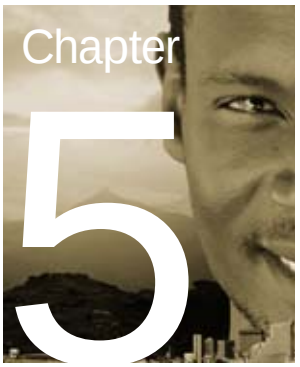


Structural transformation

The key to achieving sustainable growth and reducing the vulnerability of African economies to outside shocks is to transform the structure of Africa's economies. This will enable competitive industries to produce high value-added products that can compete in the global marketplace. But achieving these goals requires an investment rate of about 40% of GDP.

To elicit non-debt-creating flows, an integrated framework for development financing is indispensable. A large array of reinforcing measures should encompass debt relief, additional official development assistance, greater foreign direct investment, and more domestic savings. Integrating with the global economy is critical—in part through regional and global production networks of transnational corporations.

> *"An integrated framework for development financing is indispensable"*

An economy's structural transformation changes the composition of output and the contributions of each sector to GDP and employment over time. A recent summary of the "stylized facts" of structural change confirms that economies that rely on the primary sectors (agriculture and minerals) in production and employment graduate to a structure where manufacturing and service sectors dominate—and that such transformations follow a nonlinear pattern (Kongsamut, Rebelo, and Xie 1997). Initially, the employment and GDP shares of agriculture and services decrease while those of manufacturing increase. Then the share of manufacturing continues to increase and that of agriculture to decrease. Meanwhile, the share of the services sector starts to grow. These trends continue into later stages of development until the shares of manufacturing stabilize (box 5.1).

Over the past four decades the structural shift in African economies has been broadly consistent with the declining share of agriculture (table 5.1). But the nature and composition of this structural transformation depart from the general trend. The share of agriculture in GDP declined from 40% in the 1960s to 21% at the end of the century. But this decline of nearly 50% was not due to significant growth of the industrial sector in general or the manufacturing industries in particular. The share of industry increased marginally, from 26% to 30% of GDP during the intervening decades, while the share of manufacturing grew from 9% in the 1960s to 15% at the end of the century.

Service sector growth dwarfs agriculture and industry

Agricultural performance in 1999 was mixed. Bad weather halted North Africa's high growth rate for agriculture. But in much of West Africa good weather was instrumen-

tal in increasing agricultural output, although some countries suffered from too much rain, which caused flooding and damaged crops. Performance was subdued in Central Africa, due mainly to the civil unrest and political instability in the Great Lakes region and pest infestation in other areas. Output in much of East and Southern Africa declined

Box 5.1 ▶

Equatorial Guinea grows rapidly but does not reduce poverty

The fastest growing country in Africa, Equatorial Guinea enjoyed GDP growth of 76.1% in 1997. Although growth in the 1980s was negative (–1.87%), average real GDP growth for the 1990s was 15.2%, the highest on the continent. GNP per capita jumped from $390 in 1995 to $1,170 in 1999. But this stellar performance has not improved people's standard of living.

Between 1992 and 1996 offshore oil exploration created a boom that transformed the country's economy. Oil production increased from 2,500 barrels a day in 1992 to more than 120,000 in 1999 and an estimated 200,000 in 2000. ExxonMobil and Triton Energy will continue to invest heavily in oil and gas production for at least the next 5–10 years. In the past five years agriculture's share of GDP has decreased from 51.6% to 16% and services' share from 21.2% to 8.6%, while industry's share has grown from 27.3% to 75.3%. Unbalanced growth in one sector threatens the long-term sustainable pattern of an economy.

Despite the incredible growth in GDP, poverty remains high and social indicators have not improved:

- Life expectancy is about 50 years.
- The infant mortality rate is 109 per 1,000 live births.
- The literacy rate is 50.2%.
- The richest 5% of people control 80% of the income.
- Signs of Dutch disease are appearing as agriculture declines and private consumption and public spending increase.

Equatorial Guinea has a unique opportunity to grow sustainably while reducing poverty. Well-targeted interventions and responsible public investment can help. Although excessive spending, new debt, and a growing public deficit are unavoidable, the government needs to be more transparent and accountable, and it needs to distribute resources equitably. Enhanced transparency in and macroeconomic management of oil resources are prerequisites for further donor involvement.

Source: *Edjang 1999; EIU 2000.*

Table 5.1 ▼

Structural transformation of African economies, 1960–69 and 1990–98 (percent of GDP)

	Agriculture value added		Industry value added		Service value added	
Region	1960–69	1990–98	1960–69	1990–98	1960–69	1990–98
North Africa	39.8	18.9	23.9	29.3	36.3	51.8
Sub-Saharan Africa	45.2	23.9	21.2	25.1	33.6	49.1
Sub-Saharan Africa, excluding South Africa	51.4	24.5	20.7	24.8	27.9	50.7
Africa	40.1	20.8	25.8	29.5	34.1	49.7

Source: *Calculated from UNCTAD (various years) and World Bank (1998a).*

precipitously, a result of war, erratic and insufficient rainfall, and uncontrolled crop pests and diseases.

The industrial sector ended 1999 with a lower growth rate (2.8%) than it enjoyed in 1998 (3.8%), not surprising since the industrial sector in many African countries depends directly and indirectly on the agricultural sector. The direct dependence is through the availability of agricultural raw material for industrial processing. Textile and food industries, the predominant line of industrial activity in Africa, suffer when agriculture performs poorly (box 5.2).

"The industrial sector in many African countries depends directly and indirectly on the agricultural sector"

◀ Box 5.2

Food outlook grim in Sub-Saharan Africa

In East Africa aggregate cereal production was expected to decline in 1999 from 1998 due to drought, civil strife, or both. In Somalia the 1999 main season cereal output was estimated at nearly 136,000 tonnes. In Tanzania, following a drought in major producing areas earlier in the year and erratic, poorly distributed rains during the long rains season, the 1999 cereal crop was estimated at 3.8 million tonnes, 9% below 1998. In Uganda a prolonged drought affected 1999 main season crops, with some areas almost failing altogether. In Kenya significant cereal output reductions were forecast in main growing areas due to drought and pest infestation. In Ethiopia, in addition to near-total failure of the secondary belg season crops due to drought, erratic rains and recent flooding have reduced potential yields of the 1999 main meher season cereal crops. In Eritrea, despite the generally favourable outlook for the 1999 main season cereals, thousands of farmers displaced by the war with neighbouring Ethiopia were unable to grow crops. In Sudan, despite some flooding and local droughts, prospects for main season crops were favourable. In Rwanda and Burundi, in addition to dry weather that affected food production in some areas, escalating violence in rural Burundi caused large population displacement and suspension of all humanitarian assistance, leading to grim food supply prospects.

As a result of the anticipated decline in the region's aggregate 1999 cereal production, imports in 1999/2000 were expected to increase substantially. In Kenya, Somalia, Sudan, and Tanzania import requirements for 1999/2000 were estimated at 2.7 million tonnes, of which food aid requirements were estimated at 284,000 tonnes.

Another below-average crop in South Africa, the largest producer in the region, dragged down the yield for all of Southern Africa. By contrast, in Zimbabwe wheat production was forecast at 320,000 tonnes, substantially above the 1998 level. In Zambia preliminary estimates pointed to a bumper crop of 113,000 tonnes. In aggregate the regional wheat output was forecast at 2 million tonnes, 5% above the 1998 level but well below the average for the five years before.

The region's 1999 coarse grain production was estimated at 15.3 million tonnes, an increase of 3% over 1998 but below average. Favourable rains at the beginning of the season encouraged increased plantings, but these rains became excessive and hurt yields, as did prolonged dry spells in some areas. In South Africa, the region's largest producer, maize output declined 8% from 1998 (a below-average level) to 7.5 million tonnes in 1999. Production of maize also decreased (by 15%) in Angola due to the ongoing civil conflict and in spite of

(box continues on next page)

Box 5.2 (continued) ▶
Food outlook grim in Sub-Saharan Africa

favourable growing conditions. In Swaziland maize output declined by 18% from last year but remained around average. Although output increased in Botswana, Lesotho, Namibia, Zambia, and Zimbabwe, it remained well below average. There were record crops in Malawi and Mozambique, resulting in an exportable surplus in both countries.

With the exception of Angola the overall food supply situation is stable, reflecting a relatively strong commercial import capacity. The aggregate cereal import requirement for the marketing year 1999/2000 (May to April) was estimated at 5.3 million tonnes. With commercial imports expected to reach 5 million tonnes, food aid requirements amounted to 300,000 tonnes.

In West Africa generally satisfactory harvests led to the prediction that food supply would be stable during the 1999/2000 marketing year, with the exception of Guinea-Bissau, Liberia, and Sierra Leone. In some local areas of Burkina Faso, Chad, Mauritania, Niger, and Senegal people were at risk of food shortages because of flooding. In other areas two successive good harvests enabled farmers to replenish their grain stocks. In 1999 low cereal prices in local markets helped replenish national grain reserves. Deficits in some areas could be covered by transfers from surplus areas. Exportable surpluses were also available, notably in Mali and Niger.

Imports of wheat and rice remained necessary, but those of coarse grains were limited. For ongoing food aid programmes donors were urged to purchase (including through triangular transactions) coarse grains locally. The aggregate cereal import requirement in the 1999/2000 marketing year (November to October) of the nine Sahelian countries was estimated at about 1.9 million tonnes.

For the coastal countries, which have a January to December marketing year, the aggregate 1999 cereal import requirement was estimated at 4.1 million tonnes. Commercial imports were estimated at 3.9 million tonnes, while food aid needs were estimated at 200,000 tonnes. Food aid pledges as of late November 1999 amounted to 260,000 tonnes.

In Central Africa crop prospects were generally favourable in Central African Republic and Cameroon. Civil strife in the Republic of Congo and the Democratic Republic of Congo hampered agricultural and marketing activities. The 1999 cereal import requirement was almost 800,000 tonnes. Food aid pledges as of late November 1999 amounted to about 20,000 tonnes to meet an estimated food aid requirement of 31,000 tonnes (see table).

Cereal import and food aid requirements in Sub-Saharan Africa by region (thousand tonnes)

		1998/99 or 1999		
	1998 production	Cereal import requirements	Anticipated commercial imports	Food aid requirements
East Africa	22,939	3,507	2,448	1,059
Southern Africa	18,633	5,554	5,107	447
West Africa	37,215	6,203	5,775	428
Central Africa	3,104	796	765	31
Total	81,891	16,060	14,095	1,965

Source: *FAO 1999.*

Agriculture's indirect effect on industry is through the availability of foreign exchange for the import of inputs as well as new investment. A second channel is through domestic demand: in countries that depend on agriculture, poor sector performance means that revenue decreases because of declining demand from the vast rural population.

Critical to the development of the African economies, industrial development is constrained by both external and domestic environments. In mineral-rich countries industry was hurt by the decline in the commodity prices of the countries' exports, which constrained import of raw materials, spare parts, and new machinery for investment. The reduced income of the agricultural communities, abridged domestic demand economy-wide, competition from cheap imports—all these drastically reduced the performance of the industrial sector.

> *Industrial development is constrained by both external and domestic environments*

The service sector continued to enjoy dynamic growth, posting a 4% increase in 1999, up from 3% in 1998. Although all the service subsectors are increasing their growth rates, financial and communications services in particular are enjoying unprecedented growth. The growth of finance, dominated by commercial banks, is attributable to deposit mobilization and to import trade financing, an activity that has increased since trade liberalization.

Sectoral dynamism boosts resource-based industrialization

Data from *World Development Indicators 1998* (World Bank 1998b) were used to compose four panel data sets with 38 countries for 1960–96: 26 Sub-Saharan countries, 4 North African countries, 5 successful African performers, and 3 Southeast Asian countries. To examine the structural transformation in Africa, the five good performers (the G5: Botswana, Mauritius, Morocco, South Africa, and Tunisia) and North Africa are each compared with three Southeast Asian countries—Malaysia, Indonesia, and Thailand. These three Southeast Asian countries are chosen because they achieved resource-based industrialization and thus provide a useful benchmark for many resource-rich African economies (table 5.2).

In Malaysia, Indonesia, and Thailand the agricultural share declined more than 5 percentage points in every decade while the industrial share increased almost 5 points. Moreover, these countries maintained average industrial growth of 9%, enabling them to pursue resource-based industrialization through incentive-driven dynamic comparative advantage.

By contrast there is no evidence of sectoral dynamism in the five successful African economies (G5), whose average 1998 income was similar to that of Malaysia, Indonesia, and Thailand (box 5.3). So these and other African economies have not been able to benefit from the positive effects of sectoral dynamism on productivity growth and economic growth.

Table 5.2 ▶
Sectoral dynamism

Group or region	Real per capita GDP	Square of real per capita GDP	Constant	Adjusted R^2
G5	–0.357	0.093	–1.17	
	(–0.21)	(0.78)	(–0.20)	
North Africa	1.838	–0.072	–8.467*	
	(2.12)	(–1.19)	(–2.79)	0.55
Malaysia,				
Indonesia,	2.929*	–0.181*	–10.98*	
and Thailand	(3.07)	(–2.53)	(–3.49)	0.61

** Significant at 1%.*

Note: *Numbers in parentheses represent t-statistics. This table reports on the results of pooled regression of the ratio of industrial output to agricultural output (the share of industry in real output relative to that of agriculture) on the log of real per capita GDP and the log of real per capita GDP squared.*

Source: *Cho 2000.*

Box 5.3 ▶
Progress in the G5, G14, G18

The five good performers in Africa (G5)—Botswana, Mauritius, Morocco, South Africa, and Tunisia—have demonstrated the ability to sustain reforms and achieve structural diversification, thus cushioning themselves against possible external shocks. The G5 countries show strong positive trends in core infrastructure, high and improving educational attainment, international competitiveness, and robust financial markets.

Fourteen potentially emerging Sub-Saharan countries (G14) show the prospect of a sustainable take-off. They made progress in removing macroeconomic imbalances and relative price distortions, including inflation, budget deficits, black market foreign exchange premiums, and real exchange rate misalignment. Compared with other Sub-Saharan countries, G14 countries exhibit a potential for financial sector development with less distortion in financial systems. The G14 also show greater political stability, which could contribute to the implementation of sounder policies over the projection period. Half of these potentially emerging countries belong to the African Financial Community (CFA) zone: Benin, Burkina Faso, Côte d'Ivoire, Gabon, Mali, Senegal, and Togo. The others are Ghana, Ethiopia, Kenya, Mauritania, Mozambique, Uganda, and Zimbabwe.

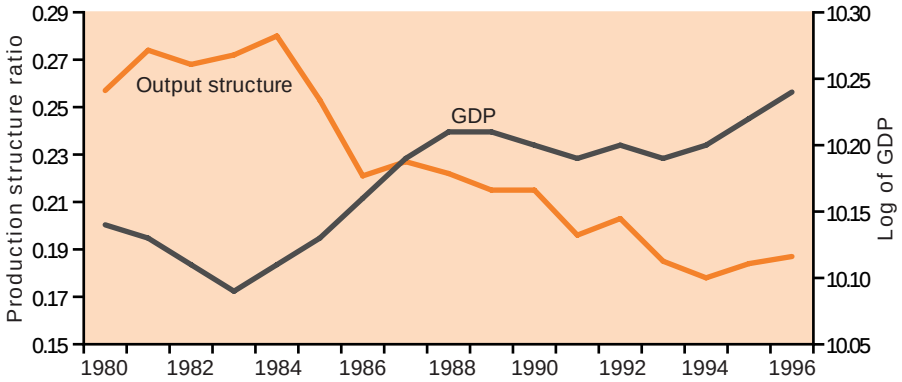
The 18 other Sub-Saharan countries (G18) do not meet the criteria for sustained improvement in economic performance. In addition to the above-mentioned differences with the G14, the G18 have significantly lower investment, less appropriate macroeconomic policies, and greater structural imbalances (related to trade and finance).

Source: *Economic Commission for Africa.*

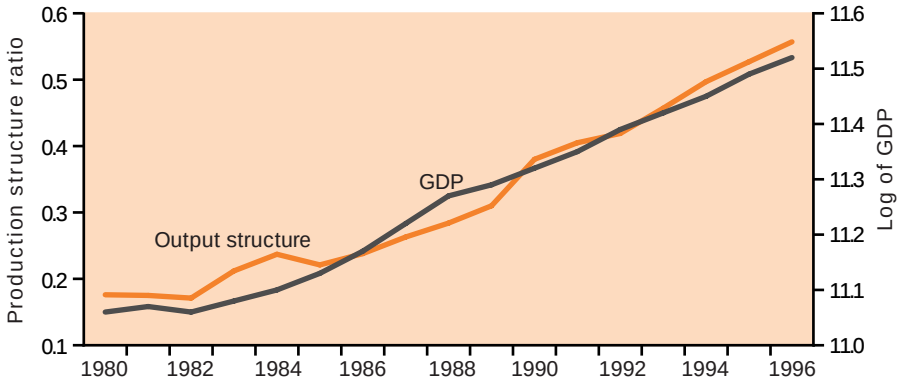
> *"For G14 and G18 countries the industrial sector's average growth rate was about a third of that in Malaysia, Indonesia, and Thailand"*

Nor has Sub-Saharan Africa—both G14 and G18 countries—enjoyed sectoral dynamism, though there have been modest structural changes (the share of agriculture has declined slightly since the 1960s). The output share of both agriculture and industry, however, has hardly changed during the period of economic stagnation since 1974. The industrial sector's av-

Sub-Saharan economies



Malaysia, Indonesia, and Thailand



Source: *UNAIDS 1999.*

◀ Figure 5.1
Evolution of output and production structure and GDP for Sub-Saharan Africa and Malaysia, Indonesia, and Thailand, 1980–96

erage growth rate was about a third of that in Malaysia, Indonesia, and Thailand. Indeed, it was either stagnant (as in the G14) or declining (as in the G18).

When labour force employed in the industrial sector is taken into account, the average growth rate of output per worker in Malaysia, Indonesia, and Thailand was about 3% a year, while that of Sub-Saharan Africa was negative. In the 1980s the cumulative rate for 10 years was 29% in Malaysia, Indonesia, and Thailand and 5.6% in Sub-Saharan Africa.

> *"The average growth rate of output per worker in Sub-Saharan Africa was negative"*

The evolution of the ratio of industrial to agricultural sector output and GDP during 1980–96 confirms the dynamic interaction between structural changes and sustained growth in Malaysia, Indonesia, and Thailand (figure 5.1). And through improvements in productivity growth this transformation substantially contributed to sustainable growth in these Southeast Asian economies. But this was not the case in Africa (except for the G5).

Human capital enhances productivity growth

The share of labour in agriculture declined in the G5 and in North Africa during 1961–90 (table 5.3). Moreover, the declines were deeper in 1980–90 than before. The growth of the labour share in non-agricultural sectors shows significant differences among the groups. In Sub-Saharan Africa and the G5 countries the growth rate declined at a slower rate in the 1980s than earlier, while it increased in North Africa and Malaysia, Indonesia, and Thailand, reflecting continual labour absorption and employment creation. Indeed, non-agricultural and manufacturing employment increased 1.5–2 times as fast as the aggregate working population in Malaysia, Indonesia, and Thailand. The resource-based industrialization in these three Southeast Asian countries has greatly benefited from this dynamism, especially from the labour reallocations and productivity gains.

In light of these trends in labour growth, this chapter examines the impact of labour movement on factor productivity. The discussion focuses on the effect of labour reallocation from agricultural to non-agricultural sectors because this is shown to induce the most

Table 5.3 ▶
Growth of labour share in agricultural and non-agricultural sectors, 1961–90 (percent)

Sector	1961–90	1961–79	1980–90
Agriculture			
Sub-Saharan Africa[a]	–0.69	–0.66	–0.75
G5	–2.67	–2.28	–3.35
North Africa	–1.85	–1.33	–2.73
Malaysia, Indonesia, and Thailand	–1.55	–1.40	–1.81
Non-agricultural			
Sub-Saharan Africa[a]	2.31	2.68	> 1.68
G5	1.37	1.47	> 1.21
North Africa	1.83	1.63	< 2.18
Malaysia, Indonesia, and Thailand	2.31	2.49	< 2.61

a. Comprises 26 countries for which data are available; none of the G5 is included.
***Source**: Cho 2000.*

Table 5.4 ▼
Sources of factor productivity growth in the G5, annual averages, various years (percentage points)

Country	Period	GDP growth (percent)	Total factor productivity growth	Human capital contribution	Labour reallocation contribution
Botswana	1970–96	10.1	3.4	1.0	2.0
Kenya	1961–79	6.9	2.4	1.1	0.6
Mauritius	1980–96	5.5	2.8	0.5	0.2
South Africa	1960–74	5.1	0.8	0.5	0.5
Tunisia	1970–81	7.0	1.1	1.4	0.2

***Source**: Berthelemy and Soderling 1999.*

Region, group, or country	1961–90	1961–79	1980–90
Sub-Saharan Africa[a]	0.71	0.82	0.49
G5	0.46	0.49	0.40
North Africa	0.63	0.53	0.76
Botswana	2.63	2.98	2.04
Malaysia, Indonesia, and Thailand	15.42	12.42	20.62
Korea, Rep.	25.28	19.68	34.96

a. Comprises 26 countries for which data are available; none of the G5 is included.

Source: *Cho 2000.*

◀ Table 5.5
The effect of labour reallocation on factor productivity growth, annual averages, 1961–90 (percent)

dominant productivity gains among all factor movements, including reallocation of capital (Berthelemy and Soderling 1999).

The growth of total factor productivity in the selected African economies during their high growth period shows that human capital accumulation was critical. This is partly explained by extremely low initial levels of human capital accumulation in Sub-Saharan countries. Human capital contributed significantly to total factor productivity growth (table 5.4). Reallocation of labour from agriculture to the (more productive) non-agricultural sectors also has contributed significantly to the growth of total factor productivity. In Botswana reallocation of labour has contributed more to productivity growth by inducing productivity gains of 2.6 percentage points on average in 1961–90 (table 5.5). The modest effect of labour reallocation in Mauritius could be attributed to the dominance of sugar production until the 1970s.

> *"Human capital contributed significantly to total factor productivity growth"*

There was little evidence of labour reallocation from agricultural to non-agricultural sectors in the 26 Sub-Saharan countries, and these economies exhibited no significant productivity growth. Moreover, productivity gains dropped sharply in the 1980s (see table 5.3). Unexpectedly, neither North Africa nor the G5 countries enjoyed significant productivity growth, despite the relatively high rate of labour growth in their non-agricultural sectors. Presumably this was due mainly to the small increase of high value-added outputs in non-agricultural sectors and less to the migration of non-skilled labour from agricultural to non-agricultural sectors in these countries.

In contrast Malaysia, Indonesia, and Thailand enjoyed enormous productivity growth over the three decades. And they were able to double total factor productivity gains in the 1980s with the large increase in high value-added outputs and skilled labour in their non-agricultural sectors.

Can Africa achieve per capita growth of 4.4% a year?

Malaysia, Indonesia, and Thailand provide a useful benchmark for structural transformation. They reached a turning point for industry's relative share of GDP at a

real per capita GDP of $3,262. This level of income can thus be used as a benchmark to determine whether and when African economies might achieve a relatively mature sectoral structure—in terms of steady-state sectoral dynamism. Sub-Saharan economies (especially the G14) can reach this level by 2025 if they attain and sustain annual per capita growth of 4.4%. That growth would also enable them to halve the share of people in poverty by 2015. With a dynamic virtuous circle of growth, the G14 could attain structural maturity with growth of 3.9% a year (and raise average income to $2,900 by 2025).

Table 5.6 ▼

Shares of sectoral output and growth rate, annual averages, 1960–96 (percent)

Sector	1960–73	1974–80	1981–90	1991–96	1974–96
Agriculture					
Contribution to GDP					
Malaysia, Indonesia, and Thailand					
G14	37.7	34.7	33.8	32.7	
Sub-Saharan Africa[a]	41.9	37.6	37.8	37.6	
Annual growth rate					
Malaysia, Indonesia, and Thailand		3.9	3.7	2.9	3.59 (3.60)
G14		2.8	2.5	3.2	2.81 (–0.57)
Sub-Saharan Africa[a]		3.3	2.4	3.2	2.89 (0.44)
Industry					
Contribution to GDP					
Malaysia, Indonesia, and Thailand	21.4	32.6	35.6	40.9	
G14	21.4	23.8	21.4	21.9	
Sub-Saharan Africa[a]	20.7	22.6	23.6	25.0	
Annual growth rate					
Malaysia, Indonesia, and Thailand		8.6	8.5	10.5	9.05 (2.70)
G14		3.1	2.7	3.5	3.06 (–0.55)
Sub-Saharan Africa[a]		4.9	3.3	2.0	3.45
Services					
Contribution to GDP					
Malaysia, Indonesia, and Thailand	42.5	40.8	44.7	44.4	
G14	40.6	41.5	44.7	45.3	
Sub-Saharan Africa[a]	37.3	39.8	39.1	37.3	
Annual growth rate					
Malaysia, Indonesia, and Thailand		8.9	6.9	7.8	7.76
G14		5.0	3.3	4.4	4.14
Sub-Saharan Africa[a]		4.4	2.6	0.4	2.59

Note: *Numbers in parentheses are average annual sectoral output growth rates per worker during 1980–96.*

a. Excludes G5 and G14 countries.

Source: *Cho 2000.*

Sustainable growth is balanced growth

To account for the strong sectoral interdependence between agriculture and industry, balanced sectoral growth is recommended as a strategy for sustainable growth in African economies. In other words, it would be more effective and efficient to balance policies to include all sectors—so that economy-wide growth can gain the maximum from the virtuous cycle of growth, including the positive externalities of sectoral growth. This balanced growth strategy is supported by the experience of resource-based industrialization in Malaysia, Indonesia, and Thailand, accompanied by sustained growth in agriculture. The average annual growth rate of agriculture (in output per worker) is similar to that of the industrial sector in these economies (table 5.6).

The service sector in Africa appears to have reached a saturation point: the ratio of service sector output to total products in Africa is similar to that in the advanced economies.

Sub-Saharan economies need growth of 4.2% a year in output per worker in agriculture to balance sectoral growth (and catch up with Malaysia, Indonesia, and Thailand). That would require an incremental investment rate of 29% (about 17% without considering population growth) to be added to current investment for Sub-Saharan economies.

To catch up with Malaysia, Indonesia, and Thailand in industry, average growth in output per worker needs to be 3% a year. An incremental investment rate of 25% should be added to current investment to achieve resource-based industrialization. So for Sub-Saharan economies to reach the combined goal of balanced sectoral growth and resource-based industrialization, an aggregate incremental investment rate of 18% of GDP should be added to the current investment rate (for the G14 the required investment rate is 39% of GDP). This rate is similar to that required to achieve other development goals (table 5.7).

"Balanced sectoral growth is recommended as a strategy for sustainable growth in African economies"

Closing the savings gap will promote investment and growth

Malaysia, Indonesia, and Thailand have steadily increased investment while Africa has decreased it (except for a modest recovery in the G14 and G18 in the 1990s). From almost

◀ Table 5.7
Required growth and investment to achieve sectoral growth and resource-based industrialization

Goal	Required growth (percent)	Required investment (percent of GDP)
Halve poverty	4.5 (15 years)	44 (15 years)
	4.0 (17 years)	40 (17 years)
Maximize growth	3.9	44
Achieve structural maturity by 2025	4.5	40–44
Balance sectoral growth and industrialization	4.1 agriculture 3.0 industry	39 (aggregate)

Note: *Required growth is growth rate of per capita GDP a year.*
Source: *Cho 2000.*

Domestic savings in all groups of African economies declined

similar levels in the 1970s, the gap between Malaysia, Indonesia, and Thailand and country groups in Africa in the 1990s reached more than 10% (table 5.8).

Similar to investment, domestic savings in all groups of African economies declined (except in the G5 in the 1980s and the G14 in the 1990s), while that of Malaysia, Indonesia, and Thailand showed a steady upward trend. The problem is not only that savings have declined in African economies, but also that they have declined more for poorer performing groups. In the 1970s, 1980s, and 1990s domestic savings decreased by 4% of GDP in the G5, 19% in the G14, and 44% in the G18.

The gap between savings and investment has narrowed only in the relatively high performing economies of North Africa and the G5. And in Sub-Saharan Africa, including the G14, a gap of more than 10% has remained constant across periods, underscoring the serious development financing challenges in these countries.

The G14 countries confront a residual development finance gap of 14–19% of GDP each year—with the average domestic savings rate of 11% and official development assis-

Table 5.8 ▼
Domestic investment and savings, 1974–96 (percent of GDP)

Savings and investment	1974–80	1981–90	1991–96 (1994–96)
Domestic investment			
Malaysia, Indonesia, and Thailand	25.9	29.7	36.3 (37.6)
North Africa	32.2	28.7	23.9 (23.0)
G5	28.1	25.3	23.9 (22.5) 32.6[b]
G14	21.7	18.2	19.8 (20.7) 20.5[b]
Sub-Saharan Africa[a]	19.8	16.2	13.7 (12.8) 14.2[b]
Domestic savings			
Malaysia, Indonesia, and Thailand	28.2	30.3	35.0 (35.8)
North Africa	23.0	22.1	20.3 (19.5)
G5	25.7	27.6	24.1 (23.9)
G14	11.4	7.6	9.2 (11.1)
Sub-Saharan Africa[a]	10.3	6.9	5.7 (6.6)
Gap between savings and investment			
Malaysia, Indonesia, and Thailand	2.3	0.7	–1.4 (–1.8)
North Africa	–9.2	–6.6	–3.6 (–3.5)
G5	–2.4	2.4	0.2 (1.4)
G14	–10.3	–10.6	–10.6 (–9.4)
Sub-Saharan Africa[a]	–9.5	–9.3	–8.0 (–13.7)

Note: *Investment in Sub-Saharan Africa excludes the Republic of Congo and Equatorial Guinea; investment in G14 excludes Mauritania. Savings in Sub-Saharan Africa exclude Gabon and Mauritania.*

a. Comprises 20 Sub-Saharan countries for which data are available; none of the G5 or G14 is included.

b. Domestic investment is forecast for 15 years (estimated by Guillaumont, Guillaumont, and Varoudakis 1999).

Source: *Cho 2000.*

tance flows of 14% of GDP—to attain the development goals. The residual gap for all of Sub-Saharan Africa (excluding the G5) is similar to that of the G14, with savings rates of 14% and official development assistance flows of 12%. To the extent that official development assistance has a downward trend, the G18, which has the highest aid dependency ratio, is likely to face the severest financing challenge.

Africa's domestic savings are thus far too low to sustain required investment and growth at the levels needed to substantially reduce poverty, especially given the high population growth rate. The paucity of savings in Africa is due primarily to low incomes and the preponderance of subsistence activities. Most empirical findings suggest that the most important determinant of real domestic and private savings is real income. In Africa, particularly in the least developed countries, extremely low per capita incomes ($335 in 1990 and $690 in 1999) do not promote savings. For an economy under or around subsistence, any extra income earned tends to go to consumption rather than savings.

"About 70% of FDI in Africa in 1999 was concentrated in Angola, Egypt, Morocco, Nigeria, and South Africa"

The right environment can foster foreign direct investment

Foreign direct investment (FDI) flows to Africa rose to $10 billion in 1999 from $8 billion in 1998, in line with faster economic growth. But investments by transnational corporations in Africa are still only 1.3% of global FDI flows and 5% of the FDI to all developing countries. About 70% of FDI in Africa in 1999 was concentrated in five countries—Angola, Egypt, Morocco, Nigeria, and South Africa (box 5.4).

Total external resource flows into Africa increased from $16 billion in 1998 to $22 billion in 1999. Resources mobilized through borrowing amounted to $8.4 billion, an increase of 45% from 1998. With this increment the total volume of debt amounted to $359 billion in 1999, resulting in a debt to GDP ratio of 65%. Debt service increased from $35.7 billion

◀ Box 5.4
Foreign direct investment reaches a record high—but not in Africa

Foreign direct investment (FDI) rose to a record $644 billion worldwide in 1998, 39% higher than its 1997 level of $464 billion. Of this record amount $166 billion (26%) went to developing countries.

But FDI to Africa declined from $9.4 billion in 1997 to $8.3 billion in 1998. Africa's share also decreased—from 2.0% to 1.3% of global FDI. Relative to flows targeting developing countries, Africa's share dropped from 5.4% in 1997 to 5.0% in 1998.

Africa's regional and national FDI flows are highly uneven. In 1998, 32% ($2.7 billion) of Africa's FDI went to North Africa. Of the seven North African countries that received FDI, Algeria, Egypt, and Tunisia received the most, boasting 84% of North Africa's FDI and 27% of Africa's. Egypt alone accounted for $1.1 billion, or 13%, of African FDI and 41% of regional.

West Africa ranks second in FDI flows to Africa—in 1998 this region attracted $2.2 billion, or 26% of Africa's FDI. Nigeria collected most of this—$1.5 billion in 1998, or 18% of Africa's FDI and 68% of regional.

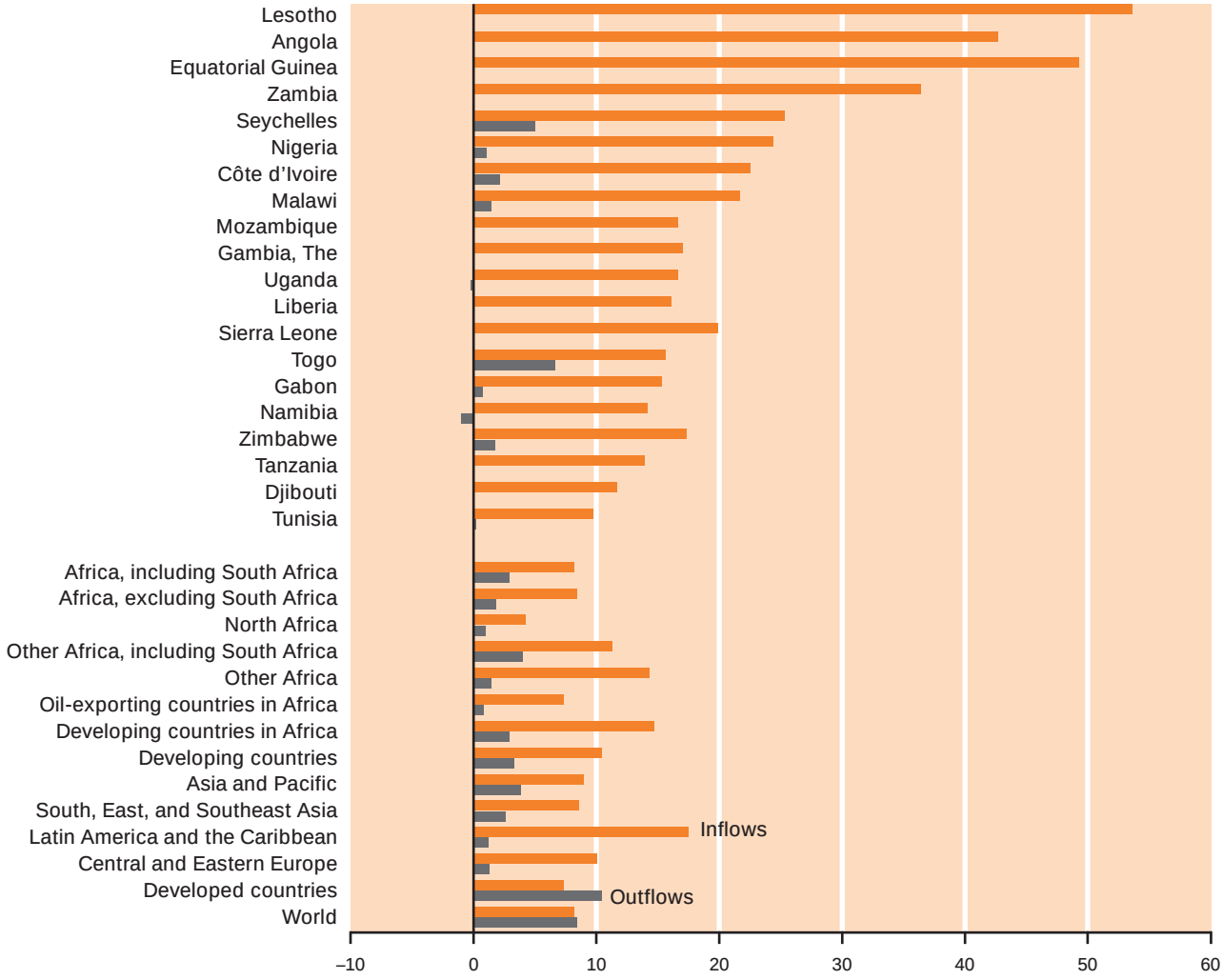
Source: *UNCTAD 2000.*

Table 5.9 ▶
Debt and debt service, 1996–99

Category	1997	1998	1999
External debt (billions of dollars)	344	351	359
As a percentage of goods and services	222.1	282.2	273.4
As a percentage of GDP	66.4	65.7	65.2
Debt service (billions of dollars)	33.0	35.7	39.4
As a percentage of exports of goods and services	21.3	28.7	30.0

Source: *Economic Commission for Africa based on country data.*

Figure 5.2 ▼
Foreign direct investment flows as a percentage of gross fixed capital formation, top 20 countries, 1996–98 (percent)



Source: *UNCTAD 2000.*

in 1998 to $39.4 billion in 1999, and the ratio of debt service to exports increased to 30%. This additional outlay, however, did not reduce the total volume of debt but covered only the annual requirements (table 5.9 and figure 5.2).

To attract more FDI, Africa should focus on establishing a supportive macroeconomic and financial environment that includes enforcement of contracts, respect for the law, and the appropriate legal and regulatory frameworks. Investors' interests and perception of risk need special attention. Thus efforts should focus on providing efficient infrastructure facilities (economic, social, and civil). In addition, effort should go into creating opportunities for joint ventures between FDI and local enterprises and into collaboration with development partners to establish a strong information mechanism for potential partners and African countries.

To attract more FDI, Africa should focus on establishing a supportive macroeconomic and financial environment