Briefing Paper  

AFRICA'S ECONOMIC CRISIS

For the majority of African nations, the economic record since 1970 has been substantially worse than in the 1960s. With very few exceptions, their difficulties have now intensified to a level where it is possible to write of an economic 'crisis' among these countries. The focus of this paper is on 'Black Africa' and particularly on the net oil importers of the region since it is for this group that the crisis has been most pronounced. It examines the economic record of Black Africa since 1970, conflicting views on the causes of the deterioration during that period, and current ideas on how African governments should respond to the crisis — in particular, the different strategies recently advanced by the Organisation of African Unity (OAU) and the World Bank.

Although this paper concentrates on the economic crisis, it is also important to note the continuing political and social crises in much of Black Africa. In southern and central Africa there has been particularly severe social, as well as economic, dislocation as a result of the intensified independence struggles of the 1970s. In Black Africa as a whole, political instability is reflected in the frequency of abrupt changes in government (often by military coups), the widespread use of political power for individual gain, the abuse of human rights, and in extreme cases either civil war, such as in Chad, or wars between neighbouring states, such as in the Horn of Africa. In many countries there is an increasing incidence of corruption, violent crime and a loss of confidence in government generally. Poor economic performance has contributed to these wider problems, and in turn these difficulties have further weakened the region's economies.

The economic crisis also threatens the considerable social welfare achievements (especially in health and education) made since independence. Thus for instance, by 1979 average life expectancy at birth was 47 years compared to 39 years in 1960. However, this is still below the average for all developing regions (at 58 years) and Black Africa remains below the average in the principal indicators of nutrition, child mortality and literacy. In addition, severe inequality continues in the distribution of income and access to basic services and education. Continued progress will require faster (and more equitable) economic development — but for many countries the economic crisis threatens to reverse the gains made since independence.

1 The economic record since 1970

This section presents the major aggregate indicators of economic performance. Despite the poor quality of data, especially in agriculture, clear trends still emerge.

It should be noted that Black Africa has one of the highest population growth rates in the developing world (at 2.7% per annum in the 1970s) and this contributes to the low per capita growth statistics. However, as will be seen, the latter are mainly due to the poor growth of total output in most sectors.

In terms of output growth per capita, Black Africa in the 1970s has continued to be below average for all developing regions and has also registered a decline over the 1960s (see Table 1). Within the region, the low income oil importers have shown the worst performance with a fall in GDP growth from 3.7% per year in the 1960s to 1.7% per year in the 1970s (World Bank data). Consequently they registered a significant fall in output per capita over the decade. The middle income oil importers were able to keep output growth marginally ahead of their population growth.

Table 1. Growth of Gross National Product per person (figures are percentage changes per annum)

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<tr>
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<th>1960-70</th>
<th>1970-80</th>
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<tbody>
<tr>
<td>Black Africa</td>
<td>1.3</td>
<td>0.8a</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>low income oil importers</td>
<td>1.7</td>
<td>-0.4</td>
</tr>
<tr>
<td>middle income oil importers</td>
<td>1.7</td>
<td>0.4</td>
</tr>
<tr>
<td>net oil exporters</td>
<td>0.4</td>
<td>2.6</td>
</tr>
<tr>
<td>All developing countries</td>
<td>3.5</td>
<td>2.7</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
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<tr>
<td>all low income oil importers</td>
<td>1.8</td>
<td>0.8</td>
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<tr>
<td>all middle income oil importers</td>
<td>3.9</td>
<td>3.1</td>
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</tbody>
</table>

Source: World Bank
Notes: a1970-79
The dividing line between low and middle income countries is a 1980 GNP per capita of $370 per annum.

For most countries of the region, agriculture is the principal sector in terms of its large share of GDP, and its function in providing the bulk of employment and income. Thus, the poor performance of this sector for many countries is acutely damaging to their overall economic performance. FAO and World Bank sources indicate that for the entire region, agricultural output

1 Black Africa is defined as sub-Saharan Africa, excluding South Africa and Namibia. Of the 31 countries classified by UNCTAD as the world's poorest, 20 are in Black Africa.

2 The net exporters of oil are Nigeria, Gabon, Angola, Congo and Cameroon.

*The Institute is limited by guarantee.
per capita (defined as crops and livestock) fell by about 1% for each year of the 1970s. Of the 39 countries in Black Africa, only 8 reported an increase in agricultural output per capita for 1970-79. This group of countries accounts for only 15% of the region’s total population.

Disaggregation of agricultural output into food crops and export crops reveals the extent of the decline. Figure 1 shows the continuation from the 1960s of the fall in food output per person, and the widening gap between Black Africa and other developing areas. For the region as a whole, the FAO and the World Bank estimate that the output of the major staple foods grew by an average of 1.5% per year in the 1970s (compared with 2% per year in the 1960s) — this was below the rapid growth rate for total population and not even above the growth rate for rural population. 25 countries in the region actually registered a decline in per capita food output over the 1970-79 period. Performance was poor for the oil exporters as a group, but it was also very bad for many of the oil importers. For instance, in the latter group maize output grew by only 1.4% per year in the 1970s — compared with an average yearly growth of 5.2% in the 1960s.

Export crop production was, on average, very poor for the region in the 1970s. Estimates show that the decline in volume of the region’s most important export crops eliminated the volume growth of the 1960s (see Table 2). The weighted total figure for Black Africa is influenced by the rapid fall for the oil producers, but the average performance for many of the oil importers was also very bad. The general failure of export agriculture in the latter countries is of special concern as this is generally their principal foreign exchange earner.

Table 2. Volume growth of Black Africa’s 30 most important agricultural exports (annual percentage growth rates)

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<tbody>
<tr>
<td>Black Africa</td>
<td>1.9</td>
<td>–1.9</td>
<td></td>
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<tr>
<td>of which:</td>
<td></td>
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<tr>
<td>oil exporters</td>
<td>–0.7</td>
<td>–8.6</td>
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<tr>
<td>oil importers</td>
<td>2.6</td>
<td>–0.7</td>
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Source: World Bank

Turning to industrial performance, the growth rate of the region’s industry was approximately 3% per annum during the 1970s — better than agriculture, although it came from a very low base since industry still accounts for a very small percentage of GDP within the region.

For most sub-sectors of industry productivity growth, the degree of local processing, the amount of value added locally to the product, and levels of profitability have been lower than the average for other developing areas. Levels of capacity utilisation have been low and are now falling for many of the region’s industries. This has contributed to the increase in urban unemployment. The volume of manufactured goods exported by the region has shown an increase since 1970, but the rate of growth of such exports is lower than any other developing region.

Considerable investment in infrastructure has been made during the decade — continuing the trend of the 1960s. The size of the region and its difficult terrain have always placed a strong constraint on the development of remote areas. Further investment in road and port development has greatly eased these problems. The majority of countries in the 1970s were also successful in raising the quantity of skilled African manpower — this is registered in the reduced use of

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1 Cereals, roots, tubers, pulses, groundnuts and palm oil.
expatriate personnel. However, skilled manpower remains one of Black Africa’s scarcest resources.

The balance of payments for the region has deteriorated throughout the 1970s. In the two years between 1973 and 1975 the current account deficit of Black Africa’s oil importers rose from 3.6% to 9.5% of GDP. In 1980 the deficit, at 9.2% of GDP, was twice the average for all developing regions (World Bank data). Import volume growth during the 1970s was half the rate of the 1960s – this was mainly due to increasing foreign exchange shortages and consequent import restrictions in the late 1970s. However, for many countries the value of those imports increased because of rising import prices. (This is further discussed in section III.) Export volumes also fell for a number of countries; for instance the group of low income countries registered a drop of nearly 2% per year in export volumes compared to an average increase of 5% per year in the 1960s.

Outstanding external debt for the region increased five-fold during the decade (Zaire having the highest debt). However, the debt total is lower than for other developing regions due partly to the poor credit standing of many African countries. In 1981, five of the nine developing nations which had to reschedule their debt were from Black Africa. For the region, the percentage of export income used for interest payments and repayment of loans doubled during the 1970s. The foreign exchange reserves of many countries have now fallen to extremely low levels.

There are a number of consequences of poor economic performance shared by much of Black Africa. Firstly, governments are finding it increasingly difficult to finance recurrent expenditure, investment programmes, and the necessary maintenance of infrastructure. Secondly, for most countries there is an increasing shortage of consumer goods, capital equipment and essential spare parts. Thirdly, price inflation has been significant throughout the decade – although not as severe as in Latin America for instance. Nevertheless, inflation rates of 30% per annum and above continue to be recorded in countries such as Ghana, Uganda and Zaire.

Finally, it must be emphasised that there were some exceptions to this generally poor record of the 1970s. Thus, Botswana, Ivory Coast, Kenya, Malawi and Nigeria all had an average growth of GDP above 6% per annum. The highest growth rate was 13.2% per year for Botswana due to its large mineral resources. On the basis of its oil resources and increasing industrial base Nigeria similarly reported strong growth. Kenya, Ivory Coast, Malawi and Swaziland all registered growth rates of over 4% per year in agricultural output. Ivory Coast followed by Kenya, Rwanda and the Sudan showed the largest increases in per capita food output during the 1970s. Some countries had mixed fortunes – for example, Tanzania did well in the development of infrastructure and manpower but otherwise reported very poor performance in production.

However, even some of the previously high growth nations are now having increasing difficulties: for example Kenya and Malawi have both suffered setbacks in the 1980s. For the majority of countries, and most of the population, the situation continues to be bleak and the good performers are counterbalanced by nations such as Angola, Chad, Ethiopia, Ghana, Mozambique, Uganda and Zaire which did exceptionally badly in the 1970s. Thus food output per capita in Angola and Ethiopia is estimated to be half the level of 1970 and Uganda, which registered strong growth in the 1960s, suffered a sharp economic decline in the 1970s.

II The reasons for economic deterioration since 1970

In this section a distinction is made between ‘domestic’ causes of the deterioration – those forces located within the region itself – and ‘external’ causes – those forces located within the world economy. African governments place the greatest weight on adverse ecological conditions and what they perceive as an unfavourable world economy for African producers. In stark contrast, organisations such as the World Bank place substantially more emphasis on domestic policy and play down ‘external’ causation.

Domestic causes

a. Environmental deterioration and rapid population growth.

The ecological conditions of sub-Saharan Africa have always placed an important constraint on agricultural development. Rainfall is sparse in many areas, and often highly variable. The tropical climate is favourable to human, animal and crop disease. Soils are generally poor.

Of these factors, rainfall was significantly worse during the 1970s than in the previous decade – there was a greater incidence of low and irregular rainfall. For example, the countries of the Sahel experienced severe drought in the early 1970s which, on some estimates, reduced harvests and livestock by up to one-third. Drought struck again in the late 1970s and was also severe in East Africa. There is a debate on whether this experience marks the beginning of long term adverse changes in the continent’s weather – either a decline or an increased variability in rainfall. However, no firm conclusions can yet be drawn due to the conflicting nature of the evidence.

Rapid population growth continues to have damaging effects. In some regions agriculture is being pushed into areas with very irregular rainfall, thus exacerbating the effect of droughts on production. Fallows are being shortened leading to poorer soil quality, and overgrazing is causing soil erosion. Urban areas are increasing in size, thus putting severe strains on the provisions of services.

b. Government policies

During the 1970s governments and aid donors increasingly focused their policies and resource commitments on agriculture. This has, to some extent, reversed the relative neglect of agriculture in favour of industry which was a feature of policy for many countries in the 1960s. However, despite the change of emphasis, performance was poorer on average in the 1970s.

Some countries continued the strategy adopted in the 1960s of large resource commitments to big, capital...
intensive farms (frequently state owned) and large irrigated schemes. These have suffered from technical and management problems leading to underutilisation of high cost machinery and difficulty in maintaining essential equipment (the latter problem has been very important in causing the poor performance of the irrigated schemes). Consequently, costs of production were often high and yields per units of land and labour much lower than small scale agriculture, giving a poor return to capital investment.

Significantly an increasing number of countries focused policy and resources on the smallholders who make up the bulk of the rural population and who were subject to a general lack of policy attention in the 1960s. Ivory Coast, Kenya and Malawi are examples of countries which have been successful with a strategy based on smallholders. However, a focus on smallholders was for a number of countries negated by a general decline in government-controlled crop prices. This was combined (in many countries) with inefficiency in both the public sector provision of agricultural inputs and the marketing of output. These two factors were a major disincentive against production – Ghana and Tanzania provide good examples of these effects. A range of observers have emphasised these disincentives – in particular, the World Bank argues that both these deficiencies were the principal causes of the region's low agricultural output.

There are four main reasons for the predominance of low producer prices in the region. Firstly, world market prices for Black Africa's principal export crops stagnated in the late 1970s (see below). Secondly, food prices were maintained at low levels to benefit urban consumers. Thirdly, the producer price was often treated as a residual after marketing costs had been deducted from the price to the consumer. Marketing costs are large due to the high transport costs in Africa, and the frequent inefficiency of marketing organisations combined with falling turnover.

The fourth reason follows from the exchange rate policy generally pursued. Since inflation is higher in Black African countries relative to most other regions, increasing relative domestic prices tend to make Black Africa's exports more expensive and its imports relatively cheaper than domestic products. In order to avoid these problems, countries can either choose to deflate their economies or to devalue their currencies. African states within the franc zone are unable to pursue the latter option because their currencies are tied to the French franc. However, the majority of African governments chose not to alter their official exchange rates and consequently their exchange rates moved above the rate dictated by international competitiveness (termed 'overvaluation' of exchange rates – see Figure 2). As a consequence, the primary exports of many Black African countries were not competitive on world markets and the amount that could be paid in domestic currency to producers was less than if a lower exchange rate was adopted. A further consequence is that food imports are made cheaper relative to local products and – in many countries – cheap wheat and rice imports are displacing local staples, such as yams, millet and plantains.

Figure 2. Real effective exchange rates

Source: IMF.

Note: 'Africa' is defined slightly wider than Black Africa, but the trends are similar.

In general, the strategy of establishing industries which produced import substitutes continued from the 1960s. This has been encouraged by continuing tariff and quota protection of domestic markets and the overvaluation of exchange rates. Both policies favour production for the local market rather than for export. Industry in Black Africa has high import requirements both for necessary capital equipment and raw materials. The increasing shortage of foreign exchange has therefore contributed to the low levels of capacity utilisation – many African governments have emphasised this factor. However, the World Bank and other agencies have placed more emphasis on poor management, poor initial project appraisal, a lack of worker incentives and an absence of competitive pressure on many industries. Industries in Ghana, Tanzania and Zambia are good examples of the effect of foreign exchange shortages, and more controversially, of the factors cited by the World Bank.

External causes

The list of 'external' causes which are frequently cited is shorter, but each of the following has had substantial effects.

a. Oil price increases

The large oil price rises of 1973-74 and 1978-80 hit the oil importing African nations very badly. World Bank estimates for eight of the region's typical oil importers1 show that oil imports as a percentage of export earnings rose from 4.4% in 1970 to 12.5% in 1978, reaching 23.2% in 1980. Tanzania's oil import bill for 1980 is estimated to have absorbed 60% of its total export earnings. It should, however, be noted that the oil price increases would not have taken such a large percentage of export earnings of these countries if such earnings had not fallen due to declining export crop production.

The costs of 'modern' (and export-orientated) agriculture have increased particularly sharply due to price acceleration in the energy-related agro-chemical industry and the high costs of farm power and

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1 Ethiopia, Ghana, Kenya, Madagascar, Senegal, Sudan, Tanzania and Zambia.
transport. Resultant shortages of fuel and fertilisers, in particular, have increased substantially the risks of agriculture and affected investment in the sector.

Finally, the increased cost of energy has also had macroeconomic implications both in contributing to the region’s increased inflation rate and in requiring deflationary action to correct balance of payments deficits. For the oil producers, the increase in oil prices has had substantial benefits.

b. Primary commodity prices

The majority of African economies are dependent on a narrow range of commodities for their foreign exchange earnings: for instance copper accounts for 94% of Zambian exports, and the Gambia derives 85% of its export income from groundnuts. Over the last decade, the ‘real’ prices of the region’s 25 most important commodities have fallen on the world market. (The real price is the price of the commodity relative to the prices of manufactured goods.) Commodities such as tea, coffee and cocoa experienced a brief price boom during 1976-78 but subsequently real prices have fallen. In several countries, the price of sugar has now fallen below its cost of production. Cocoa and coffee prices have fallen below the official price ‘floors’ set by international agreements.

The largest price falls were for minerals (excluding oil). The brief minerals boom of the early 1970s was outweighed by subsequent falls and for copper the real price gains of the 1960s were completely wiped out. The price is now below the cost of production for most African producers.

On the demand side, African countries have frequently been disadvantaged by high cereal prices – for instance during the drought of the early 1970s the Sahelian countries had to enter world markets at the same time as the occurrence of a boom in cereal prices. This year the food deficit countries should benefit from the record world grain harvests which are forecast. Overall the general pattern of price variations has been damaging to food importers with weak balance of payments.

c. The Western recession

Primary commodity prices during the decade have been generally low because of the continued Western recession. The demand for ‘soft’ commodities, such as cocoa and sugar, has fallen because of the decline in consumer spending, and industrial slowdown has reduced the demand for metals. The price inflation of manufactured goods has contributed to the fall in real commodity prices and the OAU has argued that member governments can do little about domestic inflation until the prices of imported industrial goods stabilise. High world interest rates have raised the cost of borrowing to African countries.

Continued recession has also been associated with reductions in aid budgets by Western governments and, beginning in 1981, reduced commitments to multilateral aid agencies such as the World Bank. There are increasing calls for the protection of Western markets from competing ‘Third World imports’. In sugar, African producers are very vulnerable to any attempt to close the EEC markets in order to protect European sugar producers. Currently African producers have a negotiated quota with the EEC – a reduction or ending of that quota would have severe effects on producers such as the Ivory Coast who have invested heavily in sugar production.

However, in general, Black Africa is not as vulnerable as other developing regions to increased protectionism since most of the region’s countries export mainly tropical products and unprocessed minerals.

III Responses to the economic crisis

This section concentrates on two strategies recently advanced to deal with the crisis – firstly, that of the African governments themselves as expressed through the Organisation of African Unity and secondly the views of the area’s main aid donor – the World Bank.

In 1981 the OAU published the Lagos Plan of Action for the Economic Development of Africa 1980-2000. The strategy, which is intended for both Black Africa and North Africa, has three key features:

- Food production: the OAU emphasises increased investment in this sector and improvement in both marketing and the provision of support services.

- Industrialisation: to improve linkages between sectors and therefore to reduce import reliance. In particular it envisages greater processing of raw materials and the establishment of capital goods industries. To this end, the OAU has declared the 1980s ‘Industrial Development Decade in Africa’.

- Regional co-operation: to link up common investment strategies, to enlarge small national markets and to thus make Africa less reliant on the ‘external’ world economy. Co-operation is also required to press for increased aid and more favourable conditions for African producers in world markets.

In September 1981, the World Bank published Accelerated Development in Sub Saharan Africa: An Agenda for Action. The report is the Bank’s response to a request by its African governors in 1979 for an analysis of the economic crisis. Its principal features are:

- Primacy of agriculture: in contrast to the OAU’s emphasis on industrialisation the Bank puts agriculture at the centre of its proposed strategy. It recommends concentration of resources on smallholders rather than large farms and it lays particular stress on improving price incentives. In order to increase investment and to reduce the effects of price adjustment on the urban poor, the Bank calls for a doubling of aid to Africa by the end of the 1980s.

- Export crop production: this, followed by food production, is the key to agricultural sector strategy in the Bank’s recommendations. Particular attention is placed on raising the level of producer prices and improving marketing.

- Exchange rate and trade policy: the Bank urges gradual devaluations of overvalued currencies to encourage export crop production and export of manufactured goods. It also urges a reduction in import controls to make industry more competitive.

- Increased use of private enterprise: this is recommended for all sectors by the report, especially in the provision of services now

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3 See ODI Briefing Paper No 3, April 1980 for further analysis of the consequences of Western recession for the Third World.
undertaken by the State. This ranges from the provision of health services to agricultural marketing.

In order to encompass the varying philosophies of OAU members (which range from reliance on the market to various forms of socialism) the Lagos Plan has had to be a very general statement of agreed policies and views. The details of national strategies are left to individual member states. In contrast, the World Bank report is more specific and detailed on the crisis. Probably because of the very general nature of the OAU document, the World Bank argues that its strategy builds on the Lagos Plan. The Bank gives the impression that the Lagos Plan is a long run strategy and that its own recommendations fill in a short run policy gap. However, it is clear from the OAU's reaction to the Bank report that they regard the Lagos Plan as a guide to both short and long run policy. It is indeed evident from the two reports that their recommended strategies are very different.

This divergence comes from their disagreement over the relative weighting to be given to the causal factors in the crisis. Differences in both diagnoses and prescriptions in turn emanate from a wide and longstanding debate on development. Thus, the Lagos Plan falls within the tradition that emphasises colonialism's unfavourable legacy of dependence on primary products and the Third World's integration into a world economy which is structured to its disadvantage. The OAU plan must therefore be read in the context of the South's call for a 'New International Economic Order'. In contrast, the World Bank is firmly within the tradition which emphasises the potential opportunities (at least in the short run) of world markets and specialisation in primary commodities.

Both the World Bank's African governors and the OAU secretariat have now considered the Bank's report. While welcoming its call for more aid, both groups have expressed concern at the recommendation that policy should be orientated to world markets in a period when conditions in such markets are so unfavourable to African exporters. The World Bank report forecasts increasing commodity prices for the 1980s, but there can be little confidence in such predictions while the world economy remains flat. The Bank would reply that primary product exports are the only way, in the short run, of obtaining the foreign exchange which Black Africa so desperately needs.

Both the World Bank and the OAU are at least agreed on the urgency of increasing food output. However, a number of observers (including OAU members) have argued that increased export crop production may be detrimental to increased food production, since for many areas they are not complementary. Further they argue that high value cash crops are mainly grown by large plantations and richer farmers (as in Kenya) and not by the poorest smallholders. The latter group mainly grow food for their own consumption. Hence a policy to increase the food output of the poorest smallholders would have beneficial effects on their nutrition, and also on their income if this group's marketable surplus was increased. The World Bank argues that food and export crop production are complementary for many areas and that even if they were not, food demand could still be satisfied by the increased income from cash crop production. Others argue that concentration on food production for domestic markets is a less risky strategy than export crops as the latter may fail to generate sufficient income on world markets to meet food import costs.

The Bank has also been criticised for its emphasis on the market mechanism. A common reason for State intervention in Africa has been the lack of an indigenous private sector with sufficient skill and capital. The Bank argues that sufficient reserves of knowledge and resources have now been built up in the private sector. For many countries, however, it remains questionable whether the private sector is able or willing to take over many State operations. A second objection to the market emphasis is that the market in many countries is not sufficiently large to support, for each sector, enough firms to make the system competitive. Private sector monopolies have many of the inefficiencies that the Bank has been so critical of in State corporations. Regional common markets as envisaged by the OAU are a response to this problem.

Since most of Black Africa's poor are located in rural areas, then an increase in producer prices can be expected to improve their income. However such action would disadvantage the urban poor and the urban consumers as a whole have considerable political weight in Black Africa. Consequently, while the Lagos Plan notes the importance of fair crop prices, many OAU members are reluctant to increase crop prices - especially by devaluation. Increased aid could smooth out such changes for the poor, but the World Bank's call for a doubling of aid is unlikely to be met in the context of the current Western recession. Indeed in 1982, the World Bank has itself been forced to announce cuts in lending to Africa; for example the World Bank's International Development Association (IDA) will reduce loans to West Africa by 11%.

Thus the recommendations of the World Bank's report (which began preparation in 1979) have to a significant extent been overtaken by the events of the Western recession. Consequently, the World Bank is left proposing a very risky strategy, without being able to offer increased aid to smooth the transition or as a safeguard if the strategy fails.

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