SUMMARY
African Development Report 1998

Introduction

The African Development Report 1998 reviews the recent economic developments in Africa at both the macroeconomic and sectoral levels. The focus of this year's Report is on the role of human capital development in bringing about accelerated growth and poverty reduction. The Report also provides economic and social statistics on Africa. This Summary highlights the main aspects of the Report.

The African Economy in 1997

In 1997, Africa's economic upswing continued for the third consecutive year. Real Gross Domestic Product (GDP) grew by an estimated 3.7 per cent, compared with 5 per cent in 1996 and an average annual growth of 1.9 per cent between 1990 and 1995 (Table 1 and Figure 1). Although the recovery remains fragile and the socio-economic setbacks of the previous two decades are far from overcome, the deepening of economic reforms and progress in stabilizing the socio-political framework provide grounds for optimism over the region's economic prospects.

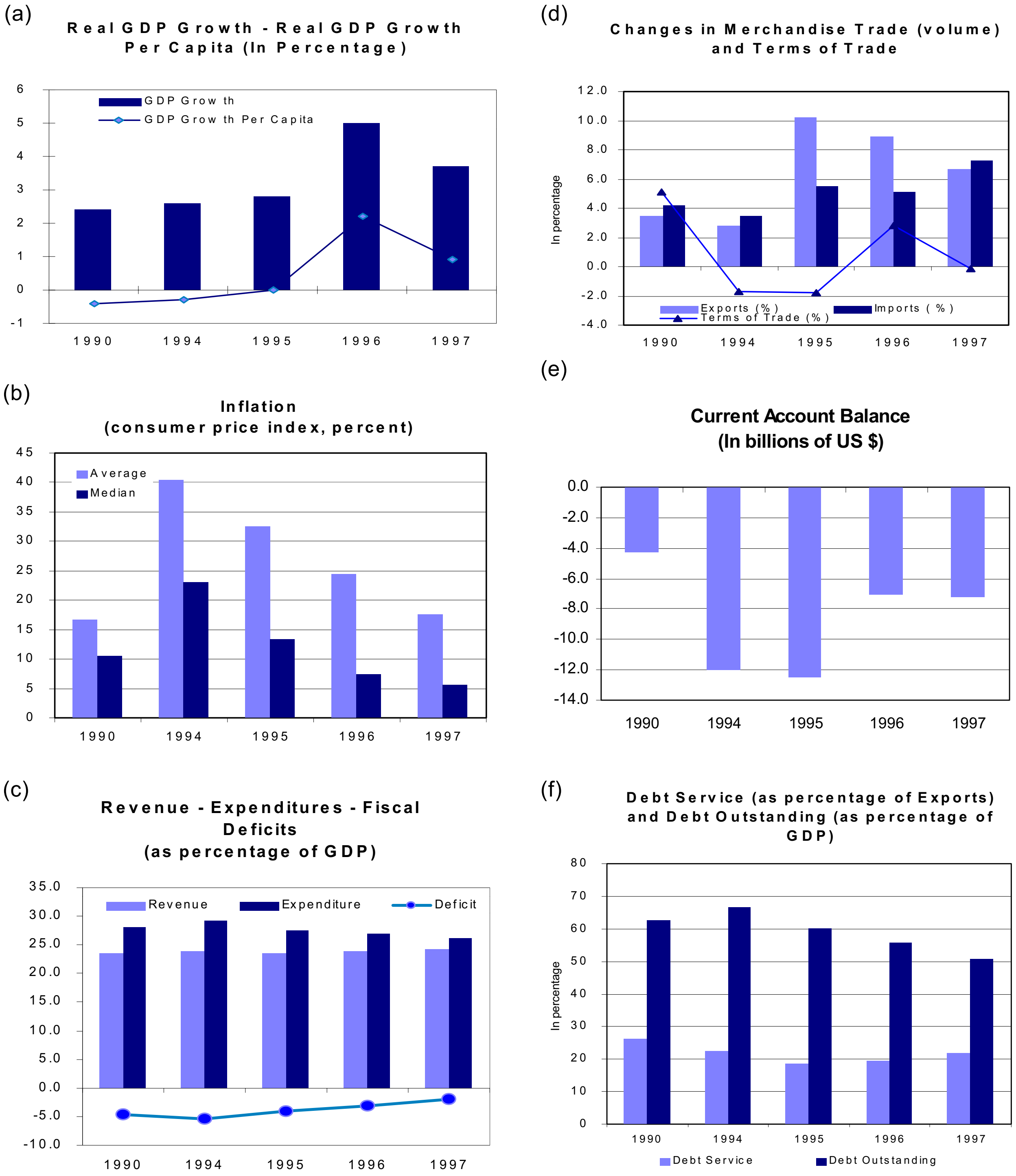
Overall economic performance, however, remains vulnerable to adverse external shocks emanating from weaker international prices for some major primary commodities, unfavorable weather conditions, and societal conflicts in some countries. The effects of the external shocks have been

Table 1: 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 Capita 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.

Figure 1: Africa: Major Economic Indicators, 1990-97



mitigated by the greater resilience achieved as a result of the macroeconomic reforms implemented in many countries. Over the last three years, four out of five countries have achieved positive economic growth in stark contrast to the situation at the beginning of the decade, when a third of them experienced economic decline.

In over 70 per cent of the countries, real per capita incomes increased during 1997 compared with only half at the beginning of the 1990s. Although the steep fall in per capita income for most of the past two decades is still to be recouped, it is encouraging that three out of five countries experienced an estimated annual per capita income increase of more than 1.5 per cent compared with only a quarter of countries in the early 1990s. In the last three years, 20 out of 53 countries achieved per capita income growth of more than two per cent.

However, averages may mislead because of the diversity of performance across the continent. While 34 countries recorded growth rates above 4 per cent, several larger economies, notably South Africa, Nigeria, Morocco and Congo (DRC), registered low or negative growth rates, thereby reducing the average for the region as a whole. Three different groups of countries can be distinguished:

High growth economies

A group of 20 countries recorded GDP growth rates of 5 per cent or above. Medium-sized countries in this group included Angola, Ethiopia, Chad, Côte d'Ivoire, Cameroon, Mozambique and Tunisia. Smaller economies in this high group included Equatorial Guinea, Rwanda, Lesotho, Malawi, Togo, Mali, Benin, Burkina Faso, Guinea-Bissau, Mauritius and Somalia. The only large economies in this group were Egypt and Sudan.

Moderate performers

There were 19 countries with growth rates between 3 per cent and 4.9 per cent. Included in this group were Algeria, Botswana, Burundi, Cape Verde, Eritrea, Gabon, Ghana, Guinea, Liberia, Madagascar, Mauritania, Namibia, Niger, Nigeria, Senegal, Tanzania, Uganda, Zambia and Zimbabwe.

Weak performers

This group includes 14 countries, which recorded either low or negative growth rates. In the group, 9 countries recorded positive growth rates below 3 per cent — South Africa, Libya, Kenya, Gambia, Swaziland, Seychelles, Sao Tome and Principe, Comoros, and Djibouti; and 5 countries experienced negative growth—Central African Republic, Congo, Congo (DRC), Morocco and Sierra Leone. With the exception of Morocco, the countries with negative rates experienced social strife, which undermined economic growth. But, in general, recent improvements in socio-political stability in some of these countries are reasons for optimism over their economic prospects.

Main factors accounting for slower growth in 1997

In 1997, several larger economies registered low or negative growth rates, which reduced the regional average compared with 1996. The main factors accounting for slower growth in 1997 included the following:

- The drought and flood conditions in some countries in North and East Africa and excessive rains in Southern Africa, undermined agricultural growth. An example worthy of note is that of Morocco, which, because of adverse weather conditions, could not sustain the impressive agricultural growth of the preceding year during which a fivefold increase in cereal production was achieved. Agriculture dominates the economies of most African countries such that its phenomenal decline in 1997 was the single most important influence making for slower GDP growth.

- The performance of main commodity prices was mixed. Although Africa's commodity prices were up 7.6 per cent over the year compared with a 5.3 per cent decline in 1996, the price of oil-the continent's main export-declined 5 per cent, while metal and mineral prices, and particularly gold, also weakened. This collapse of the gold price, coupled with declining production, exacerbated by structural deficiencies, slowed economic growth in South Africa. Lower energy prices impacted negatively on the economic performance of Nigeria, Libya and Congo. Higher coffee prices helped to boost economic performance in Kenya, Tanzania and Uganda to varying degrees, while major exporters of cocoa, Côte d'Ivoire and Ghana, benefited from increased cocoa prices.
- In a number of member countries, including the Central African Republic, Congo (DRC) and Congo (Brazzaville) in Central Africa, Sierra Leone and Liberia in West Africa, Algeria and Sudan in North Africa, societal conflicts undermined African economic performance in 1997. Social stability and commitment to macroeconomic and structural reforms are required to produce a secure economic environment and encourage greater investment in various parts of the continent.

Domestic Demand, Savings and Investment. Domestic demand accounted for 90 per cent of GDP growth in 1997 compared with 86 per cent in 1996. Private and public consumption accounted for 60 per cent of real GDP growth and 67 per cent of domestic demand, while as a share of GDP, total consumption increased from 79.4 per cent in 1990 to 81.6 per cent in 1997. The contribution of investment demand to GDP growth continued to be weak at 1 per cent during the past three years. In 1997, Africa recorded an average investment rate of about a fifth of GDP, well below the level necessary to sustain strong economic recovery. Africa's lacklustre investment performance has been exacerbated by the sharp decline in public investment, especially in infrastructure, reflecting the constraints imposed on the government budget as a result of implementing economic reforms. With public sector investment falling in the 1990s, private investment has become the dominant source of investment demand accounting for two-thirds of domestic investment in 1997.

Growth in Africa is also constrained by low savings. In 1997, Africa recorded an average national savings rate of about 17 per cent of GDP, barely sufficient to support higher investment required for growth. Not only is the regional savings rate below the 24 per cent average of developing countries as a group it is also insufficient to finance the investment necessary for rapid, sustained economic expansion.

Since present investment and savings rates cannot result in adequate growth, mobilizing increased domestic and external resources for investment is essential to accelerating economic growth. Also important in determining the pace and sustainability of economic growth is the efficiency with which resources are utilized. In the case of the low-income economies, it is also necessary to emphasize the crucial contribution of concessional capital flows to the growth process. In many of the low-income countries, the investment rate is inadequate to meet replacement needs, let alone support new production capacity. Low-income countries will, therefore, continue to require concessional resources to strengthen the effectiveness of on-going reforms and to support investments needed for sustainable development. And additionally, concessionary finance should assist low-income countries in developing an enabling environment that would attract investment and promote the development of the private sector.

External Trade and Finance. A particularly encouraging development in 1997 was the continued strength of exports, which increased by 6.2 per cent to an estimated $132 billion. Export volumes were up 6.7 per cent, maintaining the strong upward trend of the two previous years. Although trade liberalization and economic recovery continued to fuel imports, which grew 7.0 per cent, the strengthening of exports led to a trade surplus of US$1.7 billion. This helped to maintain the current account deficit at a relatively lower level of $7.2 billion or 1.2 per cent of GDP.

The stock of external debt for the region stood at $315.2 billion in 1997, with long term debt accounting for 20 per cent. Algeria, Egypt, Nigeria, South Africa, Morocco and Côte d'Ivoire accounted for more than half of the total external debt. Debt service obligations continue to absorb about a fifth of export earnings and arrears continue to mount in a number of countries.

The sustainability of external debt in low-income countries depends critically on accelerating the benefits ensuing from the Heavily Indebted Poor Countries (HIPC) Debt Initiative. The aim is to tailor debt service to payment capacity so that countries can attain external viability. This would improve the economic environment further by helping to reduce uncertainties, restore business confidence, attract private capital, and release resources for human capital development. Uganda became the first country to benefit from the debt initiative, with a relief package of $338 million, about a fifth of the country's overall debt burden, to be delivered in April 1998. Agreement has also been reached on the eligibility of Burkina Faso, and Mozambique for similar treatment. Ethiopia, Madagascar and Tanzania concluded debt reduction agreements under Naples terms during the year, which allow for a write-off of up to two-thirds of debt payments falling due as well as a reduction in the debt stock, irrespective of maturities.

Foreign direct investment (FDI) flows to Africa amounted to $5.5 billion in 1996, representing 1.5 per cent of the total global investment flows. The main recipients were Nigeria, Egypt, Morocco, Tunisia, South Africa, Angola, Ghana and Côte d'Ivoire, who accounted for over 67 per cent of FDI flows to Africa in 1996. Portfolio investment is increasing with the development and liberalization of capital markets in Africa. A new regional closed-end investment fund, the West Africa Growth Fund, was set up in Abidjan, to invest in privately-owned and newly-privatized companies in Franc Zone countries.

In 1997, active stock market conditions prevailed in Botswana, Egypt, Malawi, Morocco, Nigeria, Zambia and Zimbabwe. For example, the Botswana stock market topped the world league table with a 100 per cent local currency gain and a 94 per cent rise in US dollar terms.

Policy Developments. Governments maintained restrictive fiscal policies, which reduced overall budget deficits to a historic low of 1.9 per cent of GDP in 1997. Six countries recorded a budget surplus while the number of countries with budget deficits above 10 per cent of GDP fell by more than half between 1990 and 1996. Growth in money supply slowed to 13 per cent during the year, well below the 20 per cent recorded in 1996 and 22.9 per cent recorded in 1995. Tighter financial policies further reduced inflation to 17.6 per cent in 1997, though the average figure was distorted by hyper-inflation in countries such as Congo (DRC) and Angola which registered rates above 400 per cent. No fewer than 33 Sub-Saharan countries reported inflation of less than 10 per cent compared with just 12 in 1994. The median inflation rate fell to 7 per cent.

Overall, the rate of currency depreciation on the continent, as measured by a weighted index of 13 leading currencies, slowed markedly during the year from 17 per cent in 1996 to 8 per cent in 1997. Exchange rate performance reflected improved export earnings, higher foreign exchange reserves, the phased removal of exchange rate distortions which closed the gap between official rates and the parallel rates in several countries, lower inflation, and the continent-wide improvement in fiscal and monetary conditions.

Enterprise Restructuring and Privatization. In 1997, enterprise restructuring and privatization remained critical components in building market-oriented economies in several countries. In Southern Africa, South Africa and Zambia are set to witness the largest privatization so far on the continent. In April 1997, South Africa sold off a 30 per cent stake in the state-owned Telcom South Africa valued at $1.34 billion (6 billion rands) to Thintana Communications, jointly owned by the SBC Communications of the United States and Telekom Malaysia BHD of Malaysia. In Zambia, the most notable development in restructuring and privatization was the signing of the memorandum of understanding with the Anglo-American Corporation on the sale of the rich copper mine at Konkola. This is part of the plan for disposing of the assets of the state-owned Zambia Consolidated Copper Mines (ZCCM) in stages. At the conclusion of the process in 1998, this privatization scheme, valued at an estimated $2.2 billion, would be one of the largest in Africa.

Côte d'Ivoire witnessed its largest privatization sale so far when the French Telecommunication Company, France Telecom, acquired a 51 per cent share of CI-Telcom. In Ghana, the major privatization activity was also in the telecommunication sector, where the government sold 30 per cent of its stake in the Ghana Telephone Company. In Nigeria's communication sector, a number of private companies were given interconnectivity with the government owned NITEL. In Morocco, privatization of the energy industry (electric power generation and oil refinery), telecommunication, mines (including the Imter silver mine which is reputed to be one of the ten most profitable in the world), steel, sugar, fertilizer, banks and hotels are at an advanced stage. In Egypt, the government changed the banking law to allow foreign investors to have a majority shareholding in banks. Following the change, Societe General of France acquired a 51 per cent stake in the National Societe General Bank.

Sectoral Performance. Key economic sectors experienced mixed fortunes in 1997. Drought/flood conditions, partly associated with the El Niño weather phenomenon, undermined agricultural production in countries as diverse as Morocco in North Africa, Ethiopia, Kenya, Somalia and Tanzania in East Africa, Zambia and Zimbabwe in Southern Africa, and several countries in the Sahel region. As a result, agricultural output grew by only 1.9 per cent, but industrial production, led by manufacturing, achieved moderate growth of 4.4 per cent, while the services sector registered a similar improvement. Manufacturing growth rates were higher during 1995-97 than for the 1990-94 period. Improvements were particularly noticeable among the Franc Zone countries where the devaluation of the CFA franc in January 1994 provided stimulus to industrial enterprises in some of these countries.

Overall, investments in African mining are estimated to have increased from US$418 million in 1996 to US$662 million in 1997, representing the largest regional increase in a single year. The region's share of global investment jumped from about 12 percent in 1996 to about 17 percent in 1997. Exploration activity and spending experienced significant growth since the early 1990s, which should lead to a boom in mining production. Much of the exploration activities have focussed on gold in West and East Africa; and copper, cobalt and zinc in the Democratic Republic of Congo and Zambia. In terms of regional distribution, about 40 per cent of exploration expenditure in 1996 went to Southern Africa (excluding South Africa), 25 per cent to West Africa, 6 per cent to Central Africa, and about 5 per cent to East Africa.

Regional Growth Patterns and Integration. Table 2 illustrates regional trends in economic growth since 1990. East Africa recorded a GDP growth of 3.9 per cent, lower than the 6.7 per cent achieved in 1996. This was despite a strong showing by Ethiopia and Uganda, who recorded growth rates of 7 per cent and 5.4 per cent respectively (Figure 2). Policy uncertainties also constrained economic performance in Kenya.

In terms of progress in regional integration, the East African Cooperation (EAC) agreement received an important boost when the three members, Kenya, Tanzania, and Uganda, agreed to develop a power supply master plan for the region and to consider new inter-grid connections to supply power to border towns. The EAC also announced a $67 million digital transmission project.

In West Africa, growth averaged 3.8 per cent in 1997. The sub-region's dominant economy, Nigeria, recorded an expansion of only 3.2 per cent. CFA Zone economies recorded average growth rates of 4.7 per cent in 1997, spearheaded by expansion averaging between 6 per cent and 7 per cent over the past three years in Côte d'Ivoire. Propelled by new oil discoveries, Equatorial Guinea's GDP rose a phenomenal 24.9 per cent.

The Economic Community of West African States (ECOWAS) is preparing a Regional Development Program (RDP), which seeks to put together a coherent set of proposals to ensure complementarity between economic policies undertaken by the ECOWAS member states under structural adjustment programs, and regional integration policies.

In North Africa, growth slowed down markedly in 1997 to 3.8 per cent from 5.4 per cent in the previous year, despite improved economic performance in Egypt and Tunisia, chiefly as a result of the decline in agricultural production in both Morocco and Algeria. Higher oil and gas exports are forecast along with improved agricultural performance.

Economic performance in Central Africa remained weak with sluggish growth of only 2.6 per cent. Recent political developments in Congo (DRC), the largest economy in the region, are expected to halt the country's protracted economic decline. Gabon is expected to maintain its growth rate at the 1997 level of 3 per cent while its inflation rate should be among the lowest on the continent.

Table 2: Africa: Real GDP Growth Rates by Sub-Region, 1990-97

	1990	1994	1995	1996	1997[a/]
Central	-4.0	-3.4	3.6	3.2	2.6
Eastern	4.3	3.4	5.6	6.6	3.9
Northern	2.8	3.1	1.5	5.4	3.8
Southern	0.1	3.0	3.8	4.7	3.4
Western	5.2	2.1	3.4	3.7	3.8
FRANC ZONE	-0.9	1.7	4.6	5.0	4.7
NET OIL EXPORTERS	3.3	1.1	3.0	3.9	4.2
NET OIL IMPORTERS	1.5	4.1	2.6	6.0	3.1
ALL RMCs	2.4	2.6	2.8	5.0	3.7

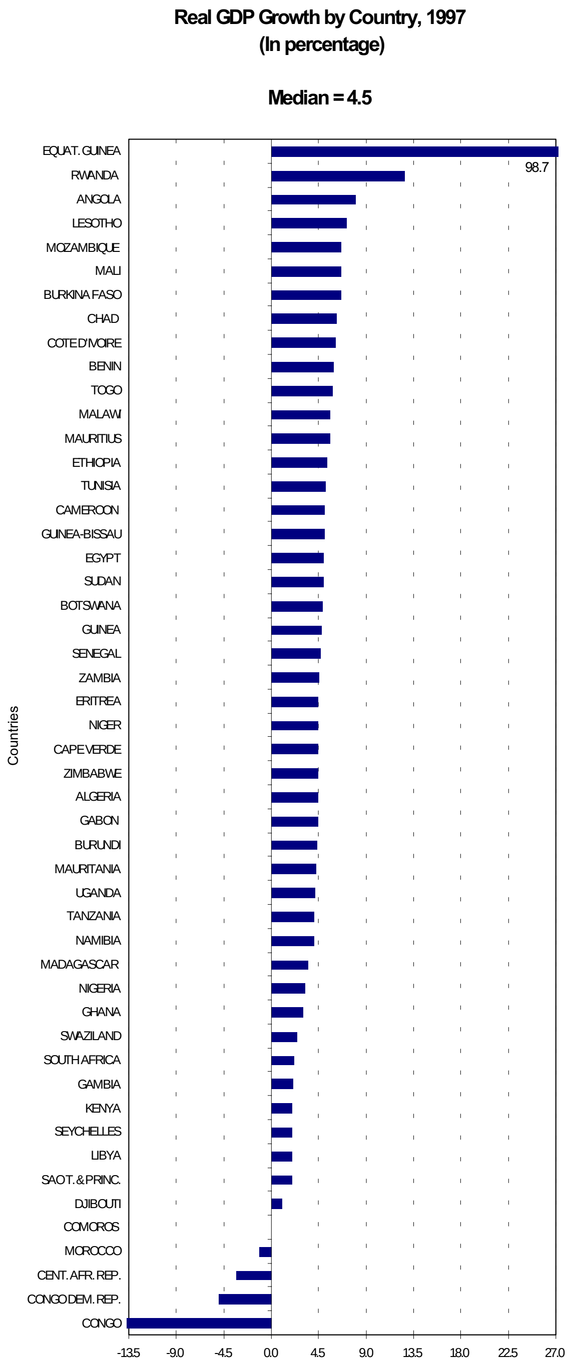
Notes: a/ Estimates.
Source: ADB Statistics Division.

Southern Africa recorded a growth rate of 3.4 per cent in 1997, with the lacklustre performance of South Africa seen as a major contributory factor to the sub-region's modest economic performance. South Africa's economic prospects are set to improve slightly, with GDP growing from 2.2 per cent in 1997 to about 2.5 per cent in 1998. Tight fiscal and monetary policies will result in lower inflation of around 6.5 per cent, but unemployment, already standing at more than 30 per cent, is forecast to increase further. GDP growth in Zimbabwe fell from a high of 7.3 per cent in 1996 to 4.5 per cent in 1997, reflecting the slowdown in agriculture and mining and a downturn in investment and exports. Inflation is forecast to increase to around 25 per cent from 18.9 per cent in 1997. Although the El Niño weather pattern is likely to affect economic activity in Zambia in 1998, recent privatization in the mining sector and increased private sector investment are expected to improve growth rates above the current 4 to 5 per cent range over the medium term. In 1997, the Angolan economy grew 8 per cent, propelled partly by strong oil exports and the return of stability to some parts of the country.

Important steps were taken to strengthen regional economic integration in the Southern African Development Community (SADC). These included the progress of the Maputo Corridor project which will link the capital of Mozambique with South Africa's economic heartland in the province of Gauteng, and the promotion of other regional investment projects involving transport, minerals and energy. The planned cross-continent transport link from the port of Maputo on the Indian Ocean to Walvis Bay (Namibia) on the Atlantic Ocean is set to enhance economic growth as well as strengthen economic integration in the region. During the year, Congo DRC and Seychelles joined SADC bringing the total membership to 14 countries.

Medium Term Prospects. The forecast for 1998 GDP is cautiously estimated to be between 4 and 5 per cent. Medium term prospects also suggest that the strengthening and continued

Figure 2



Source: ADB Statistics Division.

broadening of economic growth will be maintained. Although country experiences may differ, most are forecast to improve upon their last year's performance. Angola, Côte d'Ivoire, Ghana, Uganda, Ethiopia, and Mozambique are set to continue their robust economic performance of recent years, while the larger economies of South Africa, Nigeria and Morocco are expected to show more moderate performances in 1998. The prospects for higher oil prices are not promising and may exert a dampening impact on the economic performance of major countries such as Angola, Algeria, Egypt, Libya, Nigeria and Tunisia.

Growth in Africa is also likely to be affected by the profound volatility in the world financial markets occasioned by the contagion effects of the Asian. The impact will be felt mainly in the area of trade and investment flows. Although Asia is not a major export market for African goods, it is a growing market, and the austerity measures and the required realignment of the banking sector and assets markets might bring about a slowdown in Asia's economic activity and its GDP growth, which would reduce Asia's demand for imports from Africa. Also the depreciation of Asian currencies and the adjustment-driven deflationary effects, may bring about a general fall in Asian prices, thus making them more competitive compared with African goods. Africa will need to intensify its efforts to diversify and expand its exports in the face of competition in the global markets, especially in such primary exports as cocoa beans, timber, rubber, coffee, cotton, copper and iron ore.

Further, the economic crisis and the consequent banking stress might cause Asia's major investors in Africa to look inward in an attempt to consolidate their financial position and, hence reduce their investments in Africa. Although historically these have been small compared with those from other regions, in recent years a growing number of Asian countries have taken steps to invest in Africa's telecommunication, mining and energy sectors. For example, according to UNCTAD, Malaysian FDI outflows to Africa increased from $1.2 million in 1990 to $46.1 million in 1996, while that of Taiwan increased from $4.5 million to $20.9 million over the same period.

Nevertheless, the brighter economic prospects for Africa are based on several factors, chief among which are the deepening of economic reforms and progress in reducing social conflicts. While the momentum for economic recovery is encouraging, the process has just begun and can only be accelerated by sustained increase in the magnitude and productivity of investment in both physical and human capital.

Why Invest in Human Capital?

The recent improvements in economic growth will only be sustainable if there are, among other factors, competent people with knowledge and skills to capitalize on new employment opportunities. And investing in people will falter if too few employment opportunities are being generated to make full use of their human capital. In this context, human capital development is seen both as an essential means for sustained economic growth and poverty reduction and as an important end in itself. Human capital matters because the poor's most significant asset is their labor, and the most effective way to improve their welfare is to increase their employment opportunities and the productivity of their labor through investment in education, health and nutrition.

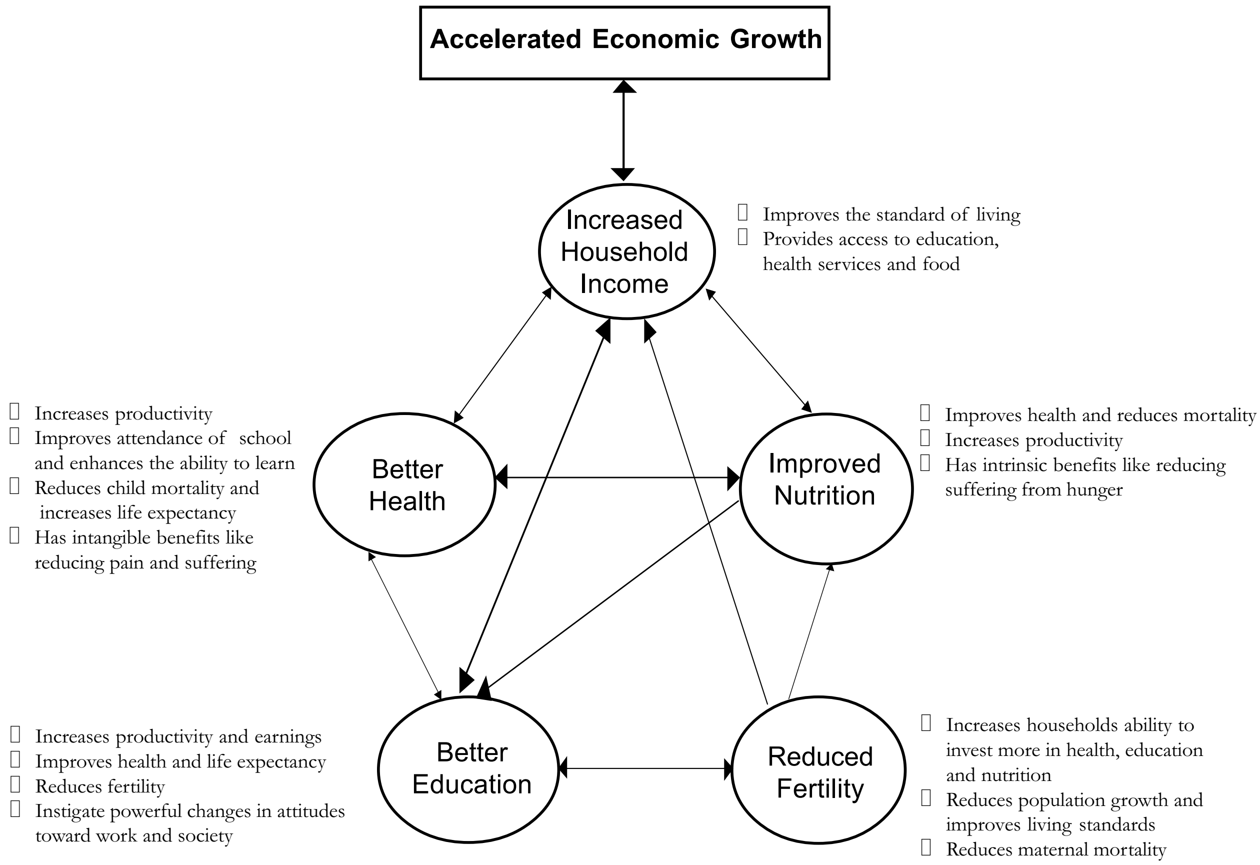
Education, which equips people with literacy and numeracy, has high rates of private and social returns, particularly in the case of primary education. In addition to its direct positive effects on productivity, rates of return and earnings, education has a wide range of indirect benefits which instigate powerful changes in people's attitudes toward work and society. It makes it easier for people to learn new skills throughout their lives, and hence facilitates their participation in modern economies and societies. Education also affects the health and life expectancy of individuals, empowering them with the knowledge and the means to prevent, control and detect diseases. Health and nutrition improve peoples' standard of living, by reducing sickness and child mortality and by increasing life expectancy. Education and better health also interact positively to reduce fertility and population growth.

As a result of the interrelationships among these different aspects of human capital, investments in each constitute inputs into the others, bringing a spiral of multiple and mutually reinforcing positive effects (Figure 3). The importance of stressing investment in human capital emanates from the irreversible effects of failing to make such investments. Once a generation of children is exposed to life without adequate health care, nutrition or schooling, there is little that can be done during their adulthood to reverse the damage. For these reasons, investments in human capital cannot be put off until economic conditions are better.

Human Capital in Africa: The Record

The post-independence expansion in the provision of educational and health services throughout Africa was a remarkable achievement. The proportion of children in primary school increased twofold over two decades, while the proportion in secondary school increased by a factor of more

Figure 3: Interrelationships Among Aspects of Human Capital



than five. Although significant progress has been made in closing the gender gap since the 1960s, there are still gender disparities in school enrollments. During the same time period, life expectancy, as a measure of good health, increased by some 8 years, while infant mortality rates declined by more than a third. In the 1980s, there was a slowdown in the gains in some areas, and a reversal in others. In education, primary enrollment ratios stagnated, while secondary enrollment ratios continued to rise, but at a much slower rate. Higher education, which expanded in the earlier two decades, encountered serious problems with regard to quality, relevance and finance.

In health, the Human Immunodeficiency Virus (HIV) and its associated disease, AIDS, emerged as one of the greatest threats to the health of African populations. It was estimated by WHO that 21 million people in Africa were infected with HIV, two-thirds of the global estimates. Of the estimated 5.8 million people, newly infected with HIV in 1997, some 4 million were in Africa. Tuberculosis (TB) also reemerged to become one of the leading infectious diseases killing adults and children. Malaria remains one of the most important causes of mortality and morbidity in Africa. Malnutrition affects about a third of children in the region. These negative trends, which persist in the 1990s, have serious implications for the efforts to improve the socio-economic well-being of the peoples of the continent.

The progress and setbacks in improving the livelihood of people in the region have taken place against the backdrop of dynamic demographic changes. For instance, in 1960, 280 million people, or 9 per cent of the world's inhabitants, lived in Africa. In mid-1997, the number of people living in Africa had reached an estimated 727 million or 12 per cent of the world total. Given the present growth rate of 2.8 per cent, the region's population doubles in almost every generation. The unprecedented rate of population growth in Africa, during the past three decades, is the result of sustained high fertility and sharply declining mortality. The fertility rate at 5.3 in 1997 is still the highest in the world. High fertility rates constrain investment in children and young adults, and high rates of population growth hinder investment in both human and physical capital, reduce per capita growth for a given growth rate, and weaken governments' ability to provide adequate social services.

One notable consequence of rapid population growth in Africa is a growing labor force which has been estimated to be about half of the total population. The rates of growth of the supply of the labor force in Africa closely parallel those of population growth. In addition to the rapid growth in the labor supply, the demographic structure of the population has important implications. The participation rate of males in Africa is between 80 per cent and 90 per cent, except for Botswana, Gabon, Ghana and Sudan where it falls below these ratios. The labor force participation rates of women and girls are much lower than those of males and boys. It is estimated, nevertheless, that in most African countries, children between the ages of 10 and 14 are engaged in work and may constitute as much as 30 per cent of the labor force.

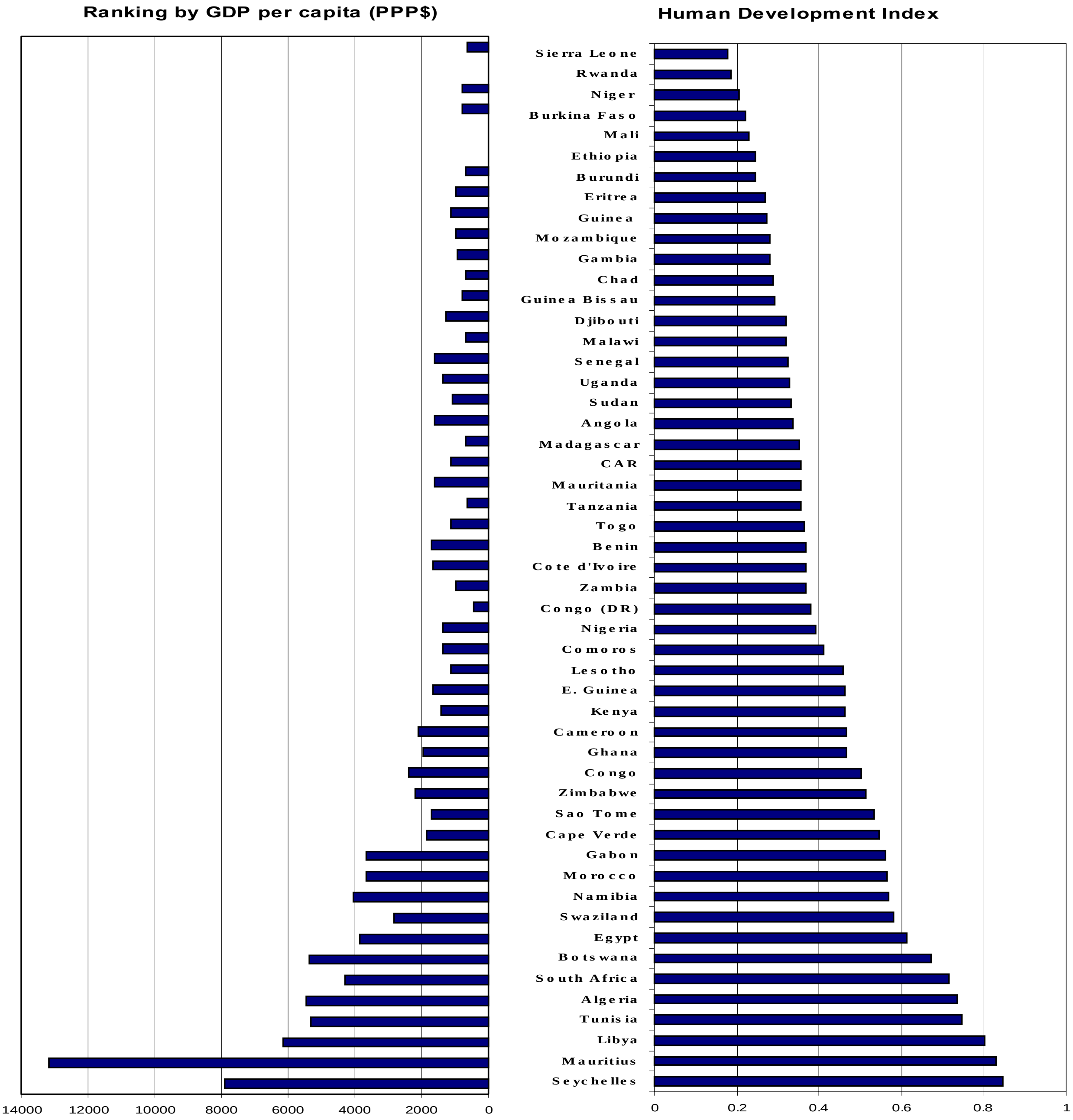
In many ways, the ability to absorb the growing labor force reflects, to a varying degree, the economic situation and production structures in most African countries. Thus, the nature of the unemployment problem is a reflection of the slow GDP growth which, until recently, has not kept pace with labor force growth in many of the countries of the continent. Furthermore, in an increasingly globalized world economy, many factors, including advances in technology and economic reforms, have contributed strongly to labor market shifts. These changes have far reaching implications for labor and education. Education must provide the labor force with the necessary competencies, such that the workers do not only acquire the relevant knowledge, skills and work attitudes but they should be also adaptable to continuous changing demands of the economies.

Trends in Human Capital and Poverty

The UNDP's composite human development index (HDI) which gives equal weight to three indicators: real GDP per capita, life expectancy at birth and educational attainment, is valuable in extending the economic concept of welfare. African countries have performed very differently in each of these three dimensions of welfare and the dimensions are not interdependent. In Figure 4, African countries are ranked by measures of their HDIs and GDP per capita. The top countries include those of North Africa, South Africa and some smaller states. The remaining two-thirds of the countries are classified as having low human development, and, in the main, low incomes.

However, the rankings of the poorest performing two-thirds of countries differ substantially

Figure 4
Human Development Index and GDP Per Capita



Source: UNDP (1997), Human Development Report.

according to whether the HDI or GDP per capita is used. Some countries with very low GDP per capita (Democratic Republic of Congo, Madagascar, Tanzania, Zambia) are in the middle of the list ranked by the HDI. Others (Djibouti, Guinea, Senegal, Uganda) are in the middle third ranked by income, but not by human development. This suggests that, even given their incomes, countries have some discretion over their degree of human development; some countries may choose to promote health and education, while others neglect it. However, the variation also reflects the fact that the flow of income can vary more in the short term than the stock of literate adults and the health status of the population. Therefore, some countries, for example Congo (DRC), may have high HDI figures relative to income because of marked economic decline rather than as a result of good social sector policies. Others, such as Uganda since 1987, may benefit from economic recovery for some time before a legacy of poor human development can be overcome.

The Report thus, underlines the fact that while the recent recovery of the African economy is encouraging, it remains fragile and inadequate when viewed against the challenges that confront the continent. For one thing, aggregate outcomes conceal the difficult conditions prevailing in particular countries, especially those suffering from societal conflicts. Moreover, the extended decline of average income for most of the last decade and a half means that the rate of GDP growth should be accelerated to regain the loss of income and to arrest and reverse the spread and deepening of poverty. Aggregate per capita income, which has fallen continuously over the last decade and half, now stands at just US$665 three-quarters of that attained in 1980. Assuming that population growth rates stabilize at present levels, the African economy would have to grow at a rate of 10 per cent per annum over the next two decades to double the present level of per capita income to just US$1,330. The decline in per capita income has meant that between 40 and 45 per cent of the Continent's 730 million people live in absolute poverty, with about 30 per cent classified as living in extreme poverty. The spread and deepening of poverty means that access to sanitation, safe water and health services remains woefully inadequate in many countries.

Policies For Sustainable Growth and Human Development

The Report emphasizes that a measure of the challenges facing Africa, and its development partners, can be gauged by comparing the present situation with the goals set by the Development Assistance Committee (DAC) of the OECD which are necessary conditions for establishing a stable and sustainable future. Globally, the DAC goals, among other things, call for:

- a reduction by one-half in the proportion of people living in extreme poverty by 2015;
- universal primary education in all countries by 2015;
- a reduction by two-thirds in the mortality rates for under-5s and by three-fourths in maternal mortality by 2015; and,
- access for all to reproductive health services no later than the year 2015.

Within Africa, such goals would be pursued to good effect through policies that promote social development and accelerated economic growth. These include, first, enhancing the magnitude and productivity of investment, especially by deepening economic reforms that increase competitiveness. Second, promoting the development of the private sector so that it can become the main engine of growth. The issues pertaining to Fostering Private Sector Development were the subject matter of the African Development Report, 1997. Third, building human capital through efficient delivery of social services, especially basic education, primary health care and sanitation. This year's Report examines in detail issues relating to "Human Capital Development in Africa." The Report outlines policies to support investment in education and health.

Towards Improved Education

The current education status in Africa means that a large proportion of the labor force is not too well prepared to contribute to or benefit from development. The contribution of education to economic development is often assessed with reference to the private and social returns on investments in education. There is evidence that social and private investments in basic primary and secondary schooling have relatively high returns in many African settings. The evidence suggests the need to redirect more public resources toward primary education, while relying more on private funding at secondary and higher levels in order to promote efficient and equitable public spending on education. There is also a need to place emphasis on outcomes and quality of schooling.

Establishing Priorities and Promoting Equity and Efficiency. The importance of full coverage of basic education cannot be over-emphasized. Public resources would need to be redirected with the aim of seeing every child completing primary school. In addition to its economic returns, primary education deserves high priority on grounds of equity, externality effects, and non-wage benefits. Primary education is the foundation on which further formal education and on-the-job training can be built. In the African socio-economic context, there is evidence that the poor in particular benefit from public spending on primary education.

For those African countries with near universal primary school enrollments, there is a need to maintain such achievements and arrive at workable modalities to finance the desired expansion and improvements in secondary and higher education. Given budgetary constraints, there is some justification for mobilizing private funding through facilitating the establishment and licensing of private schools as well as introducing cost recovery in government secondary schooling.

The emphasis on basic education should not be to the detriment of higher education. A good higher education is critical, not only for producing teachers and trainers for basic education, but also for longer term capacity development. The overall state of the economy, including the provision of services and other activities which affect all strata of society, are heavily dependant on the availability of higher level graduates. In many African countries, however, tertiary educational institutions, particularly universities, face serious problems. The nature of these problems and the measures needed to address them differ from country to country in accordance with national circumstances and priorities. However, there is a general view that the principal higher education problems which need to be addressed include equity, quality, relevance, finances, efficiency, and governance.

***Emphasizing Outcomes and Quality of Schooling*.** Many of the actions that are required to improve the quality of education may call for government intervention. Governments can promote quality education in a number of ways. They would need to set up nationally acceptable standards of performance for core subjects and ensure that the set standards are evaluated objectively, and focus on the provision of the necessary educational inputs to schools. While the identification of the inputs required to bring about improvements in the quality of education may depend on individual country circumstances, there are six main inputs which might be important throughout the continent:

- First, improve the provision of adequate instructional material. Improvements in school quality, proxied by smaller classes and increased availability of instructional inputs, can increase enrollments and improve student test scores. Increased spending on instructional materials tends to improve student performance, thus reducing the incidence of dropouts and repetition.
- Second, raise the morale of teachers and school management through improving work conditions and strengthening accountability. The provision of adequate instructional material discussed above is an important sub-set in the measures required to improve work conditions for teachers and their morale. Teachers' morale would also benefit, from improved salaries and other benefits such as housing in rural schools.
- Third, manipulate student-teacher ratios with the aim of striking an optimal balance between quality and expenditure-reduction. The available evidence suggests that the student-teacher ratio is an area where there may be some tradeoffs between quality and expenditure in many African countries. The optimal student-teacher ratio will depend essentially on the availability of instructional material such as textbooks, exercise books, and adequate class rooms where the teacher and blackboard are visible to all students.
- Fourth, improve and reorient curricula and syllabi. At primary school level, considerable attention would need to be devoted to core skills, such as written and oral communication and numeracy, which may mean cutting down on the number of subjects. At higher levels, emphasis would need to be placed on improving the teaching of science and mathematics.
- Fifth, adopt creative solutions to peculiar problems. Special efforts to adopt creative solutions will need to be made if the most disadvantaged groups and communities are to benefit from education. The problem of teacher shortages in rural areas might be resolved by recruiting and training teachers in their villages or attracting candidates by providing rural allowances and fringe benefits such as salary premiums and housing for rural-based teachers as incentives.
- Sixth, harnessing the benefit of information technology which holds large potential for improving education in Africa (Box 1). The main advantages of using information technology in education are its cost-effectiveness, flexibility, and suitability for widely scattered student bodies which is common to most African countries. It might be essential to reduce or abolish import taxes on information technology hardware such as computers, printers, satellites, televisions and radios. In some African countries, such equipment are treated as luxury items and, hence, heavily taxed.

Towards Better Health

The health of households and communities in Africa could be greatly improved through five mutually reinforcing interventions that would enhance the effectiveness of health services. These include:

Box 1: Harnessing Information and Knowledge for Development

Africa's ability to actively participate in the new global economy and make considerable progress with poverty reduction will largely depend on the capacity and skills of its labor force in using and adapting existing and new knowledge and information to changing local, national and international conditions.

Knowledge can help reverse trends of poverty and isolation, build stronger civil societies by facilitating dialogue within and between communities, and be an instrument for learning. Farmers in rural and remote villages in South Africa use cellular phones to stay on top of the markets so they can be in a better position to bargain for their crops. Women in Zimbabwe learn to read and write by listening to literacy programs broadcast on radio. In the field of education, the importance of knowledge and information in African countries may be illustrated by a pioneering school-to-school initiative (SSI) in Uganda which started in 1996 to make computer equipment and access to the Internet available to three schools. The SSI is very popular in the schools and local communities and is being used to network, share best practices and increase skills.

The use of the Internet has begun to permeate African universities and some electronic networks have been formed, while several others are in the making. For instance, the University of Zambia has established a non-profit company called Zamnet which provides clients with internet service. Desktop publishing is also emerging as a useful application that offers an attractive means of producing and disseminating local scientific material and research among otherwise isolated local scientists and researchers. Distance education—using such interactive multimedia tools as the World Wide Web, CD-ROMs and video conferencing, as well as telephone, e-mail, radio and broadcast television, it is possible to network learners and learning resources from Timbuktu to Paris, from Lagos to London, from New York to Nairobi, as well as among African locations.

These benefits and other promises of advances in global knowledge and information can only become widespread when the knowledge gap that currently exists between Africa and much of the rest of the world is effectively addressed. While Internet users number about 50 million, they are a tiny fraction of the world's 5.9 billion people. Ninety per cent of Internet hosts are in North America and Western Europe. Meanwhile, 80 per cent of the world's people still don't have access to basic phone service. This knowledge and information gap currently limits the ability of the current African work-force to quickly adapt to changes in the market and places African firms at a disadvantage in their own markets.

The challenge now is to make knowledge and information available to all. Knowledge as a public good is a commodity whose benefits cannot be completely appropriated and whose dissemination is universally desirable. As with other public goods, governments, working with markets, can play a major role in expanding access to knowledge in Africa. African countries will need to complement improvement in macroeconomic performance with expanded basic education, opened markets and regulatory reforms in such vital sectors as telecommunications. Several African countries, including Côte d'Ivoire, Ghana, Nigeria, Morocco and South Africa, have begun to open up their telecommunications sectors to the private sector to ensure that they capture a larger part of the overall benefits that accrue from opening these markets. Also important is the development of human capital— including promoting science and computer education as well as attracting and adapting information technology.

The Global Knowledge 97 Conference, held during July 1997 in Toronto, Canada, provided an important forum to discuss what the international community can do to help developing countries realize the full potential of this revolution. The conditions for widespread transmission of global knowledge include: promotion of greater, freer and fairer access to information for developing countries; fostering environments of foreign investment and technology transfer; and, adopting innovative approaches to education and learning at all levels.

Source: Adapted from Papers Presented to the Global Knowledge 97 Conference. African Development Review, vol. 10, No.1.

- Prevent and control major diseases.
- Give priority to the provision of essential clinical services for the most common health problems, coupled with supportive informational services and family planning.
- Reform and strengthen the health delivery system towards greater decentralization, to strengthen health systems and reach rural areas.
- Develop clear policies in relation to the private sector provision of health services.
- Increase internal and external resource mobilization.

These interventions are discussed below:

Prevention and control of major diseases. One approach to the prevention and control of major diseases is behavioral change. Achieving behavioral change is important in the control of both communicable and non-communicable diseases. For communicable diseases, the use of impregnated bed-nets to prevent malaria, the promotion of breast-feeding rather than bottle-feeding to reduce the incidence of infant diarrhoea, and the availability of information and education on causes of diseases such as HIV/AIDS, among others, are effective in bringing about desirable health behavior. The prevention of HIV, is feasible and entails attempts to change sexual habits, promotion of the use of condoms, and early treatment of other sexually transmitted diseases, to reduce the risk of infection from any single encounter. For non-communicable diseases, changes in life-styles are of key importance in the primary prevention of diseases such as cancer, heart disease, mental disorders and conditions aggravated by substance abuse, including tobacco and alcohol.

Priority for essential clinical services. Many preventive and control measures have been developed as vertical programs addressing specific diseases, but there is now a clear consensus that the best results are obtained when programs are delivered in an integrated manner. Governments should, thus, aim at funding a package of basic personal health care which is to be made available to the majority of the population. The services provided should be selected according to their cost-effectiveness, measured in terms of lives saved or quality-adjusted years of life. Recent efforts in this field suggest that such a basic package should include prenatal and delivery care; family planning; management of sick children; treatment of malaria and tuberculosis; sexually transmitted diseases; and acute bacterial infections such as meningitis and pneumonia. The package could be administered in decentralized community health centers, by equipping them with the appropriate package of drugs and implementing clear instructions about their use. The basic health package could also cover vaccinations, oral rehydration therapy and prevention of iron deficiency. Essential drugs to be used should be those that have proven effective against Africa's major afflictions. This is particularly true in the area of AIDS where new therapies and fighting strategies applicable to Africa's conditions would need to be developed. Such basic health packages would need to be supplemented by the provision of supportive services, including heath information and family planning.

Strengthening health systems. Comprehensive health policies, accompanied by realistic goals and a sound financial plan which takes into account macroeconomic constraints, provide the framework for institutional reform. The prevailing view is that health related goods and services are delivered to communities and households by well-functioning, primary-level health facilities supported by a first referral hospital. This system would meet most local health needs, particularly those of the most vulnerable groups (the newborn, children under five, and women of reproductive age. To achieve reform, views on the role and functions of government in the provision of health systems are shifting. There is need to anchor health reforms to the core objectives of giving a strategic focus on primary health care which lays a firm foundation for achieving behavioral change and environmental control, and making immunization and prophylactic treatment available and accessible. The main priorities for reform thus include:

- Governments should pursue their comparative strengths in providing goods and services that give health benefits to society at large. They should ensure the financing and provision of public goods known to have substantial impacts on health and social well-being, such as safe drinking water, sanitation, roads and communication systems.
- In the health sector, governments' comparative strength lies in financing and ensuring provision of activities such as epidemiological data collection (information crucial to setting health targets and indicating what actions are appropriate), health system planning, regulation, licensing and legislation. Prevention of communicable diseases, health education and information about the health market in general are also important functions.
- In the context of promoting good health, governments can develop the potential of traditional health systems to contribute to safe, effective and affordable health care.
- Governments have a critical role to play in supporting activities that benefit individuals directly but also give benefits to society at large. These include family planning, maternal and child health, infant nutrition, immunization and the treatment of communicable diseases.
- To promote equity, governments have a responsibility to ensure that the poor and vulnerable sectors of the population have some access to health care.

Resources for Human Capital Development

There are broadly two options for providing increased resources for human capital formation. The first is an increase in public resources. The second is the introduction of cost recovery. Both approaches present problems. In many African countries, governments need to reduce their fiscal deficits. In this context, the only way of increasing expenditures on human capital are re-allocations within existing budgets or increasing taxes. If growth rates can be accelerated, then it should be easier to allocate increasing revenues to human capital projects. Within existing budgets, there are difficult choices to be made between higher real salaries and fewer staff.

The introduction of user charges and cost recovery in seeking to offset low levels of public expenditure for basic education and health services is a controversial approach and should be handled only with great sensitivity to local conditions. The case for introducing cost recovery is particularly strong if fees are retained locally to be used to improve school quality. When properly designed, such schemes can create a sense of ownership of education and health services among communities. The schemes may also be appropriate where they can considerably raise the quality and availability of local primary schools and health services to the general public without creating financial barriers to access and other inequities. However, existing fee and cost recovery schedules should be regularly reviewed as a rule.

Given budgetary constraints, there is some justification for mobilizing private funding through facilitating the establishment and licensing of private schools and medical services. Efforts must also be made to increase the contribution of external resources, including Official Development Assistance (ODA), multilateral loans, and non-governmental flows. To this end, there is a need for countries to develop comprehensive sector-specific education and health development plans, spelling out the priority projects and programs and other financing requirements. These plans can be effectively used as the framework for encouraging external assistance and coordinating donor support in education and health development.

African Development Bank Group Operations and Human Development

For the period 1997-2001, the areas of focus of Bank Group operations are: strengthening production capacity and socio-economic infrastructures; promoting policy reforms; supporting private sector development; and, promoting economic integration. These goals are pursued within a framework that advances poverty reduction and social development-the over-arching objectives of Bank Group operations, considering that the spread and deepening of poverty is threatening an increasing number of peoples in the continent.

Since projects and programs in agriculture and the social sectors often have high impact on poverty reduction, Bank Group operations accord priority to these sectors-with as much as 65 per cent of concessional resources being allocated to the sectors. The concerns in agriculture relate to improving food security, integrating rural communities, promoting sustainable resource use and conservation, and supporting linkages with other sectors. In the social sectors, increased support is being given to services which have well known spill-over benefits for the poor. Thus, in education, priority is given to basic education, and technical training for delivery of functional skills for self-employment. In the health sector, the focus is on primary health and maternal-child health care, particularly at the community levels. And, considering the link between poverty and environmental degradation in Africa, the Bank Group will sustain its participation in efforts to contain, and reverse, the pace of environmental degradation in the continent.

As part of increasing efforts at poverty reduction, the Bank Group has also been extending lines of credit to national and sub-regional development finance institutions for on-lending to medium and small-scale enterprises. Such enterprises tend to use labor intensive techniques and generate employment and income-earning opportunities for the poor. Unfortunately, development finance institutions have not done so well in many parts of Africa, though prospects are improving with the economic reforms and the increased attention given to markets and prices. Furthermore, the Bank Group has supported direct poverty-reduction projects and programs, including the extension of micro-credit to poor and vulnerable groups.

A policy has been formulated to increase collaboration with NGOs, especially those having experience in implementing poverty-reduction projects and in reaching grassroots communities. In this regard, the Bank organized a major consultative meeting with African and international NGOs as a means for enhancing co-operation with such organizations and the wider civil society. The meeting adopted a framework for increased collaboration, particularly on policy concerns and operational issues related to poverty reduction, environmental protection, and gender mainstreaming. Further strides have been made in this area with a new policy that will extend US$20 million of concessional resources to provide micro-credit to the poorest groups in society, by employing as intermediaries NGOs and other grassroots organizations.

To be sustainable, the goal of poverty reduction would need to be pursued in a context where the prospects for economic growth are favorable. Since accelerating economic growth requires the increased mobilization of private resources, it is essential to give the requisite support for the development of the private sector. The Bank well recognizes the crucial role of the private sector in the attainment of sustained growth by our regional member countries. It has, therefore, formulated a new strategy which aims to expand the scope and strengthen the effectiveness of its private sector operations. The strategy focuses on five main areas that are also pursued, to a varying extent, in the other MDBs. First, the African Development Bank will assist more actively the creation of enabling environments for private sector investments-embracing such issues as building up supporting institutions, like land registries, security exchanges, and legal regimes that are vital for private sector development. Second, there is consolidation in areas of past support by using loans and equity instruments in a more selective manner. Third, the Bank will seek to play a significant role in the private financing of infrastructure, and will also provide technical advice to governments on the development of the necessary legal and regulatory framework to attract private financiers for such projects. Fourth, the Bank will also play an active role in assisting with privatization, as well as in providing support to privatized enterprises. And finally, the Bank will develop more focused and enhanced assistance to small and medium-scale enterprises, through lines of credit to performing commercial banks and other financial institutions.

In all cases the Bank will seek to play a catalytic role by mobilizing resources from the private sector, as well as bilateral and multilateral development institutions. In addition, the Bank will reinforce its dialogue with regional member countries on policies that support the development of the private sector. The dialogue is conducted through various means, especially in the context of policy-based operations and in the preparation of Country Strategy Papers. Bank publications and seminars are other means of dialogue with member countries.

Conclusions

The further improvement in Africa's economic performance in 1997 is a reassuring indication of the sustained reversal of the declines of the past. It is also a challenge to African countries to ensure that the recovery in growth is sustained and improved upon. At the socio-economic level, reduction of poverty and attaining a path of sustainable development remain major concerns as in other developing regions of the world. Poverty reduction requires increases in investment rates and productivity, which in turn depend on policy reforms in order to further improve the environment for the private sector, and strengthened efforts to develop human capital.

There are considerable grounds for optimism over Africa's prospects for achieving sustainable development. The pace of economic reforms in a growing number of African countries has accelerated in recent years and various initiatives, including various debt initiatives and the opening up of major markets to African countries are under way.

As a result of the reforms, the business environment for the private sector is improving and programs to strengthen human resources are being intensified. More than before, there are better possibilities for gains in per capita income and welfare and an associated fall in the incidence of poverty.