CHAPTER – V

SUB – SAHARAN AFRICA

Background :

This chapter examines the experiences of Sub-Saharan Africa with the structural adjustment programme, its prevailing economic conditions prior to the programme and its performance on some major macroeconomic indicators after the programme. This is the poorest region in the World consisting of 35 countries. While these countries were ruled over by the colonial powers of Europe largely England and France, they became politically independent in the second half of the 20^{th} century after 1950. After 1975, their economic situation began to deteriorate due to steep increase in the oil price, unfavourable terms of trade due to severe fall in the prices of primary products and in some cases due to social strife and civil war.

When the IMF started providing financial support to member countries adversely affected by oil price rise by offering new lines of credit, the Sub-Saharan African countries began to approach it for the loans. The IMF began to give loan under the economic stabilization programme from 1980 and these countries began to adopt new economic policies – essentially fiscal and monetary policies – to correct the balance of payments deficits and to reduce the inflation rate.

These countries had done quite well economically between 1960 to 1980 – they could obtain, on an average 4% to 5% rate of growth of GNP which was higher then their population growth. They could also fare well by improving human development index. They could reduce the infant mortality rate and improve the enrollment for the primary education.

However, two things happened simultaneously. These countries adopted the economic stabilization programme of the IMF and the structural adjustment programme of the World Bank, and their economic situation went on deteriorating so badly that their per capita income in the year 2000 was at the same low level where it was in 1980. This region thus lost two decades without making any economic progress.

With the adoption of the economic stabilization programme, these countries began to use the demand management policies, and their rate of economic development became extremely slow. These economies had to bring about correction in total spending that resulted into contraction of consumption spending, investment spending and government spending on education and health.

The external environment had also turned unfavourable by the beginning of 1980s. The growth rate of the world trade became negative in 1982 and the US economy also showed negative rate of GNP growth in that year. The contraction in the world economy continued for the next few years. Moreover, in 1982, Argentina announced its inability to honour external commitment and there was banking crisis of unprecedented magnitude. The commercial banks of Europe and America insisted on the repayment of the existing loans with interest and were not willing to offer new loans. The interest rate went up and these economies were overburdened by mounting pressure of growing external debt.

These countries blamed the structural adjustment programme for their economic ills. Some of them gave it up half way while the IMF could not continue financing them as some of them failed to work with the conditionalities. However after 1995, most of them began to adopt reform measures. They started getting foreign capital through portfolio investment as well as foreign direct investment. There was a change in the IMF and the World Bank approach and the implementation of the conditionalities were more judiciously interpreted. Between 1997 and 2000, their rate of saving and investment started showing improvement and most of them could experience the GNP growth rate that was higher than their population growth rate by 2000, there was a ray of hope that this region would be able to recover the lost ground.

Sub-Saharan Africa consists of 35 countries with diverse ecological conditions ranging from semi desert Sahel area and long grass Savanna to dense tropical forests and coastal areas. It has remained one of the poorest regions of the world. In spite of high rate of population growth for the African continent as a whole this region with a faviourable land-man ratio, has agricultural sector that has remained very backward and the agricultural revolution with high yielding varieties of seeds and improved agricultural technologies have hardly touched it. Under the political sweep of imperialism of the 19th and 20th centuries, this region was also colonized and their European rulers introduced a large variety of commercial crops and encouraged their exports to European countries. Multinational corporations entered certain favourable areas of industrial activities mainly in the production and export of commercial crops and minerals.

Sub-Saharam Africa faired very well during 1970-74, when its GDP growth rate was 6.4% per year, from which, under the influence of large increase in the price of crude oil and other internal and external unfavourable factors, it came down sharply to 2.5% during 1975-79 and then to 1.3% in 1980-84. Its current account deficit deteriorated from 2.8% to GDP in 1970-74 to 6.3% by 1980-84. Its external debt stood at a reasonable level of 27.4% of GDP in 1980 but this ratio increased very sharply to 92.1% during 1985-91.Between 1980-90, the prices of coffee and cocoa dropped by 70% and cotton prices fell by 28%. As a result, Sub-Saharan Africa's share in the world exports came down from 2.4% to 1.7%.[1]

While the steep increase in the price of crude oil of 1973 was a major factor which contributed to the economic ills of this region there were also other factors that accentuated the situation. During 1970-80 these countries could secure remunerative prices for their major export commodities, and this encouraged them to borrow indiscriminately from the private commercial banks of the USA and Europe and these counties under the

[1] World, Bank Sub-Saharan Africa : From Crisis to Sustainable Growth, Washington D.C. 1989.

autocratic rulers, wasted their financial resources. However, around 1980, these countries were struck by a number of calamities – the private commercial banks refused to lend more and insisted on repayment and the interest rate on their external debt increased, the export prices came down sharply and their balance of payments situation became critical, growth momentum slackened and inflation became much worse than before. Faced with the unsustainable economic situation, these countries had no alternative but to approach the International Monetary Fund. The Fund's Short term financial assistance was inadequate to meet their requirement and these countries later on had to approach the World Bank for its Structural Adjustment Loan.

The structural adjustment programme and the set of economic policies associated with it produced disastrous effects on the already weak economies of the Sub-Saharan Africa. Their balance of payments deficit could be largely corrected as imports were drastically reduced to match with their reduced export earnings. Devaluation of then currencies could not help them by bringing higher export earnings because of extremely low elasticities for both exports and imports. Drastic reduction in imports adversely affected the domestic industries and also the rates of savings and investment. Devaluation of the currencies produced deflationary impact on these economies. Muzulu studied the impact of structural adjustment programmes on 28 Sub-Saharan African countries of which 10 showed increase in their share of exports to GDP, 12 showed decrease while it remained unchanged among the remaining six countries.[2]

The structural adjustment progrmame strongly recommends reduction in fiscal deficit. This meant reduction in public investment. As the private investment did not increase to counterbalance this reduction, there was a decrease in total investment leading to reduction in rate of growth of GDP. During the short period between second half of 1970s and early 1980s, investment ratio came down from 21% to 17%, savings rate was quite low-about 8% of GDP as these economies became stagnant and the level of poverty went on increasing. The pace of implementation of the structural adjustment programme was quite uneven. A food riot in Zambia in 1987 and an attempted revolt in Madagascar in 1991 were sufficient to unnerve the governments of these countries and could not go along with the World Bank conditionalities and in some extremely difficult cases, the structural adjustment programme had to be scrapped. On the other hand, in some cases, exhausted by the inability of the governments to carry out the reform programme, the World Bank and the IMF had to cancel the agreement and then wait for sometime until a new regime could be installed that was willing to carry forward the reform programme. A major factor contributing to the failure of the structural adjustment programme was its neglect of some

[2] Muzulu, Joseph, "Real Exchange Rate Depriciation and Structural Adjustment, The Case of The Manufacturing Sector in Zimbabwe (1980-1991) quoted in Dasgupta Biplab. op.cit. P.343.

human issues in its hurry to get its tailor made reform programme to be implemented by the weak and unstable governments.

One unintended but nonetheless unfortunate consequence of the structural adjustment programme was that the Sub-Saharan African economies had to pay larger amount to these institutions towards repayment of loans and interest on them than that they received from them, making these countries' economic conditions extremely vulnerable. This happened during the very period when more generous funding could have probably helped these economies. These countries also needed policies from these two international financial institutions which could help them by improving their terms of trade or prevented the decline in real commodity prices which could have helped these countries to earn larger export receipts.

With the sudden increase in the oil price in 1973 and a series of unfavourable factors both internal and external, these countries initially borrowed heavily from the private commercial banks of Europe and America to meet their balance of payments deficit. Once these private commercial banks refused to lend further and started insisting on the repayment, the dependence of these countries on two multilateral financial institutions grew more heavily and with increase in the interest rates from mid 1980's, the amount of external debt of these countries increased very rapidly and a difficult question has arisen whether these countries would ever be able to clear this huge amount of external debt. Sub-Saharan Africa's external debt increased from $ 6 billion in 1970 to $ 134 billion by 1988. In other words, by 1988, the external debt of these countries was equal to their total GDP and 350% of their annual export earnings. Debt servicing constituted 47% of their export earnings. Out of 35 countries in this region, twenty two were severely indebted low income countries and their external debt was $102 billion.

In contrast to the World Bank, which claimed that the adoption of the structural adjustment programme had succeeded in raising the GDP growth rate to 4% in some of these countries, the UN Economic Commission for Africa always remained critical of the programme. According to this report, "There is mounting evidence that stabilization and structural adjustment programmes are rending the fabric of the African Society, worse still, their most severe impact is on the vulnerable groups of the society –children, women and the aged – who constitute two thirds of the populations.[3] Independent observers of the economic situation in Africa have reached a similar conclusion. According to Adedaji, "If there was referendum in Africa today, an overwhelming majority of the people would vote against their governments having anything to do with the Bretton Woods Institutions. They know too well that there has definitely been a considerable net welfare loss to them as a result of the way these two agencies have been

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[3] United Nations Economic Commission of Africa, Evaluation of and African Alternative Framework to, Structural Adjustment Programme for Socio Economic Recovery and Transformation in Yansane, aguibou (ed) Prospects for Recovery and Sustainable Development in Africa, 1996.

operating in their countries during the past decade and a half...that far from helping it to become economically viable, these two institutions have been capitalizing on, exacerbating and perpetuating Africa's crisis. Little wonder that there have been many IMF riots throughout Africa and that youth workers and women have rebelled against structural adjustment programmes, the parade horses of the Bretton Woods Institutions".[4]

There have been predominantly two views on the economic situation in the Sub-Saharan Africa and the suitability of the economic stabilization and the structural adjustment programme. One view is represented by the top level economic institutions like the Association of African Central Banks, while the second view is represented by the IMF. Abdul R. Turay, President of Association of African Central Banks very succinctly summerised the economic crisis at the beginning of the decade of 1990, prevailing among the African countries. According to him, "That Africa is in the throes of an economic crisis of major dimensions hardly needs emphasizing. Country variations notwithstanding, there are numerous manifestations of this situation: poor agricultural and industrial performance, deteriorating institutions and infrastructure, declining levels of per capita income, dismal levels of social welfare indicators, weak export performance and high and unsustainable levels of external indebtedness". Having described the severity of the economic crisis, he enumerates the possible causes for this

[4] Adedaji Adebayo, African Regional Perspectives on the Bretton Woods Institutions, North-South Round Table Meeting, New York (Mimeo) 1993.

pathetic state of affairs in Africa. "The Economies that evolved from the ravages of the colonial period were structured to cater to the needs of the colonial powers; these economies were sources of raw materials and markets for their finished products, rather than integrated entities, with mutually supporting production structures. Also, inappropriate models of development were adopted, which neglected the agricultural sector but emphasized sub-optimal import – substituting industrialization strategies. Another problem not to be downplayed was the ubiquitous intervention of the state in economic activities that are best suited for the private sector. Closer to our responsibilities was the use of inappropriate macro economic policies resulting in unsustainable fiscal deficits, expansionary monetary policies and external disequilibrium. But at the top of these factors was the impact of a hostile external economic environment characterized by adverse terms of trade, inadequate access to markets, declining flows of financial resources and the perpetuation of a generally peripheral status in international economic arrangements".[5] Having indicated several causes for the dismal economic performance, Turay turns to the suitability of the economic stabilization and structural adjustment programme. "Questions have been raised regarding the internal economic consistency of the measures built into the typical reform package, including its purely macroeconomic stabilization aspect. Their effectiveness in achieving the

[5] Turay Abdul R, "Opening Remarks" in Patel I.G., (ed.) Policies for African Development, International Monetary Fund, 1992.

desired ends, especially in the context of African economies, is in doubt, and this doubt is strengthened by empirical studies. For example, doubts have been expressed regarding the compatibility of the exchange rate devaluation and reduction of inflation and indeed the positive response of export sectors to such exchange rate changes. In this context, it has been stressed that rigidities and bottlenecks in our economic structures defy adjustment by the traditional preferred policy instruments of the Bretton Woods Institutions".[6]

M. Kamdesus, former managing director of the International Monetary Fund, shares with Turay the economic stress through which the African economies were passing towards the early 1990s. "Yet, Africa is experiencing difficult times : times of natural disasters and setbacks, times, also of man made problems including wads and civil disorders. After some twenty years of disappointing performance in much of Africa, resulting in lower real per capita incomes, it is easy to understand why many feel tempted to despair about the prospects. Moreover, the global economic environment is worsening with the Middle East war and the slow down in some industrial countries; while the suspension of the Uruguay Round raises questions about the prospects for world trade. These setbacks compound the existing external difficulties, including the shortage of external financing and slow progress towards resolving the debt problems".[7]

Having said this, he was of the opinion that the African countries should pursue structural adjustment programme steadfastly and to enable

[6] Turay, Abdul R, ibid.
[7] Comdessus M, ibid.

these countries to implement these policies, the financial institutions and the donor countries should adequately meet their financial needs. Accordingly to him, "More effective policies in African countries will not succeed .... Unless their reform programmes are adequately supported by the rest of the world. I repeat, the responsibilities for development and for economic adjustment is a shared one. The industrial countries, in particular have a special duty to Africa".[8]

In this context, it is relevant to refer to the in depth evaluation of the impact of structural adjustment programme, undertaken by the World Bank in 1988. According to this study, "The adjustment leading countries were on average hurt more by changes in the terms of trade, real interest rates and external indebtedness than countries that did not receive adjustment loans".[9] The World Bank study refers to some macro economic indicators of performance that show that for countries in Sub-Saharan Africa that received adjustment loans (i) the investment / GDP ratio fell from 20.6% before adjustment lending to 17.1% after, a decline of 3.5%. (ii) the annual growth rate of GDP fell by 0.9% after adjustment lending, (iii) the budget deficit worsened, rising from 6.5% to 7.5% and (iv) debt service and private consumption per capita either deteriorated significantly or remained unchanged after adjustment lending. This study presents even more distressing picture for social indicators. Between 1980 and 1985, the social indicators showed no progress for 33 countries in Sub-Saharan Africa that

[8] Comdessus M, ibid.
[9] World Bank, Adjustment Lending : An evaluation of Ten Years of Experience, 1988.

received adjustment loans. "Although life expectancy at birth improved from 46 to 48 years ... the infant mortality rate remained at 126 per thousand, and the daily calorie intake declined from 2060 to 1911. In the same period, for the sub group of 11 low income Sub-Saharan countries, per capita education outlays fell from US $ 10.80 to US $ 6.30 and per capita health expenditure from US $ 3.60 to US $ 2.80".[10]

A. K. Mullei has studied the experiences of 17 African countries that adopted stabilization and structural adjustment programme of the IMF and the World Bank. He has compared the economic situation in these economies with the help of some useful indicators before and after the implementation of the new economic policies. These indicators are real rates of growth in GDP, domestic savings, investment, inflation, exports and imports, debt service ratios and net transfers. One point to be noted about this study is that these indicators measure short term impact effects rather than long term effects as it is the former which are critical in determining the sustainability of the structural adjustment programme.

Mullei selected 17 African countries for his study Cote d'Ivoire (1981) Kenya (1981), Tanzania (1981), Zambia (1981), Malawi (1982), Zimbabwe (1982), Ghana (1983), Morocco (1983), Zaire (1983), Niger (1984), Senegal (1984), Sudan (1984), Madagascar (1985), Tunisia (1985), Burundi (1986), Nigeria (1986) and Uganda (1987).[11]

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[10] World Bank, Ibid

[11] The Year in the bracket is the year in which the structural adjustment programme was adopted.

Table – V.1 : Summary of Country Performance with Respect to Key Macroeconomic Indicators[12]

Country	1 INFLA	2 GDPG	3 GDIY	4 GDSY	5 EXPG	6 IMPG	7 DEBSY	8 NERT	Percent Success
			(In Percent)				(In millions of US dollars)		
Nigeria	22.8	1.0	8.6	9.0	2.6	- 18.0	32.0	- 1050	
	(17.0)	(3.0)	(10.8)	(13.5)	(-11.8)	(2.1)	(24.0)	(-491.0)	87.5
Niger	10.7	4.2	23.6	8.0	- 6.2	1.7	41.0	77	
	(-8.0)	(-1.5)	(9.0)	(3.0)	(-3.5)	(-5.8)	(39.0)	(41.0)	37.5
Ghana	63.0	0.1	4.7	3.0	- 13.8	- 4.6	13.6	51	
	(44.8)	(2.3)	(7.4)	(6.0)	(7.8)	(8.5)	(38.0)	(118.0)	87.5
Cote d'Ivoire	14.8	7.6	28.7	25.3	6.9	5.9	20.0	609	
	(5.4)	(-0.1)	(16.9)	(21.2)	(-1.9)	(-9.4)	(44.0)	(211.6)	12.5
Senegal	11.6	5.1	16.1	9.7	7.9	5.0	11.6	215	
	(5.0)	(2.6)	(14.8)	(6.4)	(-0.1)	(-4.5)	(25.0)	(96.4)	12.5
Morocco	10.8	3.0	28.0	7.4	- 7.9	7.4	37.6	634	
	(6.7)	(3.0)	(21.0)	(18.0)	(12.4)	(17.9)	(34.0)	(35.0)	50.0
Tunisia	10.3	3.3	31.0	21.0	2.9	-3.9	19.3	196	
	(6.8)	(2.8)	(30.0)	(19.0)	(1.5)	(5.5)	(26.1)	(-114.5)	37.5
Sudan	27.0	4.4	17.7	3.6	16.9	10.9	25.1	574	
	(38.0)	(0.3)	(10.3)	(4.5)	(-1.3)	(-3.9)	(25.9)	(139.0)	12.5
Kenya	11.2	4.4	27.0	18.2	- 7.7	- 10.0	23.4	165	
	(9.8)	(3.9)	(23.0)	(21.0)	(3.7)	(2.1)	(39.0)	(25.0)	62.5
Uganda	114.4	- 3.7	12.4	11.0	4.3	-3.1	40.6	56	
	(210.8)	(2.5)	(9.2)	(3.0)	(-18.3)	(27.7)	(43.5)	(179.0)	37.5
Burundi	8.8	4.9	23.0	3.7	4.8	3.8	19.2	71	
	(4.5)	(1.3)	(18.0)	(5.7)	(5.8)	(6.9)	(38.3)	(79.0)	75.0
Tanzania	23.2	0.3	16.8	11.7	18.8	-10.2	16.2	242	
	(31.3)	(1.7)	(17.0)	(5.3)	(-4.2)	(0.2)	(32.3)	(171.0)	25.0
Milawi	10.8	-0.8	31.0	11.0	8.9	-8.7	(26.5)	67	
	(18.0)	(3.2)	(16.7)	(12.5)	(-2.4)	(3.1)	(24.9)	(66.0)	50.0
Madagascar	20.2	-0.4	13.4	6.4	0.3	0.4	23.0	133	
	(14.2)	(0.9)	(14.7)	(11.2)	(1.9)	(2.8)	(52.0)	(93.0)	75.0
Zimbabwe	15.8	7.6	19.0	14.8	3.9	14.0	6.6	199	
	(14.2)	(1.7)	(19.5)	(21.0)	(7.0)	(-5.5)	(32.6)	(-35.2)	50.0
Zambia	10.0	0.2	20.4	21.0	-6.7	-4.7	22.6	151	
	(13.7)	(0.2)	(15.8)	(14.0)	(0.0)	(-1.3)	(28.0)	(100.9)	25.0
Zaire	37.7	0.8	24.7	6.0	13.3	23.1	19.2	93	
	(59.7)	(2.6)	(16.7)	(14.8)	(18.5)	(14.6)	(20.1)	(13.0)	37.5
Percent Success	64.7	41.2	35.3	58.8	52.9	64.7	25.5	23.5	

Sources : International Monetary Fund, International Financial Statistics Yearbook (1989); The World Bank, World Tables (1989/90) and World Debt Tables (Various issues).

Note : INFLA = the rate of inflation; GDPG = the rate of growth of the economy; GDIY = the investment rate; GDSY = the savings rate; EXPG = rate of growth of export; IMPC = rate of growth of import, DEBSY = debt – service ratio; NERT = net resource transfer. The number in parentheses represent performance after structural adjustment.

[12] Mullei A. K., "A view from Africa" in Patel I. G. (ed), ibid.

Out of these 17 countries, eight namely Burundi, Ghana, Kenya, Madagascar, Malawi, Morocco, Nigeria and Zimbabwe showed improvement while the remaining nine countries showed deterioration in their economic performance as a result of the implementation of the structural adjustment programme. Again, out of the eight macro economic indicators, success was achieved in four namely rate of inflation, rate of growth of export, rate of growth of import and rate of saving. The performance of other four indicators namely rate of growth of real GDP, rate of growth of investment, debt service ratio and net resource transfer was disappointing.

Because of the widespread failure of the traditional stabilization and structural adjustment programme in Africa in general and the Sub-Saharan African countries in particular during 1980s, a discussion regarding the search for a slightly different approach that encompasses the special economic conditions in this region began towards the end of 1980s. The adoption of the traditional approach proved to be very expensive in terms of low growth rates and rise in the external debt and the debt service ratio to unsustainable level. This approach suffers from a few very serious flaws. First, while income dampening policies could be relatively less harmful for countries with high income and open economies, the countries with low per capital income and limited openness and supply response, the economic policy of income contraction can produce disastrous effect. For African countries, foreign trade sector has been extremely small and their balance of payments imbalances have been quite large which can not be eliminated by the traditional income contraction policy. On the other hand, such a policy would impose upon a country the loss of output that would tend to be large and unbearable. Second, in African countries which suffer from severe institutional rigidities, the size of an import response or export response to a policy change like a change in the foreign exchange rate – an important component of the economic stabilization programme of the Fund – would depend very heavily on the amount of time allowed for adjustment. Thus, in a typical case of Sub-Saharan African economies characterized by severe institutional rigidities, the longer the time frame allowed for a policy change to work, the greater will be the response to price and / or exchange rate changes. The traditional stabilization programme attempts to achieve the entire adjustment within a short span of three to four years which would require an intolerably large dose of deflation than the adjustment process which is allowed to cover large period. It is pointed out that the large size of deflationary effect resulting from the expenditure compression policy runs the risk of overshooting the target leading to serious reduction in employment opportunities and output which are certainly not intended by the fund's economic stabilization measures. Third, the Sub-Saharan African economies would need a reform programme which is growth oriented and also provides for health, education and other essential social services in which these economies are severely deficient. Such a reform programme would require large inflow of external assistance from the Fund, the World Bank and the industrial counties having longer time horizon to achieve genuinely useful results for this poverty stricken region of the world.

External Debt Problem of Sub-Saharan Africa :

The Sub-Saharan African economies were hit by low growth rates, low savings rates, and low rate of investment during 1980s, their first decade of experience with the structural adjustment programme. One serious consequence of this low growth rate syndrome was an excessive increase in the external debt burden and the deterioration in the debt service ratio : Table 2 provides information on this important aspect of the economic development of this region.

Table – V.2 : The IMF, the World Bank and the External Transfers to Sub-Saharan Africa 1980-1990.

(In Millions of US Dollars)

	1980	1983	1984	1985	1986	1987	1988	1989	1990[1]
IMF									
Gross disbursements[2]	1217	1618	952	738	735	678	1033	865	733
Repayment and interest[3]	487	739	993	1172	1689	1541	1495	1593	1265
Net Transfer	730	879	- 41	- 434	- 954	- 863	- 462	- 728	- 532
IDA									
Disbursement	424	637	778	881	1400	1681	1697	1700	--
Repayment and interest	21	44	56	79	94	111	128	126	--
Net Transfer	403	593	722	802	1306	1570	1569	1574	--
IBRD									
Disbursements	400	708	832	647	898	998	581	835	--
Repayments and Interest	328	438	527	616	865	1073	1306	1226	--
Net Transfer	72	270	305	31	33	- 75	- 725	- 391	--
IMF, IDA, IBRD,									
Total Net Transfer...	**1205**	**1742**	**986**	**399**	**385**	**632**	**382**	**455**	**--**
Other Net Transfer									
Multilateral[4]	707	664	442	487	650	709	672	607	--
Bilateral[4]	1657	2295	1925	472	1210	1194	630	945	430
Private[5]	2818	270	-1667	-2648	-1132	-213	-434	-428	-1848
Total Long Term Debt									
Related net Transfer	5657	4092	1727	-856	2067	3185	1712	2307	657
Grants[6]	3057	2844	3422	4514	4823	5030	6567	6570	--
Direct Foreign Investment	20	882	494	1059	460	1167	687	2301	--
Total Net Transfer......	**6573**	**7485**	**4419**	**2779**	**5209**	**6763**	**7511**	**8692**	**--**

__Source :__ Derived from World Bank, World Debt Tables, 1990-91 (Washington, 1990), Vol. 1, pp. 130-33.

__Note :__ IMF = International Monetary Fund; IDA = International Development Association; IBRD = International Bank for Reconstruction and Development.

[1] Projected
[2] Purchases.
[3] Repurchases and Charges
[4] Excluding Grants
[5] Publicly guaranteed and unguaranteed, excluding direct foreign investment.
[6] Excluding technical assistance.

As far as the three major international financial institutions giving different kinds of loans to the developing countries namely the IMF, the International Bank for Reconstruction and Development and International Development Association are concerned, the Sub-Saharan African countries had negative transfers from 1984 upto 1990, implying that IMF's gross disbursements of loans under different categories were smaller in size than the amount of repayment and interest. For the IDA, net transfers were positive and went on increasing year after year. For the IBRD, net transfers became negative for the three closing years of decade 1987, 1988 and 1989. As a result of the negative net transfers for the IMF and the IBRD, total net transfers, while quite substantial between 1980 and 1983, went on becoming smaller as the decade progressed. What is even more unfortunate for the region is that the financial assistance from the multilateral financial institutions went on falling during the period when actually the region was in dire need for larger flow of capital to be able to finance larger import to sustain investment effort and through this, to struggle to achieve higher rate of growth. During 1984-1990, the IMF's negative net transfers amounted to $ 4 billion. The table also shows the sharply rising IDA disbursements until 1987 and the World Bank's negative transfers beginning from the same year.

The region received financial assistance from some other multilateral institutions – other than the IMF, the World Bank and the IDA, as well as form bilateral and private categories. From multilateral organizations, net transfers were positive for all the years but loans were relatively small in size. The size of the bilateral loans was quite large during 1980, 1983, 1984 and again in 1986 and 1987, but the size of such loans thinned down towards the end of the decade. The loans from the private commercial banks of Europe and the USA were substantially large in 1980 - $ 28 billion in a single year – during the hey days of the euro – Dollar phenomenon which began from 1975 when the OPEC countries, benefiting from the first oil price rise of 1973, showed a current account surplus of a staggering dimension - $ 105 billion, which were kept as deposits with the American and the European private commercial banks and then given as loans to the countries suffering from balance of payments deficits essentially due to oil price rise. This process suffered a rude shock in September 1982 when Argentina declared its inability to honour its external commitments. The world was on the brink of a collapse of the banking system and the IMF had to rescue Argentina by giving some financial assistance on an emergency basis and Argentina could clear its debts with the private commercial banks of the West. Since then, the private commercial banks not only became careful in sanctioning new loans, but became aggressive in insisting on the repayment of the old loans. From 1984 onwards, there are negative net transfers for all the years upto 1990, such transfers being quite large in 1984, 1985, 1986 and 1990.

The IMF, over its existence since 1946, had undertaken upon itself the function to provide a short term loan or financial assistance to help a member country to tide over a temporary deficit in its balance of payments. This is what it did under its economic stabilization programme to assist the member countries adversely affected by oil price rise. However, with its subsidised interest rates and longer terms within its Trust Fund, the structural adjustment facility and the enhanced structural adjustment facility, have converted the IMF into an aid agency, if not wholly, at least in part. Having lost its original role, the IMF can not easily explain its failure to act more vigorously in providing larger resources to developing countries like the Sub-Saharan African countries on the ground that its role is limited to provide resources to meet balance of payments deficits and not developmental. The IMF should now onwards follow policies under which it would not generate net transfers of resources from countries which are at any given point of time in desperate need for financial assistance as a result of deterioration in their terms of trade, unsustainable levels of external debt or any other adverse economic factor.

The IMF holds approximately 103 million ounces of gold which was valued at $ 40 billion at the time of its inception. At the current market price of gold, its value would be many times larger. The low income developing countries like the Sub-Saharan African countries by 1990 had an unprecedented need for larger financial assistance, part of its arising out of payments obligations to the IMF as well as to other multilateral financial institutions. Under the articles of agreement under which the IMF was established, it is specified that the proceeds of the gold sales, held in a special disbursement account may be used for balance of payments assistance on special terms to developing countries in difficult circumstances and the fund will take into account the level of per capita income for this purpose. By selling a part of its monetary gold stock – say 20% to 30% - and earning a profit on it, the IMF can extend the additional financial assistance to some of its most distressed members which in turn can be used by the member countries to finance arrears of existing loans or interest on arrears. "The gold is not essential to IMF operations and serves no socially useful function at present. By selling a relatively smaller portion of the gold (20 percent is suggested), the IMF could raise enough profits to rectify the arrears of poor countries with the IMF through new low interest loans and to contribute additional resources to the IMF Trust Fund for subsidizing interest rates on other advances to poor countries".[13]

While the direct foreign investment going to the Sub-Saharan African countries went on increasing and in the year 1989, stood at $ 2.3 billion, it is quite small in relation to the total size of the region. However, these countries have been recipients of much larger amount of grants which was in 1983 of the order of $ 28 billion, but since 1985, has been larger than $ 45 billion and during 1988 and 1989, has been of the size of $ 65 billion. Among all the categories of external transfers, the grants received by these countries have been quite substantial.

This difficult situation of the Sub-Saharan African countries is also collaborated by the information regarding net flows of the IMF credit to African countries for a short period of three years 1988-1990. This is presented in table 3 below.

[13] United Nations, Africa's Commodity Problems, Towards a Solution, 1990.

Table –V.3 : Net Flows of IMF Credit to African Countries, 1988-1990
(In Millions of SDRs)

	Year Ended April 30		
	1988	**1989**	**1990**
Sub-Saharan Africa			
Angola	--	--	33.06
Benin	--	--	6.26
Burundi	0.00	12.81	8.54
Cameroon	--	69.53	15.45
Central African Republic	4.08	1.46	-8.66
Chad	6.12	-1.75	5.68
Congo	--	--	-2.38
Cote d'Ivoire	-19.25	-125.06	-87.46
Equatorial Guinea	--	2.43	-2.31
Ethiopia	-8.80	-6.47	-18.45
Gabon	20.12	51.16	8.22
Gambia, The	4.73	0.04	3.88
Ghana	-21.37	-41.37	23.39
Guinea	7.28	17.37	-6.01
Guinea-Bissau	1.00	-0.94	1.78
Kenya	-27.35	9.79	-14.03
Lesotho	--	3.02	4.53
Liberia	--	-1.29	-2.36
Magadascar	3.48	-28.04	-12.26
Malawi	-15.15	-0.25	0.30
Mali	-15.20	-1.24	7.79
Mauritania	16.97	-5.14	8.66
Mauritius	-22.80	-32.27	-31.19
Mozambique	30.50	12.20	0.00
Niger	-0.60	-7.54	-3.32
Sao Tome and Principe	0.01	--	0.80
Senegal	11.11	23.32	1.23
Sierra Leone	-0.70	-0.01	-2.42
Somalia	-1.63	-8.50	-1.22
Swaziland	-4.50	-1.10	--
Tanzania	31.88	32.10	13.93
Togo	-3.23	-6.88	0.06
Uganda	-3.18	17.21	-6.13
Zaire	-26.50	-71.98	-98.52
Zimbabwe	-90.40	-41.77	-25.11
Subtotal ...	**123.38**	**-129.16**	**-178.27**
North Africa			
Algeria	--	72.05	470.90
Egypt	103.50	-6.25	--
Morocco	-28.10	-121.24	-35.94
Tunisia	47.00	--	-18.71
Subtotal...	**122.40**	**-55.44**	**416.25**
Total...	**-0.98**	**-184.60**	**237.98**

Source : International Monetary Fund, Annual Report 1990.

For the year ended April 30, 1990, about half of Africa's countries were transferring recourses to the IMF. Of the 39 African countries, of which 35 countries fall within the Sub-Saharan region, which implemented the IMF's economic stabilization programme, only 21 (19 Sub-Saharan) still had them outstanding at the end of April 1990. The IMF's enhanced structural adjustment facility has not extended as much credit to Africa as originally anticipated on account of disputes over implementations of conditionalities. During 1990, the structural adjustment facilities for Chad, Guinea – Bissau and Tanzania expired. However, none of these countries could get this facility renewed immediately.

Among the 35 Sub-Saharan African countries listed in the table, 17 countries experienced positive net flows of the IMF credit, while another 17 countries experienced negative net flows of the IMF credit in 1990. Some of these countries had large negative net flows – Cote d'Ivoire for example had negative net flow of $ 87.46 million (Superimposed on even a large negative net flow of $ 125.06 million in the preceding year 1989), Mauritius had negative net flow of the IMF credit of $ 22.80 million, $ 32.27 million and $ 31.19 million during 1988, 1989, 1990 respectively. Similar experience is represented in case of Zaire and Zimbabwe. For the group of 35 countries in Sub-Saharan Africa, while there was a positive net flow of IMF credit of the size of $ 123.38 million during 1988, for the next two years -1989 and 1990 – there was large negative net flow of $ 129.16 million and $ 178.27 million. Among the several factors responsible for the failure of the stabilization and structural adjustment programme during the decade of the 1980s, negative net flow of credit from the IMF, the World Bank and the private commercial banks of Europe and the USA would rank very high as this phenomenon severely restricted their imports, which in turn adversely effected their industrial production, reduced rate of investment and all this led to extremely low rate of growth in the second half of 1980s.

Let us now turn to the record of debt management in Sub-Saharan Africa during the decade of 1980s. This information is given in the following table.

Table – V.4 : Evolution of the Debt Situation in Sub-Saharan Africa 1980-90

(In billions of US Dollars, except where otherwise specified)

	1980	1982	1989	1990[1]
Total debt stocks outstanding	56.20	70.25	146.99	160.79
Of Which				
Bilateral Creditors	16.49	19.79	56.09	64.04
Multilateral Creditors	7.55	10.39	31.31	36.41
Use of IMF Credit	3.03	4.93	6.38	6.42
Total Official debt	27.07	35.11	93.78	106.87
As percent of total debt	48.17	49.98	63.80	66.47
Private long-term debt	19.42	25.88	37.19	38.63
Private short-term debt	9.70	926	16.01	15.30
Debt stocks as percent of GNP	27.4	37.4	98.3	111.9
Actual annual debt service	6.30	7.44	8.82	11.18
Debt service as percent of exports	10.9	19.3	22.2	24.4
Debt service as percent of GNP	3.1	4.0	5.9	7.8
Interest arrears	0.22	0.63	7.23	6.67
Actual debt service as percent of scheduled debt service	89.0	72.0	39.0	37.0[2]
Total debt service between 1982-90				84.55
Of Which				
Interest				29.28
Principal				55.27

Source : World Bank, World Debt. Tables, 1990-91 (Washington, 1991).

[1] Projections
[2] Estimates

Sub-Saharan Africa's outstanding debt-stock was a little over $ 70.25 billion in 1982 on which it serviced approximately $ 85 billion in principal and interest payments between 1982 to 1990. The flow of official grant to this region increased from around $ 5 billion in 1982 to a little over $ 12 billion in 1990. And yet, its debt stock is placed at about $ 160 billion in 1990. Still more difficult dimension of the debt situation is that its debt composition has changed with a larger proportion of debt owed to multilateral creditors – from 18% in 1980 to 27% in 1990 to whom service obligations are nearly impossible to reschedule and the cost of having arrears are far too heavy than in case of official bilateral creditors and private creditors. The outstanding debt as a proportion of GNP was at a reasonable level of 27 but became practically 100% by 1989 and 112% by 1990. It can be seen from the table that in spite of repeated bilateral rescheduling for almost all severely indebted countries of Africa, their ability to repay debt according to rescheduling went on deteriorating. This is after taking into account substantial amount of official development assistance debt cancellation amounting approximately $ 6 billion by the end of 1989 and other forms of commercial banks debt reduction. We can see the severe burden of the external debt from the fact that the export of real resources from Africa by way of debt service has increased form 3.1% in 1980 to 5.9% in 1989 and a projected 8% in 1990. This is too severe a burden for the Sub-Saharan Africa where per capita income went on declining in the decade of 1980, from levels which were already extremely low. In spite of the strenuous efforts made by various agencies towards progressive softening of the debt burden like Paris Club rescheduling terms with the Venice Agreement in 1988, the Toronto Terms in 1989 and the wider applications of Trinidad Terms in 1991, the stark reality remains that for Sub-Saharan Africa, debt relief can be described as too little, too late. The economic instability created by the debt overhang also continued to pose a threat of frequent devaluation and accompanying inflation. These weaknesses together would make it practically impossible to create favourable atmosphere for domestic and foreign private investment on any significant scale. Overall, the signals being sent by the joint but related, failure of both debt management and structural adjustment programme has led to discourage domestic savings and investment effort – two important forces which must be revised if Africa is to have any serious hope to come out of its many sided predicament.

The stabilization and the structural adjustment programmes here, at best, created the macroeconomic policy framework which can be treated as the 'necessary' condition for the future progress of Africa. However, it should be clear that such reforms do not fulfill the 'sufficient' condition for the same. By 1990, it seemed that all the donor institutions as well as the African governments had no clear idea of the exhaustive set of programmes and policies that could provide sufficiency in this context. The thinking on the right kind of set of economic policies and of the structural adjustment programme that could revive these economies in the next decade or two was summed up as under. "The notion (which has taken hold with confusing repetitiveness in obscure World Bank – IMF Jargon) – that structural adjustment is a unique medium-term "in between" phenomenon marking a sort of chronological midpoint between short-term stabilization and long term development – is a peculiarly untidy, if all too convenient, one. It also needs to be abandoned".

In substance, where low income Africa is concerned, there seems to be no conceptual, practical or programmatic difference between what the Bank and the Fund now refer to as "adjustment over the long term" and what previously used to be known more simply as "development". It may well be that a long, round about route has been taken to recognizing an elementary point – that is, that the process of development involves more than making a series of efficient investments to improve physical and social infrastructure and to expand and diversify productive capacity for increasing output, employment and incomes. It also involves making continued policy and institutional adaptations to changes in internal and external circumstances, which are now occurring at a much faster pace than before. That is what adjustment quite literally means. It is in that sense, a process without end, not one that has some finite temporal dimension that can be stretched like elastic to suit the convenience of either the World Bank or the Fund when it comes to fund raising (or one's intellectual shortcomings when one is pressed to prove that what one is doing is working!). Continuous adjustment is inescapably an integral part of long term development, it does not end when macro economic stability is achieved".[14]

African Development in the 1990s :

The African Development Report 1998 states, "The preliminary estimates for 1997 indicate that aggregate real GDP in Africa increased by 3.7%, lower than that of the year before but considerably higher than the average annual growth for the period 1990-95, which was 1.9%. Significantly, the recovery of the last three years was widespread with two thirds of the countries in the continent experiencing real GDP growth rates of over 3%. And the number of countries with negative growth rates declined from 17 in 1990 to six in 1997 – nearly all being countries suffering from socio political difficulties".[15]

The slow economic growth rate, that marked the African countries during 1980s, continued during the first five years of the decade of 1990s when it was 1.9%. With population growth taking place at the rate of 2.8% per year during these years, it follows that the rate of per capita income growth was negative. In other words, as in the 1980s, the per capital income went on declining between 1990-95. This trend was arrested and for most of the countries which could achieve a rate of growth of above 3%, it was reversed too after 1995, and the rate of growth of per capita income became positive. The following table provides comprehensive information on the African countries between 1990 to 1997.

[14] Mistry Percy S. "Africa's adjustment and the External Debt Problem". In Patel I. G. (ed) Ibid.
[15] Kabbaj Omar, 'Foreward', The African Development Report, 1998.

Table – V.5 : Africa : Macroeconomic Indicators 1990-97

	Indicators	1990	1994	1995	1996	1997
1.	Real GDP Growth Rate	2.4	2.6	2.8	5.0	3.7
2.	Real Per Capital GDP Growth Rate	-0.4	-0.3	0.0	2.2	0.9
3.	Inflation (%)	16.7	40.4	32.5	24.4	17.6
4.	Investment Ratio (% of GDP)	21.2	19.9	20.3	19.6	20.3
5.	Fiscal Balance (% of GDP)	-4.7	-5.4	-4.0	-3.2	-1.9
6.	Growth of Money Supply (%)	18.9	35.1	22.9	20.3	13.3
7.	Export Growth, Volume (%)	3.6	2.8	10.2	8.9	6.7
8.	Import Growth, Volume (%)	4.2	3.5	5.5	5.1	7.4
9.	Terms of Trade (%)	5.1	-1.7	-1.8	2.8	-0.2
10.	Trade Balance ($ Billion)	6.9	-5.5	-4.0	2.5	1.7
11.	Current Account ($ Billion)	-4.3	-12.0	-12.5	-7.0	-7.2
12.	Current Account (% of GDP)	-1.0	-2.8	-2.4	-1.3	-1.2
13.	Debt Service (% of Exports)	26.3	22.3	18.7	19.4	21.7

Source : ADB Statistics Division and IMF.

Real GDP growth rate which was less than 2% on an average during 1980s, recovered to 2.8% in 1995, 5% in 1996 and 3.7% in 1997. The per capital income in Africa continued to grow at negative rate upto 1994, became zero in 1995 and for the next year has been positive. The real per capita income growth rate could become positive after a lapse of 15 years. In spite of the economic stabilization programme implemented in the early years of the decade of 1980s when they were compelled by adverse economic factors to approach the Fund, one major macro economic indicator namely rate of inflation remained at very high level. It was 16.7% in 1990, reached 40.4% and 32.5% in 1994 and 1995 respectively and came down to

17.6% in 1997 which was still much higher than a desirable level of 5% or even less. This clearly implied that the macroeconomic policy framework was not fully effective. However, this is to be viewed in the context of even higher inflation rates that prevailed in some African countries in the 1970s. The rate of investment kept on moving around 20%. It came down from 21.2% in 1990 to 19.6% in 1996 and remained at 20.3% in 1997. At the same time, with the same investment rate, the African countries could break away from the vicious circle of having less than 2% growth rate and suffering from the negative per capita income growth was indicative of the improved productivity of their scarce capital resources and putting to use their idle capacity of the manufacturing sector. Fiscal balance (deficit) was 4.7% of GDP in 1990 and was gradually brought down to – 3.2% in 1996 and – 1.9% in 1997. In fact, the fiscal balance and growth of money supply should be examined together. In contrast to monetary expansion of 18.9% in 1990, 35.1% in 1994, it gradually came down to 22.9% and 20.3% in the next two years and was considerably small in 1997. The highest rate of growth of money supply in 1994 was associated with the highest inflation rate in 1994 and smaller rate of money supply growth could bring down the inflation rate in the later years. Again, high fiscal deficit is associated with higher money supply growth and higher inflation rate. The fiscal deficit as a percentage of GDP came down considerably during 1997, making money supply to grow relatively at a very slow rate and also bringing down the rate of inflation.

Another significant improvement in the macro economic indicators can be seen in the trade balance. Export growth in percentage terms was higher than the import growth in 1990, 1995 and 1996 which led to positive balance of trade in 1990, 1996 and 1997. However, their current account deficit continued to exist for all the years indicating higher interest payment on the accumulated debt. The current account deficit as a percentage of GNP was highest in 1994 at -2.8% which was lower than the safe limit of 3%. For the remaining years, it is considerably less. Another area where Africa had achieved breakthrough is in the debt service as a percentage of export earnings which was quite high in 1990, and has been gradually coming down. During 1995, 1996 and 1997, 80% of African countries have achieved positive economic growth in sharp contrast to the situation at the beginning of the decade when one third of them suffered from negative growth rate. There is another dimension to this situation which is in some way quite favourable. While 34 countries out of 53 African countries registered growth rates above 4%, several economies particularly South Africa, Nigeria, Morocco and Congo recorded low or negative growth rates thereby reducing the average for the region as a whole.

Similarly in about 70% of the countries real per capita income increased during 1997 compared to only half at the beginning of the decade. However, these countries suffered from a decline in the per capita income for many years during 1970 to 1990, and they had to cover this lost ground. And yet, it is heartening to note that 60% of these countries experienced an estimated per capita income increase of more than 1.5% per year compared with only 25% in the early 1990s. Again during these years 1995-97, 20 countries out of 53 achieved per capita income growth of more than 2%.

African countries under the stabilization and structural adjustment programmes maintained restrictive fiscal policies and the fiscal deficit was reduced to 1.9% of GDP in 1997, something that had not happened in the last three decades. In fact during 1996 and 1997, three fifth of these countries had fiscal deficit below 5% of their GDP. While reduction of public spending particularly in the social sectors, continued to generate debate in this region, in which the falling level of water resources is one of the most serious problems and in which poor access to safe water supply, have thrown people living in these countries in constant dangers of getting diseases like cholera, typhoid etc, the decline in fiscal deficit helped them to achieve non-inflationary growth after two decades.

Let us now look at the economic performance in Africa in the context of world economic scene during the 1990s.

Table – V.6 : Selected International Economic Indicators 1990-97

	1990	1994	1995	1996	1997[a/]
Changes in Output					
World	2.6	3.9	3.6	4.0	4.1
Advanced Economies[b/]	2.7	3.2	2.5	2.7	3.0
Developing Countries	4.1	6.8	5.9	6.4	5.9
- Asia	5.6	9.6	8.9	8.1	6.8
- Latin American and Caribbean Countries	1.1	5.0	1.2	3.5	5.2
- Africa[c/]	2.4	2.6	2.8	5.0	3.7
Countries in transition	-3.8	-7.6	-1.3	-0.1	1.9
Changes in Consumer Price Index					
Advanced Economies	5.2	2.6	2.5	2.4	2.2
Developing Countries	67.9	51.0	22.7	13.3	9.0
- Asia	6.5	14.8	11.9	6.8	4.1
- Latin American and Caribbean Countries	439.3	208.5	41.6	20.7	13.7
- Africa[c/]	16.7	40.4	32.5	24.4	17.6
Changes in Merchandise Trade (Volume)					
World Trade	5.0	10.3	10.1	5.9	8.9
Advanced Economies					
- Exports	6.2	9.5	9.4	5.6	9.3
- Imports	5.1	11.5	9.4	5.5	8.6
Developing Countries					
- Exports	7.4	12.7	12.3	7.5	9.6
- Imports	5.6	8.1	12.1	7.3	9.1
Africa[c/]					
- Exports	3.6	2.8	10.2	8.9	6.7
- Imports	4.2	3.5	5.5	5.1	7.4

a/ Estimates.

b/ Comprises the industrial market economies, Israel and four newly industrialized Asian economies.

c/ ADB Regional Member Countries.

Source : IMF, World Economic Outlook, October 1997 and ADB Statistics Division.

For the world as a whole, output increased at a slow rate of 2.6% in 1990. During the decade of 1990s, it remained at higher level and was at 4.1% in 1997. Advanced economies which include industrial market economies, Israel and four newly industrialized Asian economies expanded at a slower rate than the world as a whole. The group of developing countries grew at a much faster rate and their growth rate was higher than that of the advanced economies for all the corresponding years. During this period, fastest rate of economic growth was experienced by the developing countries of Asia. African countries could register slower rate of growth than the developing countries of Asia, but their economic performance was a little more consistent than the Latin American and Caribbean countries. The countries in transition suffered from negative rates of growth between 1990 and 1996, and were struggling to come out of this most difficult period and could achieve a positive rate of growth only in 1997.

The group of advanced economies had a high rate of inflation – measured in terms of consumer price index – of 5.2%. However, during the decade of 1990s, the inflation rate was quite moderate – below 3% between 1994 to 1996 and was 2.2% in 1997. The group of developing countries had an unsustainable rate of inflation in 1990 and even in 1994, but it went on falling. Among the group of developing countries, Asia had slightly higher inflation rate in 1994 and 1995 but came down to a moderate level of 4.1% by 1997. The countries worst hit by inflation were Latin American and

Caribbean countries which had the rate of inflation of 439.3% in 1990 and even after four years, it was still at an unsustainable level of 208.5% in 1994. Since then, it has come down to more moderate level and was at 13.7% in 1997, while the African countries had relatively higher rate of inflation of 40.4% and 32.5% during 1994 and 1995, it came down to a lower level and stood at 17.6% in 1997 – still much higher in comparison to advanced economies and developing countries of Asia.

While the world trade (in volume terms) expanded at a slow rate of 5% in 1990, it expanded at a faster rate – about 10% during 1994 and 1995 and even with the financial crisis that engulfed some of the Asian economies, it could expand at a satisfactory rate of 8.9% in 1997. For the advanced economies, exports exceeded imports in 1990 and 1997 and had a trade deficit only in 1994. For the African countries, exports and imports of goods expanded at a very slow rate in 1990 and grew at a slower rate in 1994. Both exports and imports started expanding faster from 1995.While their exports grew at a slower rate than before in 1997, import growth with 7.4% was the highest since 1990.

Saving and Investment :

The average national savings rate of about 17% in 1997 represents a weak link in the process of rapid economic development in Africa. It was nearly 20% in 1990, came down steeply, to 16% during 1994 and 1995 and could marginally recover to around 17% in 1997. Again the average national savings rate of 17% is much below the 24% average of developing countries of the world as a group and is certainly insufficient to finance the volume of investment required for rapid and sustained economic expansion. Again, while the rate of investment was about 21% in 1990, it came down to 20% during all the years from 1994 to 1997, with rate of savings remaining on an average of 16%, an important challenge for Africa is to close the savings – investment gap that has remained around 4% during 1994 to 1997. The low level as well as fragility of the rate of savings are the consequence of low income, underdeveloped and weak domestic financial markets and capital flight. Financial market liberalization and development combined with efforts to improve the profitability to public enterprises should lead to higher domestic savings rate. Similarly, improved social stability, lower and more tolerable rate of inflation and greater exchange rate stability combined with pursuit of policy reforms should help reverse the massive capital flight that has adversely affected the economic development of Africa since early 1970s.

The Balance of Payments and External Debt :

Africa's balance of payments had undergone some significant changes in the decade of 1990s. The relevant information is given in the following table.

Table – V.7 : Africa : Balance of Payments Summary and Current Account Financing (1990 – 1997)

($ Billion)

	1990	1994	1995	1996	1997[a/]
Balance of Payments Transactions					
Exports (f.o.b.)	103.5	97.3	113.7	124.2	131.9
Imports (f.o.b.)	96.6	102.8	117.7	121.7	130.2
Trade Balance	6.9	-5.5	-4.0	2.5	1.7
Net Services	-9.9	-6.3	-6.4	-5.5	-5.2
Net Factor Income	-19.3	-15.1	-16.8	-18.5	-18.1
Current Transfers	18.0	14.9	14.7	14.5	14.5
Balance on Current Account[b/]	-4.3	-12.0	-12.5	-7.0	-7.2
Balance on Capital Account[c/]	**11.7**	**2.4**	**2.3**	**2.0**	**6.9**
Balance on Financial Account[d/]	-8.9	13.4	13.0	7.3	0.9
Current Account Financing					
Current Account Balance[b/]	-4.2	-12.0	-12.5	-7.0	-7.2
Capital Outflows[e/]	-8.8	-10.1	-7.5	-10.9	-9.4
Financing Requirements	13.1	22.1	20.0	18.0	16.6
Non-Debt Creating Flows, Net	**13.3**	**7.2**	**7.2**	**8.3**	**13.2**
Capital Transfers	11.7	2.4	2.3	2.0	6.9
Direct Investment	1.6	4.7	3.5	5.5	5.5
Net Credit and Loans from IMF	-0.6	0.9	0.7	0.5	-0.1
Net External Borrowing	0.3	14.0	12.1	9.2	3.6
From Official Creditors	-3.5	7.6	5.8	2.7	-0.9
From Banks	-0.6	-0.2	-4.3	-2.7	-1.6

Notes : a/ Estimates
b/ Current account refers to trade balance, net services, net factor income, and current transfers payments.
c/ Capital Account refers to capital transfers and acquisition/disposal of non produced, non financial assets.
d/ Financial Account refers to direct investment, portfolio investment and other investment transactions.
e/ Recorded asset transactions, which pertain mostly to export credits, and errors and omissions, which are taken to be a measure of capital flight.

Source: Adapted from IMF Research Department, October (1997), and based on the methodology of the fifth edition of the Balance of Payments Manual.

With a trade surplus of $ 6.9 billion in 1990, Africa developed a trade deficit during 1994 and 1995 and could reverse this trend during 1996 and

1997 when it could experience a small trade surplus. While the exports increased from $ 103.5 billion in 1990 to $ 131.9 billion in 1997, Africa could expand its imports also from $ 96.6 billion in 1990 to $ 130.2 billion in 1997. That Africa could expand its imports to meet the requirement of its growing manufacturing sector was quite satisfactory and was made possible by expansion of exports which resulted form its foreign exchange rate policy and expansion of economic activity in its two main trading partners – European Union and the USA. It experienced current account deficit of $ 4.3 billion in 1990 and continued with it upto 1997 though its size declined after 1995.

It is quite significant that the current account deficits are increasing financed by non-debt-creating capital flows which averaged $ 13.2 billion in 1997, which marks a large increase from $ 8.3 billion in 1996 and almost double their level in 1995. These capital flows are mostly in the form of direct foreign investment and portfolio investment. During 1997, slightly over half of the increase in such flows took the form of capital transfers of $ 6.9 billion – mainly debt forgiveness and migrant transfers. As a result of this, net external borrowing fell by more than 60% to $ 3.6 billion in 1997. While the flow of non-debt-creating capital thus went on increasing, net borrowing from official creditors such as the IMF which was as high as $ 7.6 billion in 1994 went on falling year after and became negative in 1997 when it was $ - 0.9 billion which meant that a net outflow of $ 900 million as loan repayments exceeded new official loans.

Among the few factors that contributed to the decline in the economic performance of Africa since 1975 was its unsustainable increase in the volume of external debt since the first oil price rise in 1973. The following table provides information on outstanding debt of Africa and its debt service payments.

Table – V.8 : Africa : External Debt. Outstanding and Debt. Service Payments 1990-1997

	1990	1994	1995	1996	1997[a/]
Total Outstanding Debt	248.8	305.0	322.2	324.3	315.2
Short Term Debt	34.5	49.5	57.9	63.0	50.9
Long Term Debt	250.3	255.4	264.4	261.3	264.3
Total to Official Creditors	193.0	225.6	232.7	232.4	223.6
Total to Financial Institutions	50.4	42.0	39.9	35.1	27.3
Total to Other Private Creditors	41.3	37.4	49.6	56.8	64.2
Ratio of Debt Service Payments to Exports of Goods and Service (%)					
Debt Service Ratio[b/]	26.3	22.3	18.7	19.4	21.7
Interest Payments Ratio[c/]	10.3	9.6	8.9	8.6	9.6
Amortisation Ratio[d/]	16.0	12.7	9.7	10.8	12.1
Total Debt to GDP	62.5	66.7	60.2	55.7	50.9
Total Debt to Exports of Goods and Services	231.8	249.2	227.6	211.6	194.2

Notes : a/ Estimates
b/ Amortization payments to long-term debt and interest payments
c/ On total interest payments
d/ On amortization payments (i.e. principal repayments) on long-term debt only

Source: IMF Research Department, October (1997).

The outstanding amount of external debt of Africa which was $ 284.8 billion in 1990 stood at $ 315.2 billion in 1997. The long term debt accounted for 80% of this amount. The external debt of Africa was $ 322.2 billion in 1995; $ 324.3 billion in 1996 and came down to $ 315.2 billion in

1997. Debt service obligations continued to account for about 20% of the export earnings and arrears continued to increase in a number of countries and the severity of debt service burden varies. Mozambique for example spends on debt service payment almost twice as much of what it spends on education and almost four times of its expenditure on health.

The debt service ratio was 26.3% in 1990 from where it gradually went on falling and stood at 21.7% by 1997. For 1990, interest payments ratio and amortization ratio were 10.3% and 16.0% respectively, which came down to 9.6% and 12.1% respectively in 1997. Thus, while the percentage of repayment of principal amount of the loan to the export earnings came down from 16% in 1990 to about 12% in 1997 – a decline of 25%, there is no perceptible decline in this ratio relating to the interest payment. While there was an increase in the outstanding external debt – an increase of about 10% - between 1990 to 1997, total debt as a percentage of GDP came down from 62.5 to 50.9.

During the 1990s, the African countries benefited from the Heavily Indebted Poor Countries (HIPC) Initiative. Its objective is to tailor debt service to payment capacity so that countries can attain external viability. This would also improve the economic environment among the countries benefiting from this initiative by contributing to reduce uncertainties, restore business confidence, attract private foreign capital and release resources for education and health. Uganda became the first country in Africa to benefit from the debt initiative that reduced its debt burden by about 20%. Burkina Faso and Mozambique were other two countries to benefit from similar treatment. Moreover, Ethiopia, Magadaskar and Tanzania made debt reduction agreements under Naples Terms during 1998 under which a write off of upto two-thirds of debt payments falling due as well as reduction in the debt stock, irrespective of the maturities was allowed. Tanzania could also receive in 1998 a debt relief of $ 1 billion from the Paris Club which accounts for $ 2.3 billion of Tanzania's external debt of $ 7.7 billion. Under the agreement with the Paris Club, two thirds of this outstanding debt is to be written off by its official creditors and the remaining amount was rescheduled for 23 years with a six year grace period. As a mark of African solidarity, South Africa has cancelled in 1997 Namibia's pre-independence debt of $270 million which reduced its debt by about two third. Capital flows under Foreign Direct Investment amounted to $ 5.5 billion in 1996, representing 1.5% of the total global investment flows. The major recipients of the FDI flows were Nigeria, Egypt, Morocco, Tanzania, South Africa, Algeria, Angola, Ghana and Cote d'Ivore. FDI flows in Africa were concentrated among few countries – Nigeria, Morocco, Tunisia, Angola, South Africa, Ghana, Tanzania, Namibia, Uganda and Zambia received almost 90% of the FDI flows during 1991 to 1997 with Nigeria alone receiving one third of such capital flows. Again, FDI flows were mainly received form the USA, Germany, France and the UK and the investment was made in industries like oil, gas metals and other extractive industries.

In 1997, there were 15 stock markets in Africa with the major markets located in South Africa, Nigeria, Egypt, Kenya, Zimbabwe and Morocco. Most African stock exchanges have forward price earnings ratio of less than ten showing undervalued shares. Portfolio investment began to increase in the 1990s, with economic development and liberalization of capital markets in Africa. New investment opportunities opened up with the establishment of African funds, privatization and increasing number of listed companies on the existing and new stock markets.

Macro Economic Stability during 1990s :

Unsustainable budgetary deficits and consequent large monetary expansion, high and oppressive rates of inflation and misaligned foreign exchange rates that plagued the African economies between 1970 and 1990 were largely corrected during the 1990s. Fiscal deficit was 1.9% of GDP in 1997, in contrast to 4.7% in 1990 and 5.4% in 1994. Strict budgetary management increasingly characterized the fiscal sector in most of the African countries in 1997. Eight countries recorded a budgetary surplus while the number of countries with budget deficits in excess of 10% of GDP came down by almost half between 1990 and 1997.

Table – V.9 : Africa : Frequency Distribution of Countries According to Fiscal Balance as a % of GDP, 1990-97

Fiscal Balance % of GDP	Number of Countries				
	1990	**1994**	**1995**	**1996**	**1997**
Below (–)10.0	8	10	7	7	5
Above (–)10.0 to –5.0	15	18	123	17	8
Above (–)5.0 to 0	23	17	27	22	29
Above 0 to 3.0	3	2	3	3	4
Above 3	3	2	1	1	4
Total...	**52**	**51**	**51**	**50**	**50**

Source: Asian Development Bank, Asian Development Outlook, Oxford University Press, 1998

The experience of prudent fiscal management during 1990s in Africa could be better appreciated in contrast to excessive budgetary deficits during 1980s for which African countries had to pay high cost in terms of low economic growth and macroeconomic instability. More prudent fiscal management was also associated with better control of public expenditure, public enterprise reform, rapid privatization and tax reforms that led to larger collection of tax revenue. As fiscal deficits were reduced, the governments were able to reduce their borrowing from the banking system. This enabled the Central Banks of different countries to restrict money supply growth and increase the availability of credit to the private sector industries. As a result of this, growth of money supply slowed down to 13% during 1997 in contrast to faster growth of money supply – 20% in 1997 and 22.9% in 1995. With inflation also under control, a growing number of countries could manage to maintain stable and positive real interest rates in contrast to early years of 1990s when negative interest rates prevailed as a rule. The average inflation rate of 17.6% in 1997 in Africa represents a drop of almost half from that prevailing in 1994. 33 Sub-Saharan countries reported inflation of less than 10% in 1997 compared with just 12 in 1994. However there are examples at the other extreme too with astronomical inflation rates which implies a complete chaos in the realm of monetary management. For example, Angola had the highest inflation rate of 1500% in 1997 which represents a significant fall from the peak of 3780% in 1995 and 1650% in 1996. Congo (DRC) and Sudan had in 1997, an inflation rate of 445% and 55% respectively. Apart from disorder in monetary management, this difficult situation was the consequence of several social conflicts in all these three countries.

For Africa as a whole, the rate of currency depreciation slowed considerably in comparison to 17% in 1996, as measured by a weighted index of 13 leading currencies to 8% in 1997 reflecting improved export earnings, higher foreign exchange reserves and the gradual removal of exchange rate distortions which closed the gap between official rates and the parallel rates in African countries.

Human Capital in Africa :

In order to appreciate the problem of poverty in Africa, we should first have some basic information about agriculture in this region and then about its high rate of population growth.

Since 1975, Africa's agricultural sector has grown faster than its population only during 1985-90. For the rest of the post 1975 period, agricultural growth has averaged merely 1.9% per year, thereby restricting growth in GDP as a whole. Over the long term, the performance of agriculture has been poor in Africa, with recurring droughts, the volatility of the world commodity markets, poor policy designs and implementation and rapid population growth contributing to its slow expansion, while area under major crops increased by about 15% between 1980 and 1995, population has grown even faster and production per head has fallen almost 10% since the mid 1980s. Between 1990 and 1996, only four countries recorded agricultural output growth above 5% while 19 grew between 2.5% to 4.9%and 10 countries recorded negative growth rates. As many as 23 countries showed rates of growth below that of population.[16] While food production increased rapidly in the first half of the 1990s – increasing at an annual rate of 2.5% - it was not sufficient to keep pace with population growth of 2.8% annually. In the last two decades, per capita food output declined by 1.6% in most of Africa, especially in large countries such as Kenya, Tanzania, Sudan, Congo (DRC), Ethiopia and Nigeria. Only a few countries including Cameron, Cote d'Ivoire, Mauritius, Rwanda and Zimbabwe have recorded some improvement in per capita food production in the last two decades.

In the post independence period, Africa achieved a remarkable expansion in the provision of educational and health services. In education, the proportion of children in primary school has virtually doubled during

[16] Word Bank, African Development Indicators, 1997.

1960-1980. Over this period, life expectancy increased from 40 years to 48 years, while infant mortality rates declined by more than 25%. The major break came during the decade of 1980s when these gains slowed down considerably. In education, primary enrollment ratio stagnated around 78% while secondary enrollment ratios increased at a slow rate reaching 31.1% in 1994 compared to 21.9% in 1980. In the field of health, the Human Immuno Deficiency Virus (HIV) and its associated disease AIDS, emerged as one of the greatest threats to the health of African people. Tuberculosis reemerged as an important infectious disease killing adults and children. Malaria remained an important cause of mortality and morbidity in Africa. Malnutrition adversely affects health of about a third of children in Africa.

The UNDP's composite human development index (HDI) gives equal weight to three indicators – (a) per capita real GDP (b) Life expectancy at birth (c) educational attainment. Africa has performed very differently in each of these three indicators. Human welfare increased in Africa in the two decades after independence. Taking a population weighted average for the 33 African countries, GDP per capita in 1987 increased by about 40% between 1960 and 1980. This can be compared with the five South Asian countries where increase in per capital GDP was smaller, showing an increase of 33% between 1960 and 1980. However, after 1980, the situation changed. While per capita GDP fell in Africa, in South Asia, it increased by 50% between 1980 and 1997. Again since 1960, Africa has experienced larger improvement in the composite human development index than in per capita GDP. The human development index continued to improve in spite of decline in per capita GDP since 1980, though the improvement was obviously slower than in the previous two decades. Until 1980, life expectancy in Africa was only slightly lower than in South Asia. Thereafter the trends have diverged widely in these two regions. Life expectancy increased by only 3.5 years in Africa between 1980-1994. In contrast to this, life expectancy increased in South Asia from 51.5 to 61.3 years. The following table gives relevant information regarding Human Development Indicators for Africa and other regions in 1994.

Table – V.10 : Development Indicators for Africa Compared with other Regions in 1994.

	HDI	GDP (Per Capita) (PPP $)	Life Expectancy	Adult Literacy	Combined Educational Enrolment
Africa	0.429	1907	53.3	54.7	46
S. Asia	0.459	1686	61.4	49.7	53
E. Asia	0.652	3001	89.0	81.8	59
S. E. Asia & Pacific	0.672	3628	64.3	86.3	78
S. America & Caribbean	0.829	5873	69	86.2	69
E. Europe and CIS	0.760	4203	68.1	98.1	75
Industrial Countries	0.911	15986	74.1	98.5	83

Source : UNDP, Human Development Report 1997.

As can be seen from the table, Africa had the lowest level of human development in 1994 as compared with other regions of the world. However, this is not due to the lowest per capita GDP. This is contributed by the lowest life expectancy and the lowest level of combined educational enrollment. The table also shows that at least for some countries, better policies should enable higher levels of investment in education and health to be achieved even while granting the fact that they have low per capita GDP. Africa's human development index is adversely affected by two factors – social conflict – at least in some countries and rapid population growth coupled with rapid increase in labour supply. The short run and the long run consequences of social conflicts are likely to be unfavourable for human capital formation. Rapid population growth implied that the region had to undertake growing expenditure on health and education simply to keep health indicators and educational enrolment ratio from falling.

The progress and setbacks in improving the livelihood of people in the region took place in Africa against the back drop of far reaching demographic changes. For instance, in 1960, 280 million people lived in this region accounting for 9% of the world's population. By mid 1997, population of Africa had increased to 758 million or 13% of the world's population. By 2025, by current projections, Africa's population will be about one and a half billion accounting for a little over 20% of the world's population. With the present population growth rate of 2.8% per year, Africa's population doubles in almost each generation.

Conclusion :

The structural adjustment programme of the Fund and The Bank did not suit the requirements of most of the Sub-Saharan region countries. The contraction in aggregate demand, that the fiscal and the monetary policies brought to there economies, made the situation much worse. Again, these economies needed flow of financial assistance on a long term basis. In the early nineties, this point could be appreciated by the world financial institutions. At the same time, most of these economies, of not all, began to change their foreign trade and foreign exchange rate policies. As a result, the dependence of these economies on the debt creating capital flows are largely reduced by the non-debt creating flows from the private financial institutions in the form of portfolio investment and foreign direct investment. As a result of all these changes, the rate of growth of GNP became higher than their population growth rate, making it possible for most of these economies to show positive rate of growth in the per capita income from 1997 reversing the existing trend.