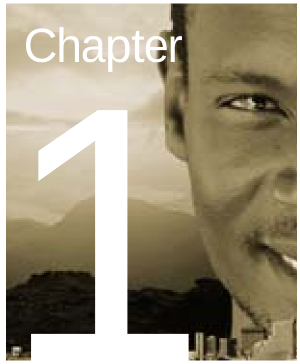


African economies at the start of the 21st century

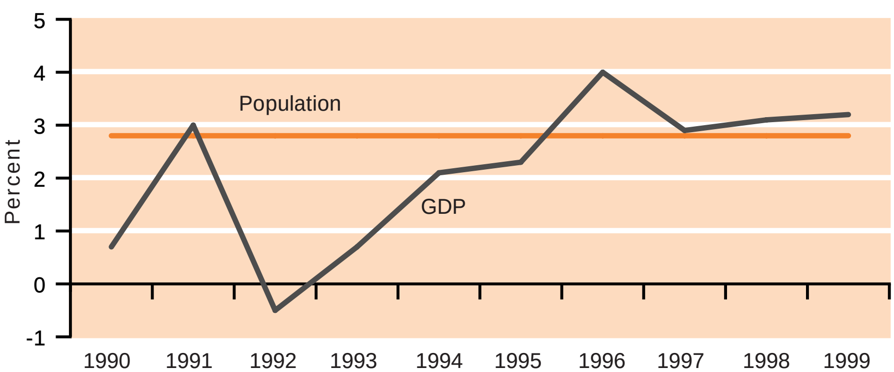
Africa made impressive economic progress in the 1990s. Several countries sustained double-digit growth. The climate became more conducive to domestic and foreign investment. Capital markets broadened and deepened. Demand for African manufactured goods increased in Europe and the United States. And in the second half of the 1990s real GDP growth in Africa averaged 4% a year, exceeding the continent's high population growth rate of 2.8% a year. Export growth nearly doubled to 8% a year. Real GDP grew by 3.2% in 1999, up from 3.1% in 1998.

The recent economic recovery is reason for renewed optimism. But the recovery's sustainability is fragile—for two reasons. First, strong domestic savings do not underpin it. Second, Africa's economies remain vulnerable to outside shocks. Indeed, economic growth for the decade averaged only 2.1% a year, less than population growth of 2.8% (figure 1.1) and considerably less than the 7% growth needed to reduce by half the proportion of Africans in poverty by 2015, the internationally agreed target.

"The recent economic recovery is a reason for renewed optimism. But the recovery's sustainability is fragile"

For example, economic growth slumped during the first half of 1999 due to poor performance by Africa's economic indicators. While bad weather hurt the agricultural sector in many parts of the region, deteriorating primary commodity prices, declining external resource flows, and external debt servicing further depressed economic activity. Although the weather did not improve, a strong recovery in commodity prices helped reverse the trend and create positive economic growth in the second half of the year.

Figure 1.1
Growth of GDP and population, 1990–99



Source: *Economic Commission for Africa.*

Despite substantial progress in reform—macroeconomic stabilization, deregulation, privatization, trade, and exchange rates—structural constraints and institutional weaknesses continue to inhibit a vigorous supply response. Most African economies still depend on primary products, exhibiting a high export concentration. Inadequate infrastructure increases the cost of doing business, making it difficult for Africa to fully tap its resources and compete effectively in the global economy. The external debt overhang severely limits the capacity for sustained policy reform. Drought, disease, civil conflict, and poor governance make the situation worse. Consequently, Africans' quality of life continued to erode in the 1990s.

Africa will reduce poverty only if it also pursues sustained economic growth, economic structural transformation, and integration of Africa's economies into the global economy, including integration into the regional and global production networks of transnational corporations. The small market size and fragmentation of African economies means that economic integration is an indispensable element for sustainable growth. Growth accompanied by structural transformation is essential to enhance economic productivity and reduce vulnerability to external shocks, sustaining economic growth.

Poverty and income inequality are widespread and severe . . .

In Sub-Saharan Africa 52% of people live on less than $1 a day (in 1995 dollars adjusted for purchasing power parity).[1] In 1998 the average monthly expenditure was only $14 a person by the rural poor and $27 by the urban poor. That leaves 59% of rural people below the poverty line and 43% of urban (see box 1.1 on urban poverty). Both rural and urban poverty are sensitive to income growth—a 1% increase in income leads to a 0.8 percentage point reduction in rural poverty and a 0.9 percentage point reduction in urban poverty, as measured by the head-count ratio. Rural poverty responds more to income growth than to changes in the distribution of income—but for urban poverty the reverse is true.

> *"Africa has the worst income distribution in the world. Africa's rural areas suffer from a highly unequal distribution of expenditure"*

With a Gini coefficient of 51% Africa has the worst income distribution in the world. Income inequality is lowest in Southeast Asia, which has a Gini coefficient of 32%. The richest 20% of the population account for 40% of the expenditure while the poorest 20% of the population account for 9% of the expenditure. Africa is at the other extreme. Expenditure distribution profiles for the rural and urban sectors in Sub-Saharan Africa are not much different than those for the continent.

Africa's rural areas suffer from a highly unequal distribution of expenditure (table 1.1). The mean share of the lowest 40% of the rural population is only 16% of total expenditure, a shortfall of 24 percentage points, while the mean share of the top 20% is about 48%, an excess of 28 points over perfect equality. The share of the top 20% in total expenditure is 8 times that of the poorest 20% of the rural population. This inequality manifests in an ex-

[1] Dollar figures are in current U.S. dollars unless otherwise specified. Billion is a thousand million.

Box 1.1

The forgotten face of poverty: the urban poor

Urban poverty in Sub-Saharan Africa is severe. In 1997, 43% of urban dwellers lived below the poverty line ($47 per month per person). The poverty gap ratio was 16%, the squared poverty gap ratio 8%. These results, from a survey of 21 Sub-Saharan countries, also revealed that Swaziland had the highest incidence of urban poverty, at 59%. Ethiopia, Guinea-Bissau, and Zambia were next, with 53% each. Mauritania and South Africa had the lowest incidence of urban poverty, at 30%.

Eleven countries had a Gini coefficient greater than the mean for the study sample:

- Swaziland, 62.4%.
- South Africa, 53.1%.
- Central African Republic, 51.3%.
- Kenya, 48.6%.
- Ethiopia, 48.3%.
- Zambia, 48.3%.
- Guinea-Bissau, 47.8%.
- Madagascar, 46.0%.
- Burkina Faso, 45.4%.
- Uganda, 45.0%.
- Gambia, 44.2%.

The study concludes that countries may succeed in reducing poverty without reducing inequality.

Nine countries had income shares less than the mean:

- Swaziland, 6.8%.
- South Africa, 9.8%.
- Central African Republic, 11.0%.
- Guinea-Bissau, 12.9%.
- Kenya, 13.8%.
- Burkina Faso, 13.9%.
- Madagascar, 14.1%.
- Zambia, 14.1%.
- Ethiopia, 14.3%.

And nine had shares equal to the mean: Ghana, Mauritania, Senegal, Nigeria, Côte d'Ivoire, Tanzania, Djibouti, Guinea, and Niger.

Source: *Economic Commission for Africa 1999e.*

penditure Gini coefficient of about 41.3%, which, when adjusted to reflect inequality in the distribution of income, increases to 48%.

Similarly, the mean share of the lowest 40% of the urban population is only 15% of total expenditure, a shortfall of 25 percentage points of total income. The mean share of the top 20% of the population is about 50%, an excess of 30 points. The share of the top 20% in total expenditure is nine times that of the poorest 20%. This inequality manifests in an expenditure Gini coefficient of about 43.6%, which, when adjusted to reflect inequality in the distribution of income, increases to 50%.

Table 1.1
Income distribution in rural and urban Africa by income quintile, 1990s (percent)

Sector	Lowest 20%	Second lowest 20%	Third lowest 20%	Fourth lowest 20%	Highest 20%	Gini coefficient
Rural	5.95	10.43	14.75	21.19	47.68	47.90
Urban	5.56	9.75	14.10	20.75	49.84	50.19

Source: *Calculations based on World Bank 1998b.*

Table 1.2
Distribution of African countries by real GDP growth, 1995–99 (number of countries)

Growth rate (percent)	1995	1996	1997	1998	1999
Negative	6	2	4	2	0
0–2.9	11	12	12	13	19
3–4.9	23	28	25	28	17
5–6.9	6	9	10	8	12
7 and above	7	2	2	2	5
Total	53	53	53	53	53

Source: *Economic Commission for Africa.*

. . . but near-universal growth reveals Africa's potential

"In a clear departure from the past, no country in Africa experienced negative GDP growth"

In a clear departure from the past, no African country experienced negative GDP growth in 1999, and only one posted growth of less than 1%. In that year 19 countries had growth rates between zero and 2.9%, another 17 were clustered between 3% and 4.9%, and 12 had growth rates between 5% and 6.9% (table 1.2). Equatorial Guinea and Mozambique recorded the highest growth rate: 10% (box 1.2). The number of countries with growth rates above the 7% required to reduce poverty by half by 2015 rose to five, up from two in 1998.

East and Southern Africa, which together account for 45% of the region's population and 37% of GDP, enjoyed faster growth in 1999 than in 1998 (table 1.3). North, West, and Central Africa, which account for 55% of the population and 63% of GDP, had slower growth.

Box 1.2

Mozambique's miracle?

Mozambique is a striking example of what sound policies can achieve. Until recently, it was one of the fastest growing economies in Africa, growing at an astonishing 12% in 1998 and 9% in 1999.

The country broke from Portuguese rule in 1975 into a highly regulated economy and survived a protracted civil war. In 1987 the government committed to privatization, and since then its programme has been one of Africa's most active, restructuring or privatizing more than 900 state enterprises. The banking system was partially privatized in the mid-1990s, exchange bureaux have been legalized, and measures have been taken to liberalize the current account of the balance of payments, reducing the spread between official and parallel (black market) exchange rates. Growth of money and quasi money has slowed from more than 70% (1992) to 17% (1998). Indeed, sound monetary policy lowered inflation—rampaging at more than 50% in 1988—to less than 2% in 1999.

The government is committed to reducing poverty and improving living standards. It has also become more transparent. Information on the tax system is widely available and, with some exceptions, fiscal management responsibilities are clearly defined. A new value-added tax was introduced in 1999, and revenue is already expected to reach the equivalent of 7.5% of GDP. The government prepares a five-year fiscal outlook, revised annually, and the newly created Administrative Tribunal issues a report after the close of each fiscal year.

But the devastating floods of February and March 2000 have set back these achievements. The forecast rate of growth for 2000 had to be revised from 7% to 3.8%. It is projected to reach 10% again in 2001 and to average about 6% through 2005. Inflation increased from less than 2% in 1999 to more than 16% in 2000, reflecting the aftermath of the floods.

Source: *IMF 2000a, b; World Bank 2000b, c.*

Table 1.3

Economic growth in Africa by region, 1998 and 1999

	1998			1999		
Region	Mean	Standard deviation	Median	Mean	Standard deviation	Median
North	4.4	2.1	4.5	3.6	1.8	2.6
West	3.6	1.4	4.5	3.3	1.8	4.5
Central	5.0	4.2	5.5	4.5	2.7	4.8
East	2.7	2.2	3.0	4.1	2.4	3.0
Southern	1.7	2.4	4.5	2.2	3.0	4.0
Africa	3.1	2.5	4.0	3.2	2.3	4.0

Note: *See annex 1 for details.*

Source: *Economic Commission for Africa.*

The number of countries with growth rates above the 7% required to reduce poverty by half by 2015 rose to five

The performance of the African economies based on different economic groups reveals an interesting pattern. The countries can be grouped in five categories:

- The five largest (G5) economies.
- Oil-exporting countries.
- Island economies.
- Least developed countries.
- Land-locked countries.

These groups are not mutually exclusive, and some countries fall in more than one category (see annex 2 for countries included in each group).

- *Big economies.* Growth in the G5 economies in 1999 was 10% lower than in 1998. The G5 economies account for 59% of Africa's GDP and 37% of the population. Performance increased marginally in South Africa (21% of Africa's GDP) and Algeria (12% of GDP). Growth declined in Egypt (11.2% of GDP), in Nigeria (8% of GDP), and most in Morocco (6% of GDP), depressing the overall growth rate of this group.
- *Oil exporters.* The 11 oil-exporting African countries account for 49% of GDP and 41% of the population. Their aggregate growth increased marginally from 3.6% in 1998 to 3.7% in 1999. The drastic decline in oil prices, mainly in the first half of 1999, and civil and political instability hurt this group.
- *Island economies.* The six island economies are small, contributing less than 2% of Africa's GDP and little more than 2% of the population. Their composite growth declined from 4.6% in 1998 to 4.0% in 1999. Mauritius, which accounts for 45% of the group's GDP, saw its growth rate slow from 6.4% in 1998 to 4.2% in 1999.
- *Least developed.* The 33 least developed African countries account for 17% of Africa's GDP and 47% of the population. They have been very dynamic in recent years, posting GDP growth rates well higher than the continental average. And in 1999 they grew 4.5%, up from 4.3% in 1998.
- *Land locked.* The 15 land-locked countries in Africa, with about 10% of Africa's GDP and 23% of the population, increased their growth rate from 4.2% in 1998 to 4.9% in 1999.

The sluggish economies are large. The fast-growing economies are disadvantaged—the small island economies, the least developed, and the land locked. Because the disadvantaged economies started from low GDP levels, a small addition to GDP tends to be magnified, explaining some of the high growth rates for this group (tables 1.4 and 1.5).

External trade losses outweigh gains

The dollar value of African exports increased 2.4% from 1998 to 1999 (table 1.6). The growth in export earnings from goods was due entirely to higher volumes, which increased nearly 6% in 1999 and more than made up for the 3.2% decrease in unit price.

Table 1.4
Growth rates of countries by economic group

Group	1998 Mean	1998 Standard deviation	1998 Median	1999 Mean	1999 Standard deviation	1999 Median
G5	3.1	2.3	3.8	2.8	1.9	1.5
Oil exporters	3.6	4.1	3.8	3.7	2.5	4.0
Island economies	4.6	2.4	3.0	4.0	1.2	2.9
Least developed	4.3	2.7	4.4	4.5	2.4	4.5
Land locked	4.2	2.0	5.0	4.9	2.6	5.0

Note: *See annex 2 for composition of economic groups.*
Source: *Economic Commission for Africa.*

Table 1.5
Population and income characteristics of African countries by economic group, 1999

Group	Number of countries	Percent of African population	Percent of African GDP	Per capita income (dollars)
G5	5	37.3	58.9	1,090
Oil exporters	11	40.9	49.4	833
Island economies	6	2.4	1.6	461
Least developed	33	47.0	17.0	250
Land locked	15	22.6	9.8	299

Note: *See annex 2 for composition of economic groups.*
Source: *Economic Commission for Africa.*

Table 1.6
Value, volume, and unit value of exports and imports—and terms of trade, 1996–99 (percent)

External trade	1996	1997	1998	1999
Exports				
Value	8.1	5.9	–14.5	2.4
Volume	5.2	10.1	3.3	5.6
Unit value	2.9	–4.3	–17.8	–3.2
Imports				
Value	8.4	7.7	–3.5	4.0
Volume	6.5	4.6	–5.2	1.4
Unit value	–1.9	–3.1	–1.7	2.6
Terms of trade	4.8	–1.2	–16.1	–5.8

Source: *Economic Commission for Africa.*

Imports also increased in value and volume. The 4% increase in value came from a higher volume of imports, which increased 1.4%, and higher prices. The increase in volume, although small, is gratifying as it reversed the drastic fall of the preceding year. It contributed to the growth of domestic supply through larger imports of consumer goods and higher capacity use through the provision of inputs for the industrial sector. In 1999 terms of trade declined nearly 6% due to a fall in the unit value of exports (3.2%) and an increase in the unit price of imports (2.6%).

Table 1.7

Balance of payments, 1996–99 (billions of dollars)

Item	1996	1997	1998	1999
Exports	108.6	115.1	98.4	100.8
Imports	99.2	106.8	103.1	107.2
Trade balance	9.4	8.3	–4.7	–6.4
Oil balance	21.8	15.8	9.8	12.5
Non-oil balance	–12.4	–7.5	–14.5	–18.9
Services (net, excluding factor incomes)	–10.7	–10.5	–11.2	–10.9
Balance on goods and services	–2.2	–15.9	–17.1	1.6
Current account balance	–6.6	–4.9	–18.1	–20.5
Total external financing	14.9	11.5	15.9	21.6
Non-debt-creating flows	7.0	11.3	10.1	13.2
External borrowing	7.9	0.2	5.8	8.4
Official creditors	10.4	1.6	6.9	6.7
Private creditors	–2.5	–1.2	–1.1	1.7
Changes in reserves[a]	–5.9	–5.2	2.2	–1.1

a. – indicates increase.

Source: *Economic Commission for Africa.*

"The dollar value of African exports increased 2.4%"

Export earnings from goods and services increased 2.4%, from $98 billion in 1998 to $101 billion in 1999 (table 1.7), mainly due to an increase in volume. The value of imports increased at the same time, up 4% from $103 billion to $107 billion due to volume and price increases. As a result of the combination of developments in commodity prices and export and import volumes, the trade deficit widened to $6.4 billion from $4.7 billion in 1998. In 1999 the trade surplus of the oil-exporting countries rose from $10 billion to $13 billion. At the other end are the non-oil-exporting countries, whose trade balance widened from $15 billion to $19 billion because of a rise in the prices of their imports, including oil prices, and the decline in the value of their exports, mainly primary commodities.

Africa's current account balance deteriorated further, from $18 billion in 1998 to $21 billion in 1999, a 17% increase, from lower export earnings and higher import values. While the trade deficit has been traditional for the non-oil-exporting countries, Africa's balance was positive due to the surplus of the oil-exporting countries. In 1998, however, the trade balance turned negative because of the decline in oil revenue following the drastic fall in oil prices in the world market. The perennial cause of the current account deficit? The service sector, which has a long history of massive imbalances. The deficit arises from payments for and receipts from such activities as transport, banking, and insurance.