including Kenya, Mozambique, Nigeria and Cameroon, parastatals accounted for more than 10% of GDP. The share of parastatals in total employment was as high as 60% in Mozambique in the late 1980s, and they accounted for more than one-third of employment in many other countries. In the 1980s Ghana, Mozambique, Nigeria and Tanzania each operated more than 300 parastatal bodies.

State corporations usually operate at a loss, and these losses are generally covered by central government. African parastatals are no exception. Their often astronomical deficits account for much of the inability of many governments to balance their budgets. Many African countries are either privatising these bodies or giving them greater operating autonomy, or, in some cases, disbanding them entirely. Even though the number of parastatals remained fairly constant at around 3 000 during the period 1980–1986, many countries have reduced the number of public enterprises since then.

Privatisation implies that parastatals are sold to private sector buyers who have the resources to run them on a commercial basis (eg businesses). In some cases governments sell the majority of shares in the parastatals to private buyers, while retaining a minority of shares (though the entire shareholding may be sold). There are also examples of governments remaining the majority shareholders (when they do not wish to relinquish control) while selling a minority of the shares to one or more private buyers. In the period 1991–2000 roughly 2 300 privatizations were finalised of which only about 66 involved large parastatals. Countries that raised substantial sums (more than US$100 billion) from privatization include Cameroon, Côte d'Ivoire, Ethiopia, Ghana, Kenya, Mozambique, Nigeria, Senegal, South Africa, Tanzania, Uganda and Zambia.

State Budgets: A Propensity for Deficits and Inflation

The budgets of many African governments show large deficits because a growing population entails rising educational, health and other demands on the state, while government revenue cannot grow in a stagnating or declining economy. The International Monetary Fund (IMF) regards a budget deficit of not more than 3% of GDP as acceptable for developing countries under certain conditions. Expressed as a percentage of GNP, budget deficits in 2002 (excluding grants) averaged

3,8% in the case of sub-Saharan Africa and 1,2% for Northern Africa. In several countries the budget deficit (excluding grants) sometimes rose to over 10% of GDP, notably in Eritrea, Ethiopia, Malawi, Mozambique, Sierra Leone and Zimbabwe.

All too often governments try to bridge the gap between revenue and expenditure by borrowing from the central bank, which in practice amounts to printing money and is one of the factors causing inflation. To the extent that they borrow from the IMF in Washington, they increase their external debt and debt repayment obligations. Inflation – that is, continuously rising prices of goods and services – is a major problem in many African countries. While increases in the quantity of money in circulation were the principal cause of inflation, the devaluation of the CFA franc (the currency used by most francophone African countries) against the French franc in 1994 resulted in higher import costs in the CFA franc zone and more than doubled the rate of inflation in these countries. However, since then the increased earnings from exports (which became more competitive on the international markets) have stimulated their economies.

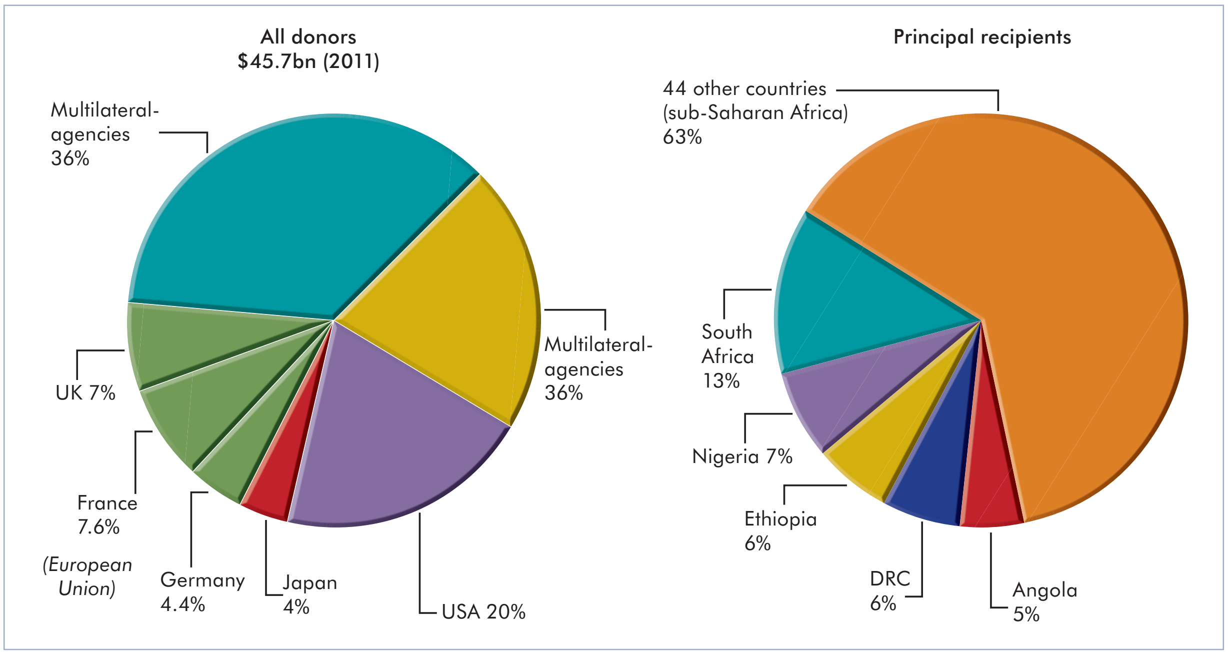
External Trade: Buying More, Earning Less

African countries in general have "open" economies that are heavily dependent on trade with the outside world. Primary products (agricultural and mining) account for about 80% of African countries' export revenues, about the same level as at the time of independence. About 70% of sub-Saharan Africa's exports go to the industrialised countries which, in turn, supply about 60% of the continent's imports. In 2001 the five Northern African countries accounted for 38%, Southern Africa (10 countries) for 31% and the rest of Africa (38 countries) for 31% of the continent's total export trade.

Africa faces serious problems with regard to its external trade: its terms of trade are worsening, that is, the prices of imported goods rise faster than the prices of Africa's export products. Taking the overall price of Africa's exports in 1987 as equal to 100%, the terms of trade stood at 91% in 1995. Since 1970 Africa's world market shares of coffee, cotton and cocoa have fallen considerably. Africa's share in total world trade averaged 4% during 1960–1988, but declined to 1,6% in 1993.

Notwithstanding the benefits of the third Lomé Convention (see Chapter 5), protectionism and restrictive agricultural practices, especially in the European Union and, to a lesser extent, the US, have resulted in an oversupply of some agricultural

Figure 27 Development Aid to Sub-Saharan Africa



Source: OECD

commodities, and thus dampened world-wide demand and weakened world prices. Tariff and non-tariff barriers to trade erected by the Western industrial counties have discouraged the import of processed agricultural products from Africa.

Only about 4% of Africa's total trade is with other African countries. The Southern African Customs Union (SACU) is exceptional in that 14% of its exports went to other African countries in 1996 (up from 4% in 1985). South Africa's imports and exports account for about 98% of Sacu's foreign trade. Sacu is by far the largest market in Africa (see also Chapter 5).

Mounting External Debt

External debt is a serious burden on African countries. Despite many attempts to reduce the debt burden, it remains a real impediment to economic growth, averaged around 75% of its GDP. While that ratio was as low as 16% for Botswana, it was as high as 427% for Mozambique, 234% for Congo Brazzaville and 198% for Tanzania. Debt service as a percentage of exports averaged about 15%, but also varied appreciably between countries – from 3% for Botswana and Swaziland to as high as 28% for Zambia. Foreign official creditors have written off billions of dollars owed to them. By the mid-1980s and continuing through the 1990s, about as much in debt-service payments was leaving Africa as foreign aid was entering. Africa spends much more on debt-servicing than on the provision of health services. Sub-Saharan Africa's debt is so burdensome because much of it represents debts incurred for non-productive ends, notably to finance recurrent budget deficits, imports of consumer goods, and funds corruptly placed into private foreign bank accounts. Even funds invested in productive ventures enhance the debt burden if productivity is too low to yield a net return.

Declining Development Aid

Development aid in the form of gifts of money or loans on favourable conditions as a means to promote economic development became fashionable only after World War II; before that it was practically unknown. Aid became a major weapon in the Cold War when the Soviet bloc and the Western nations used it in

Table 3 Development Aid to Africa (million US dollar)

	1994	1996	1998	2000	2008
Sub-Saharan Africa	19 438	16 519	14 504	13 397	45 000
Northern Africa	3 901	3 340	3 057	2 168	4 000
Total	23 339	19 860	17 562	15 565	49 000

Source *African Development Indicators 2003*, Washington DC, the World Bank.

an attempt to "buy" the loyalty and support of less-developed countries. The vast amounts of money, together with droves of Western and Communist aid personnel that flooded into Africa after independence, brought little benefit for the majority of Africans.

The foremost reason for the negative impact of aid was that it effectively destroyed the recipients' sense of economic reality and created the illusion that unlimited amounts of money were available for the asking. Inevitably, this led to serious waste and misallocation on schemes that bore no relevance to the needs of the newly emerging states, in particular the needs of the millions of peasants who form the backbone of African economies.

A decrease in country-to-country (bilateral) aid in recent years was to some extent compensated by increased aid from international agencies (multilateral aid), but on balance aid flowing to Africa from all sources shows a downward trend since 1992.

In a global context, developing countries in the sub-Saharan and Asian regions received approximately two-thirds of the aid donated by all donors in 2002. (Sub-Saharan and Northern Africa's share of global aid amounted to about 36%.) However, as the aid flowing to sub-Saharan Africa has to be divided among a large number of countries, it means that each country's share of the "aid cake" is comparatively small. For example, the aid allocations to Ethiopia and Mozambique – the largest recipients of aid in sub-Saharan Africa in 2002 (more than US$1 billion each) – amounted to 7.3% and 11.6% respectively of the total allocation for the region. Some sub-Saharan countries rely heavily on aid from bilateral and multilateral donors, as becomes clear when aid received is expressed as a percentage of Gross National Income. In 2001 this ratio for some countries was as follows: Sierra Leone 47.4%, Eritrea 41%, Mozambique 28%, Burundi 20%, Ethiopia 18% and Uganda 14.3%.

Dependence on Investment from Abroad

Investors generally have negative perceptions about Africa's prospects for stability and growth. Substantial new investments have been made largely in oil and minerals extraction. In the period 2010 more than half the foreign direct investment in Africa went to just ten countries: Ethopia (8%), Sudan (5%), Tanzania (5%), Kenya (3%) and Mozambique (15.9%). Net foreign direct investment (FDI) in sub-Saharan Africa as a whole increased from US$972 million in 1990 to US$7.8 billion in 2002. In 2003 FDI in Africa was 28% higher than in the previous year, having been boosted by rapidly growing investment in petroleum and gas extraction and rising commodity prices. Besides FDI, African stock exchanges, of which there are several, attract equity investment from abroad. Excluding South Africa's stock market, the total market capitalisation of sub-Saharan stock markets expanded from US$143 bn in 1990 to US$213 bn in 2003.

Outlook

For the foreseeable future Africa's prospects for economic development are at best modest. Moreover, there are no quick fixes and no simple blueprints. The principal considerations for this assessment are as follows:

- The prevailing poverty and rapid population growth lead to land degradation and deforestation and subsequently to food insecurity. The demand for food, however, is expected to treble over the next 30 years, and food shortages will intensify economic, social and political problems.

- Even on optimistic assumptions, the overwhelming dependence of African countries on the export of raw materials does not allow them to grow at a high rate because of adverse terms of trade and because the elasticity of international demand for raw materials is less than one – that is, demand for them increases at a lower rate than the growth of output in the industrialised world.
- The heavy dependence of the majority of African countries on foreign financial aid makes them vulnerable to the decreasing tendency of that aid. At the same time, conditions in most countries deter foreign direct investment.
- The development of human resources is retarded because the strained financial position of many African governments leads to declining spending on education, health and other social services. Beyond that, the ending of subsidies on basic foodstuffs and other necessities has a detrimental impact on the fast-growing urban populations, especially the very poor, and is apt to threaten stability.

There are, however, encouraging signs that Africa's downward trend may gradually be turning around:

- A new, pragmatic breed of political leader is emerging in sub-Saharan Africa, and ever more countries are developing their own brand of reform that includes better public management and good governance. In the past decade more than 40 states have either restored multiparty politics or held free elections for the first time.
- Most African governments now seek foreign business involvement and have begun to liberalise their economies. As a result, economies across Africa have started to grow, albeit from a low base. By 2005 Africa seemed set to improve on the annual GDP growth of 3% recorded from 1997 to 2001, with incomes per head also rising. This would mean a decisive reverse of the downward trend seen since the 1970s.
- It is universally expected that the emergence of an internationally accepted South Africa will have a profound and generally positive impact on Southern Africa and the entire continent. Indeed, from the outset South Africa's democratically elected government involved itself in initiatives to address the continent's vexing problems.

Ultimately, however, the destinies of African countries are in the hands of their people, whose determination to create a better future is crucial.

Editorial note: Dr Erich Leistner originally wrote this chapter for the first edition of this book. For the third edition, it has been shortened and revised.