African Economic Outlook

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2001/2002

DEVELOPMENT CENTRE · CENTRE DE DÉVELOPPEMENT

AFRICAN DEVELOPMENT BANK GROUP · GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

African Economic Outlook

AFRICAN DEVELOPMENT BANK
DEVELOPMENT CENTRE OF THE ORGANISATION
FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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– to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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The purpose of the Centre is to bring together the knowledge and experience available in Member countries of both economic development and the formulation and execution of general economic policies; to adapt such knowledge and experience to the actual needs of countries or regions in the process of development and to put the results at the disposal of the countries by appropriate means.

The Centre has a special and autonomous position within the OECD which enables it to enjoy scientific independence in the execution of its task. Nevertheless, the Centre can draw upon the experience and knowledge available in the OECD in the development field.

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PERSPECTIVES ÉCONOMIQUES EN AFRIQUE

THE AFRICAN DEVELOPMENT BANK GROUP

The African Development Bank Group is a regional multilateral development finance institution the members of which are all of the 53 countries in Africa and 25 countries from Asia, Europe, North and South America. The purpose of the Bank is to further the economic development and social progress of African countries, individually and collectively. To this end, the Bank promotes the investment of public and private capital for development, primarily by providing loans and grants for projects and programmes that contribute to poverty reduction and broad-based sustainable development in Africa.

The non-concessional operations of the Bank are financed from its ordinary capital resources. In addition, the Bank's soft window affiliates — the African Development Fund and the Nigeria Trust Fund — provide concessional financing to low-income countries that are not able to carry loans on market terms.

By the end of 2000, the African Development Bank Group cumulatively approved 2 416 loans and grants for commitments amounting to over $37.2 billion. The commitments were made to 52 regional member countries and institutions to support development projects and programmes in agriculture, transport, public utilities, industry, education, and health sectors. Since the mid-1980s, a significant share of commitments has also gone to promote economic reform and adjustment programmes that help to accelerate socio-economic development. About two-thirds of total Bank Group commitments were financed on non-consessional terms, while the balance benefited from concessional financing. In addition to development financing, the Bank also performs its role as a knowledge centre in Africa through policy dialogue with regional member countries as well as through Bank staff publication and dissemination of reports, papers, and books. The *African Economic Outlook*, which is jointly published by Bank staff and the staff of OECD Development Centre, is an integral part of this endeavour.

The *African Economic Outlook* report is produced by the staff of the African Development Bank and the OECD Development Centre and the views expressed therein do not necessarily reflect those of the Boards of Directors or the countries they represent. Designations employed in this Report do not imply the expression of any opinion, on the part of the African Development Bank, concerning the legal status of any country or territory, or the delineation of its frontiers.

Foreword

The African Economic Outlook project is a joint initiative of the African Development Bank and the OECD Development Centre. The Report was essentially drafted by a core team drawn from both institutions, supported by resource people in selected countries.

A generous grant from the Commission of the European Communities was essential to the undertaking of this enterprise. This financial support formed the cornerstone of the success of the project and the importance of this contribution is gratefully recognised by the African Development Bank and the OECD Development Centre.

African Economic Outlook

Acknowledgements

The African Economic Outlook was prepared by a team led by Jean-Claude Berthélemy and Temitope W. Oshikoya. In addition to the managers, the core team was composed of Denis Cogneau, Céline Kauffmann, Roberto Longo at the OECD Development Centre and by Mohammed Hussain, John Anyanwu and Barfour Oseï at the Research Division of African Development Bank.

The comparative synthesis of the African country prospects was written by Jean-Claude Berthélemy with inputs from Denis Cogneau, Sandra Freire, Mohammed Hussain, Céline Kauffmann, Barfour Oseï and Henri-Bernard Solignac Leconte.

The country notes were drafted by Céline Kauffmann, Roberto Longo and Barfour Oseï. Maurizio Bussolo, of the OECD Development Centre and Jean-François Gauthier largely contributed to the notes on Equatorial Guinea and Morocco, respectively. The work on the country notes greatly benefited from the valuable contributions of African consultants: Olu Ajakaiyi (Nigeria), Veepin Bhowon (Mauritius), Rashad Cassim (South Africa), Martim de Faria e Maya (Mozambique), Miguel Edjang (Equatorial Guinea), Catherine Enoh (Côte d'Ivoire), Tadele Ferede (Ethiopia), Anthony MacMillan Hawkins (Zimbabwe), Charles Jebuni (Ghana), Teigrist Lemma Dessalegri (Ethiopia), Modeste Mfa Obiang (Gabon), Oumar Makalou (Mali), Ousmane Matar Breme (Chad), E.S.K. Muwanga-Zake (Uganda), Streevarsen Narrainen (Mauritius), Robert Ngonthe (Cameroun), Njuguna Ndungu (Kenya), Robin Sherbourne (Namibia), Abdoulaye Wane (Senegal), Tertius Zongo (Burkina Faso).

The macro-economic framework used to produce the predictions was designed and managed by Denis Cogneau. The statistical annex is the product of a joint work carried out by Céline Kauffmann and Roberto Longo (with significant inputs from Gilles Cavaillès, Sandra Freire, and Laurence Renard). The project also benefited from the work of Thomas Chalaux and Lucia Wegner, and the support of Laurie Chamberlain at the OECD Development Centre.

A large number of African government representatives, private sector colleagues and civil society members provided extremely valuable input and comments. Several institutions also contributed to the project at various stages: the AfDB country desks, the OECD Economics Department, the IMF African Department, the World Bank Economic and Prospects Group and the macro-economics division at the Agence Française de Développement. The staff of the statistics division of the AfDB provided statistical inputs into the project. The OECD Development Centre's Communication Unit, led by Colm Foy, was responsible for transforming the manuscript into the publication.

The Outlook was prepared under the overall guidance of Ulrich Hiemenz, Director, OECD Development Centre and Henock Kifle, Director, African Development Institute.

Preface

The first edition of the African Economic Outlook, jointly produced by the OECD Development Centre and the African Development Bank, analyses the comparative economic prospects for twenty-two African countries. It has been supported by the generous financial assistance of the European Commission which has made it possible for our two institutions to realize the shared objective of producing a comprehensive analysis of Africa's economic prospects.

The objective of the Outlook is to provide valuable analytic information on economic and social trends in selected African countries, as well as on short- to medium-term prospects on the continent. It is modelled on the pioneering work of the Economics Department of the OECD and draws on the extensive work of the Strategic Planning and Research Department of the African Development Bank. The Outlook is intended to be a unique reference document for decision makers in both the public and private sectors, including donors, investors and policy makers inside and outside Africa who have a stake in Africa. Our plan is to extend its coverage in the coming years to the remaining African countries.

A salient feature that emerges from the comparative analysis is that poverty reduction will require the acceleration of broad-based growth through the deepening of economic reforms as well as promoting the extra economic conditions of economic growth, such as good governance. While African countries cannot fully shield themselves from external economic shocks, it is also true that sound policy and effective economic and political governance can dampen the adverse impacts of such shocks. We wish to stress, however, that the support of the donor community is critical in this regard. In particular, policy initiatives such as increasing the flow of development assistance, reducing external debt, and opening up of markets for African exports by OECD countries are essential for improving African development prospects.

The publication of the Outlook is the third in the series jointly produced by the two institutions, the other two being the proceedings of the annual International Forum on African Perspectives. It is our ardent hope that our two institutions will be able to carry this collaborative work further in the future.

Jorge Braga de Macedo	Omar Kabbaj
President	President
OECD Development Centre	African Development Bank
Paris	Abidjan

December 2001

Part One

Overview

The World Economic Climate: Recent Changes and Africa's Prospects

The Challenge of a Continent's Marginalisation

Africa's participation in the world economy has declined alarmingly over the past 50 years in terms of GDP, exports and foreign investment (Figure 1).

Only the continent's share of global population grew as its birth rate accelerated during the 20th century. This faster increase than the rest of the world will continue for very many years to come, according to UN predictions, and is a serious obstacle to growth and human development that will eventually bring about deep-rooted changes in economic activity in Africa. A huge question mark is the effect of the HIV/AIDS epidemic on mortality rates.

The decline of Africa's importance in the global economy is much sharper in terms of relations with the rest of the world than straight economic activity. Its share of global GDP in purchasing power parity (ppp) terms fell by a third between 1950 and 2000 but its share of world exports shrank by two thirds.

Changes in the terms of trade help explain the downward trend in specific periods. The economic specialisation of Burkina Faso, Chad, Ethiopia, Mali and Uganda between 1995 and 1999 caused a drop in their share of total world exports equivalent to more than two annual percentage growth points[1], mainly due to a fall in prices of their main export items. Terms of trade are not very useful for understanding long-term continent-wide trends. Figure 2 shows Africa's terms of trade changed little in the 1970s and the 1980s and were still about the same in 1999, insofar as these changes can be measured[2]. This is true for both oil-producing and non oil-producing countries, though the oil states experienced much larger trade fluctuations than the others. Terms of trade may have deteriorated between 1950 and 1970 because raw material prices were high in the early 1950s. This partly explains the drop in Africa's share of world trade during that period, but not since 1970.

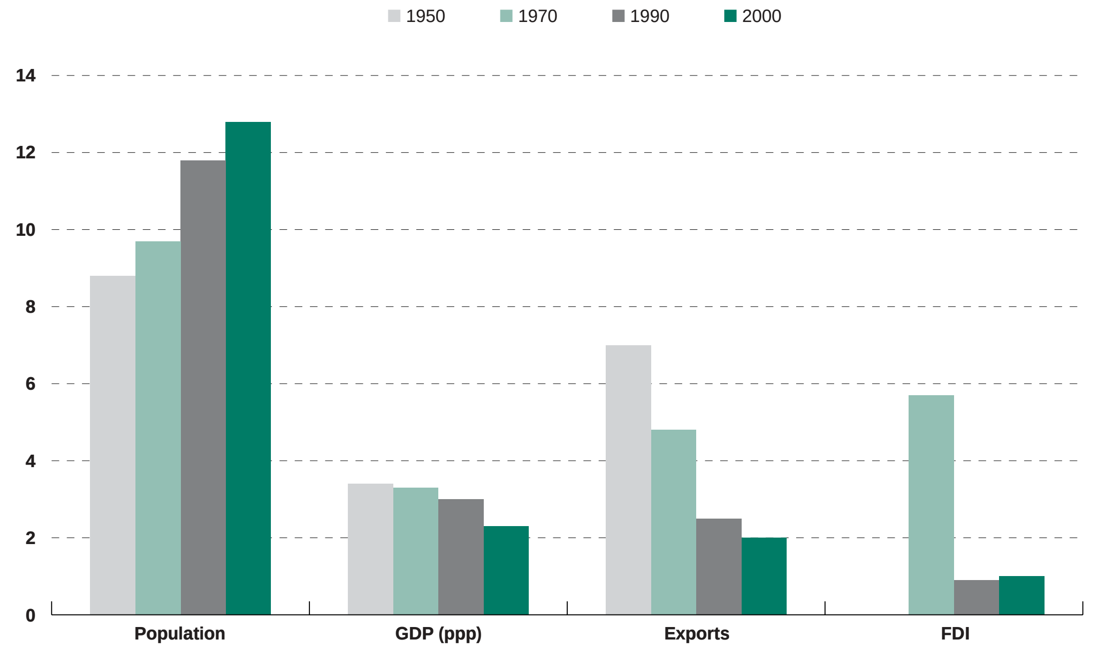
The main reason for the continent's gradual detachment from the world economy lies in home-grown changes. Africa's slower growth than the rest of the planet can alone account for the even greater slump in its share in world trade, since over the past half-century, the elasticity of foreign trade to GDP has been very high. With elasticity at 2, the sluggish growth of the African economy would by itself account for a 50 per cent fall in its share of world trade. It is harder in Africa than elsewhere to turn production capacity into export capacity because of weak marketing and transport structures.

The decline in Africa's share of foreign direct investment (FDI) has been even more spectacular. It halved between the 1970s and the 1980s and then again in the 1990s. In the 1970s, the oil-producing states, along with South Africa, Côte d'Ivoire, Cameroon, Kenya, Morocco and Tunisia, received a hefty chunk of the world's FDI. It grew only slowly in the 1980s, partly because of the international repercussions of the apartheid government in South Africa, but faster in the 1990s. Over these 20 years, however, FDI in the rest of the world grew much more

1. See the statistical appendix for details and how this is calculated.

2. The data used here is from national accounts (as given by the World Bank in its *African Economic Indicators*) and not from foreign trade statistics.

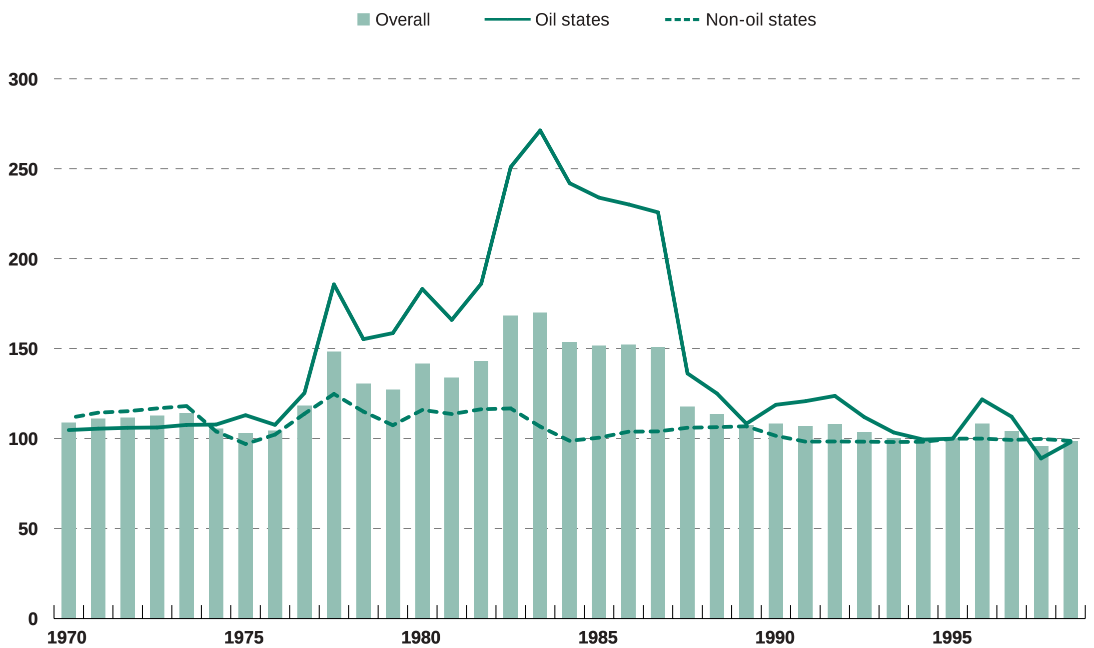
Figure 1 - Africa's Share in the World Economy



Note: The statistics in this chart are estimates made at about the time shown.

Source: Authors' calculations based on data from the UN Population Division, the *World Bank's World Development Indicators* (2001) and Maddison (1995), *Monitoring The World Economy 1820-1992*, OECD Development Centre Studies, OECD, Paris (GDP in purchasing power parity), the WTO (exports) and World Bank (2001), *Global Development Finance* (incoming FDI).

Figure 2 - Changes in Africa's Terms of Trade



Source: World Bank (2001), *African Development Indicators.*

quickly, which accounts for Africa's fading out of the international picture in this area. Africa attracted FDI almost entirely for raw material production, so it did not take part in the move to globalisation that involved a faster flow of industrial investment to developing countries.

Africa is therefore very far behind in globalised investment which is another reason for its shrinking foreign trade. In the 1990s, the few African countries that drew significant investment, apart from the oil-producing states, were in North and Southern Africa.

This means only long-term domestic growth policies can reverse the trends.

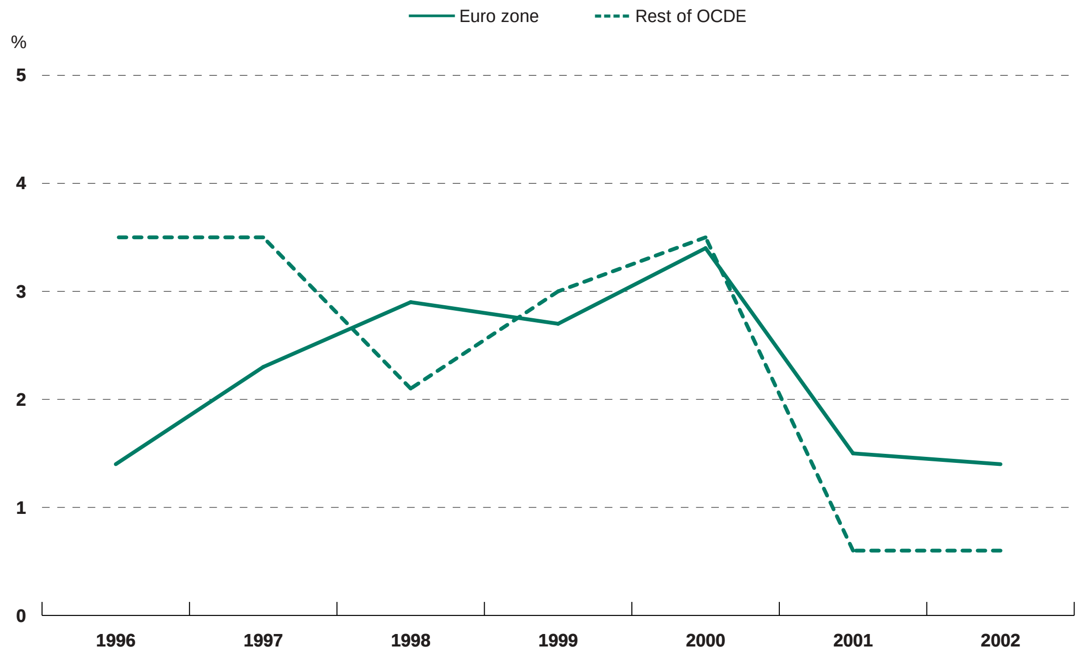
Recent Developments and Prospects for World Growth

Its marginal involvement in globalisation means that Africa's economy is less affected by events in the rest of the world. However, economic growth elsewhere has an indirect impact through raw material prices. Developments in world financial markets have little immediate effect, except on South Africa, because of lack of access to markets. The same is true for the flow of FDI.

OECD countries account for 80 to 90 per cent of Africa's trade[3], though the share is smaller in Southern Africa and in East Africa, where regional trade is somewhat stronger than in the rest of the continent. Among OECD countries, the Euro Zone is Africa's main partner, buying two-thirds of North Africa's exports, 40-50 per cent of Central, East and West Africa's and a third of Southern Africa's exports. The United States is the second largest trade partner, with a bias towards West Africa (Nigeria) and Central Africa, due to oil imports.

So what happens in the Euro Zone is economically more important to Africa than what goes on in the rest

Figure 3 - Recent Developments and Predictions for Growth of Domestic Demand in OECD Countries



Source: OECD.

3. Calculated from International Trade Centre data.

of the world or in the rest of the OECD zone. This can help absorb some shocks, as long as the Euro Zone is less affected than the other OECD economies. Africa was thus little affected by the 1997-98 Asian financial crisis that deepened Japan's recession. The downturn in 2001 and 2002 should be less marked in the Euro Zone than in the United States and Japan, giving it another domestic demand increase of 1.5 per cent in 2001 and 2002, against an average of 0.6 per cent in other OECD countries (Figure 3). However, synchronisation of the cycles in the United States, the Euro Zone and Japan will affect the African economy in 2002.

Changes in Raw Material Markets

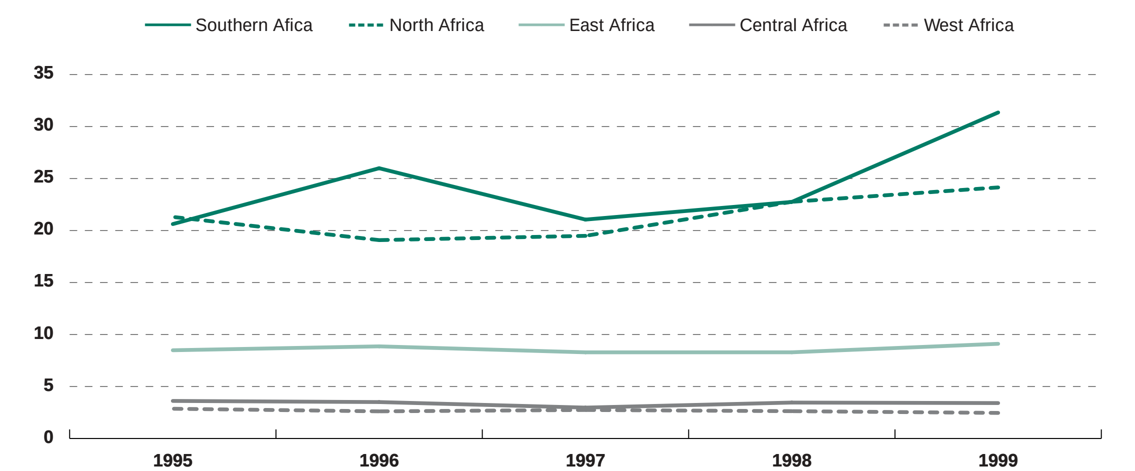
Most African countries rely heavily on exporting a limited range of raw materials. In Burkina Faso, Chad, Equatorial Guinea, Ethiopia, Mali, Nigeria and Uganda (to mention only the countries this report looks at), three quarters of all exports are accounted for by three or less products in the SITC four-digit nomenclature. Such lack of diversification means individual African countries can be seriously affected by commodity price fluctuations.

This varies by region however (Figure 4). North Africa (taking Egypt, Morocco and Tunisia) and Southern Africa (South Africa and Zimbabwe) are much more diversified than other regions and this has increased in recent years, especially in South Africa. The situation in East Africa is mixed, with Mauritius, Kenya and Tanzania having substantial diversification. West and Central Africa's economies, however, are very little diversified, whether they export oil or not.

The most diversified economies are quite well protected against jolts in raw material markets, which do not all move together. The economic cycle in OECD countries has an equal influence on demand in all the markets in focus, but each has its own movements linked to supply conditions. Figure 5 shows some of the main price fluctuations for raw material exports by the countries covered by this report[4]. The price changes are usually quite wide in all the markets and those seen in 2001 and predicted for 2002 are linked to the simultaneous downturn in the fortunes of the main OECD countries.

Oil tripled in price between December 1998 and November 2000 (from $10 to $30), partly due to

Figure 4 - Diversification Index by Region



Source: See statistical annex for sources and definitions. Regional aggregates are calculated using the 22 countries covered by the report and weighted according to their individual shares in regional exports.

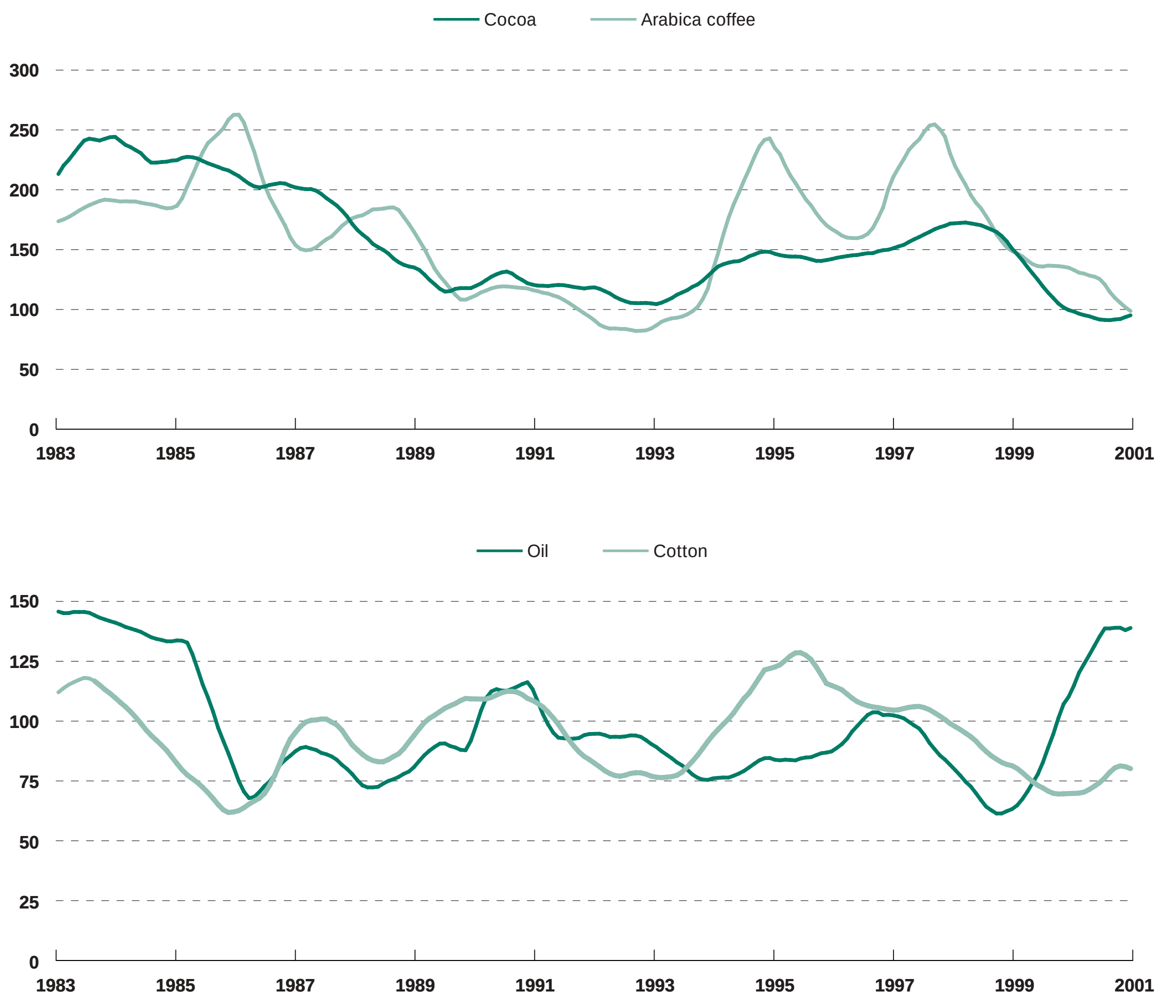
4. Other raw materials are important for other African countries, such as gold, copper, tea, peanut oil and timber. A list of the main products exported by the report's 22 countries, along with price changes in these items, can be found in the appendix.

OPEC's market regulation policy, but the downturn in 2001 was sharper for oil as a result of the new world situation caused by the 11 September attacks in the United States which led OPEC to temporarily stop supporting its $22 a barrel target price, the basket price having fallen below $20 by mid-November. The OECD however predicts a basket price of $21.50 for most of 2002, which is quite close to the target.

Cotton was also greatly affected by supply conditions, with a rise in world wide supply cutting prices by half between January 1995 and December 1999. In 2000, prices rose about 50 per cent after producers had reacted to the low prices, but the recovery was cut short in 2001 by the changed situation in the OECD countries. Immediate improvement is not expected and a return to the high prices of the mid-1990s is unlikely.

Cocoa experienced much greater price fluctuations and over a longer period – changes that were not so closely related to the situation in OECD countries. Prices have also fallen substantially over the past 20 years due to greater world supply. They rose 80 per cent between June 1993 and May 1998 but then fell sharply, by about half, until the end of 2000. They began to

Figure 5 - Fluctuations in Raw Material Prices
(12-month moving averages over monthly index data)



Source: Authors' calculations based on World Bank data. Index base of 100 in January 1990.

rise again in 2001, increasing nearly 30 per cent between November 2000 and November 2001. This improvement should not be totally halted by the OECD countries' slowdown.

Coffee was hit by similarly big price changes, substantially downward, though there were more surges upward because of supply shortages due to the weather in countries producing mostly Arabica. Despite the overall weakness, prices increased four-fold between April 1993 and September 1994, with another sharp rise in 1997. Since then, they have steadily fallen and in mid-November 2001 were less than a quarter of what they were in May 1997. There is no prospect of short-term recovery.

Many other African raw material export markets have declined recently, especially after the 11 September attacks, so the outlook is no more cheerful for producers of tea, sugar, timber and peanut oil. Gold is an exception because of monetary gold's status as a safe investment and its price rose 5 per cent between November 2000 and November 2001. Africa faces difficult terms of trade as 2002 begins.

Recent Economic Developments in Africa and Prospects

Macroeconomic Changes

Since 1997, Africa's annual growth has hovered around 3.2 per cent and overall has been little affected by international economic cycles. This is partly because the continent is not very attached to the rest of the world economy. So the world trade slowdown in 2001 will not have affected Africa's general performance much and we predict growth of around 3.2 per cent in 2002 (Box 1).

In 2002, the negative impact will be considerable in the five oil countries – Gabon, Nigeria, Equatorial Guinea, Cameroon and Egypt. The drop in Egypt's tourist revenue will add to the effect of the country's lower oil revenue to produce an expected 1.7 per cent fall in dollar GDP and a growth slowdown of one point. But several countries will benefit from being able to buy cheaper oil. The combined negative and positive effects on the whole country-sample is expected to show a 0.14 per cent drop in dollar GDP and a slowdown in volume growth of 0.1 point.

Box 1 - Consequences for Africa of the 11 September Attacks

The 11 September attacks in the United States will affect African economies through a further slowdown in OECD countries, the sharp drop in international travel and changes in raw material prices.

The first two factors are slowing demand for the continent's non-traditional exports, especially tourism and its offshoots. These factors are affecting only the two North African countries in our sample – Morocco and Egypt. Changes in raw material prices are having varied effects, the largest impact being the drop in oil prices in 2001 and the expected further fall in 2002. This is good for oil-importing countries, which are most of the countries in the sample, and bad for oil-exporting countries. Revised World Bank predictions for other commodity prices concern mainly cotton, coffee and tea, falling substantially in 2001 and expected to drop further in 2002. The price of gold, considered a safe investment, is rising.

The overall effect of 11 September in most cases is minor in 2001 because of being confined to the last quarter of the year. But the three countries most dependent on oil exports – Gabon, Nigeria and Equatorial Guinea – have suffered more. As a whole, the 22 countries in this report have only seen their dollar GDP fall by 0.06 per cent.

Behind this general overview are very large country-to-country differences. The gap between the highest growth rate and the lowest was 22 percentage points in 2000. The regions also showed strikingly divergent growth (Figure 6). North and East Africa grew steadily at between 4.1 and 4.2 per cent a year from 1995 to 2000, West Africa by 3.8 per cent and Southern and Central Africa by an average of only 2.6-2.8 per cent. These trends are holding up for 2001 and 2002, except for Central Africa, where quick recovery is not expected after negative growth in 2000, and for North Africa, where we predict a sharp slowdown in growth in 2002. For Central Africa, our estimates for 2001 and predictions for 2002 are less certain because the region is less represented than others in our sample of 22 countries, which are the only ones for which our predictions are based on detailed analysis (Boxes 2 and 3).

Box 2 - Representativity of the Report Sample

This report is based on detailed analysis of the 22 African countries listed in the table of contents. The most important countries in each of the continent's major regions are among them and smaller countries are included to make the sample more representative. Nations involved in civil war have been left out because their main problems are political, not economic, so Central Africa is the least represented among Sub-Saharan countries. The report's look at North Africa, economically rather different from the rest of Africa, is limited to the two strongest economies, Egypt and Morocco, which makes it only partial in view of the significant size of several other economies in the region.

The table below shows our sample countries' share in each region's GDP for 2000, as well as the coefficient of the correlation between their respective growth rates during 1995-2000. Our sample is quite representative in monitoring the economic cycle except in Central Africa, where events in the Democratic Republic of Congo (DRC) (which we did not look at) greatly influenced the region.

Table 1 - Percentage Representativity of the 22-country Sample

	Central Africa	East Africa	North Africa	Southern Africa	West Africa	All
GDP 2000	45.4	86.1	50.7	90.2	86.2	69.2
Correlation 1995-2000	18.9	98.9	94.3	99.2	99.7	96.4

Box 3 - Prediction Models

The models used to make the 2001 estimates and 2002 predictions for each of the 22 countries are based on a standard macroeconomic model called Africalook.

This is based on several equations of performance and income and price formation and produces a resources/employment-volume balance that determines GDP along with other demand components. It calculates the rate of domestic inflation, which is determined by costs. It also builds a table of state financial operations and the primary deficit, as well as the balance of non-factor goods and services.

Non-traditional imports and exports result from performance equations and depend on the relevant real exchange rates and on demand (respectively domestic and worldwide). Private consumption is proportional to the real disposable income of households, which is broken down into different sources – agriculture, public salaries, remittances and private non-agricultural work (determined by a labour demand equation). Government revenue is calculated by applying the tax rate to the appropriate tax bases. Private and public investment is exogenous, as is public consumption. Income of private firms implicitly completes the picture.

For each country, the applied model is based on macroeconomic data for the 1995-2000 period. It takes into account each country's structural peculiarities and notes the main agricultural or mineral exports and related income (for example, in Zimbabwe, tobacco, gold, ferrous alloys and non-carded cotton), as well as food production. Various parameters are used to take account of the geographical distribution of foreign trade, the structure of prices of production and consumption by product, and the structure of household income. The tax structure is also specific, for example for oil export levies.

The *OECD Economic Outlook* is used to forecast world demand for each of the 22 countries and the prices of non-traditional imports and exports. Predictions of raw material prices come from the World Bank. Assumptions about national public expenditure, agricultural and mineral production, exchange rates and prices draw on the latest available data, such as government programmes, the business climate and rainfall. When such data is not available, the continuation of present trends is presumed. Estimates and predictions for GDP growth, inflation, public primary deficit and the trade balance depend very much on how valid and up to date the assumptions are, as detailed in each country survey.

Differences in regional situations are very marked (Table 2) partly due to politics (such as Central and Southern Africa coping with the after-effects of wars and great political instability in the DRC, Angola and Zimbabwe), partly to different economic specialisation, (with oil-exporting countries profiting from high prices in 1999 and 2000, though this is fading in 2001 and 2002) and partly due to different macroeconomic policies.

The 14 Franc Zone countries have quite different macroeconomic policies from other African countries. They have similar growth rates to the others but their growth is much more cyclical (Figure 7), partly through having different macroeconomic policy rules that give them less room for manoeuvre. Their exchange rate is pegged to the franc (100 CFA francs = 1 French franc or 0.15245 euros), their monetary policy is regulated so there is only slight inflation compatible with the fixed parity and their budgetary policies are limited by restrictions, due to be increased, on deficits and monetary financing of them[5]. So it is quite normal that their economic activity is more cyclical. The extent of the cycle in recent years, with a sharp upturn between 1995 and 1998 and a drop between 1999 and 2001, is not just the result of the crisis in Côte d'Ivoire, which had both political and economic roots. Côte d'Ivoire only accounts for a fifth of the zone's economy and the regional cycle is the same when it is excluded. Likewise, outside the zone, the weight of South Africa, whose growth is quite steady, is not enough to account for the shape of the rest of the continent's growth.

Control of inflation in Africa varies from country to country. About a dozen had at least double-digit inflation in 2000 and 2001, including two with hyper-inflation – Angola and the DRC. Leaving out these last two, Southern Africa had the highest rates. South Africa's policy of attacking inflation by monetary means has produced results expected to continue in 2001 and 2002. Zimbabwe's economic crisis has produced inflation that is still very high and not expected to fall much in 2002. The next worst-hit region is West Africa, partly for special reasons (the consequences of bad harvests in the Sahel) and partly for structural reasons (Ghana's persistently high inflation). Improvement is expected in 2002. Franc Zone inflation is much lower than elsewhere, despite the rise in food prices in the Sahel countries.

Tax collection also differs widely country-to-country (Figure 8). West Africa leads the way, but this is only because of higher oil prices that have greatly swelled government coffers in Nigeria. Apart from Nigeria, tax revenue in the region is only 20 per cent of GDP. North and Southern Africa have better tax structures than elsewhere because they are more developed economies. The state of public finances is very variable too. Progress has been made in oil-producing countries in recent years, which explains why, in our sample, Central and West Africa, as regions, generally have budget surpluses. Stabilisation of public accounts in the past few years in Cameroon, Kenya, Senegal, Tanzania and Uganda is starting to bear fruit. But government deficits are still high and have even increased in Burkina

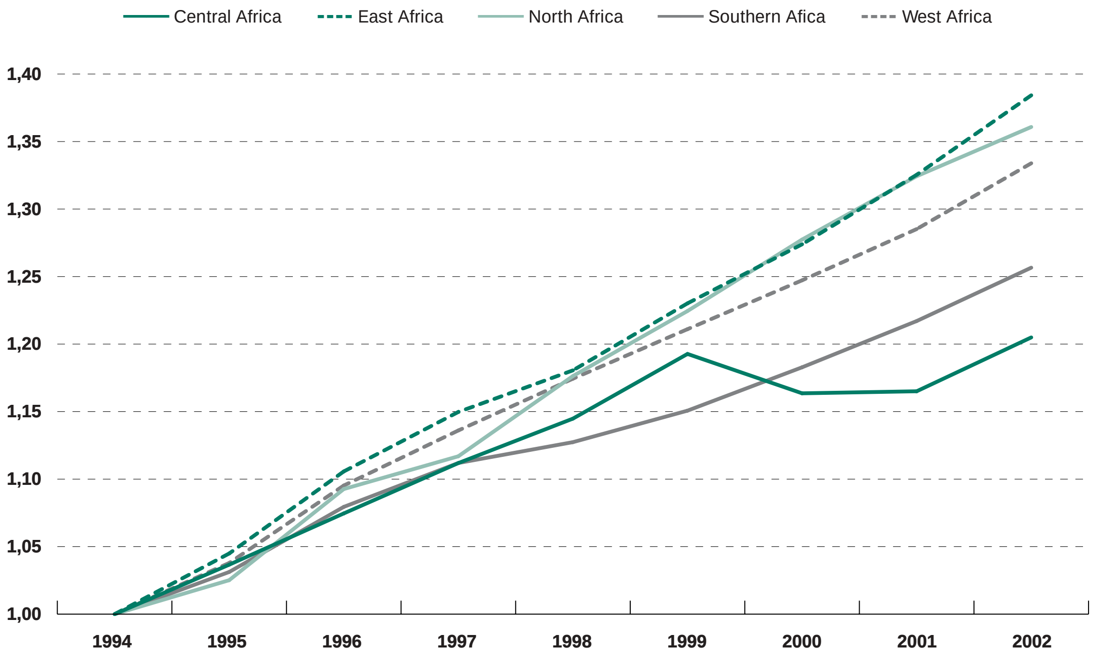
Table 2 - Regional Growth Rates (percentage)

Region	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Central Africa	3.7	3.7	3.5	3.0	4.2	-2.4	0.1	3.4
East Africa	4.5	5.8	4.0	2.7	4.2	3.6	4.0	4.4
North Africa	2.5	6.6	2.2	5.3	4.1	4.3	3.7	2.8
Southern Africa	3.1	4.7	3.0	1.4	2.1	2.8	2.9	3.2
West Africa	3.8	5.5	3.7	3.4	3.1	3.0	3.0	3.8
All	3.1	5.5	2.9	3.5	3.0	3.4	3.4	3.2

Source: Authors' calculations based on data in the statistical annex and the IMF's *World Economic Outlook.*

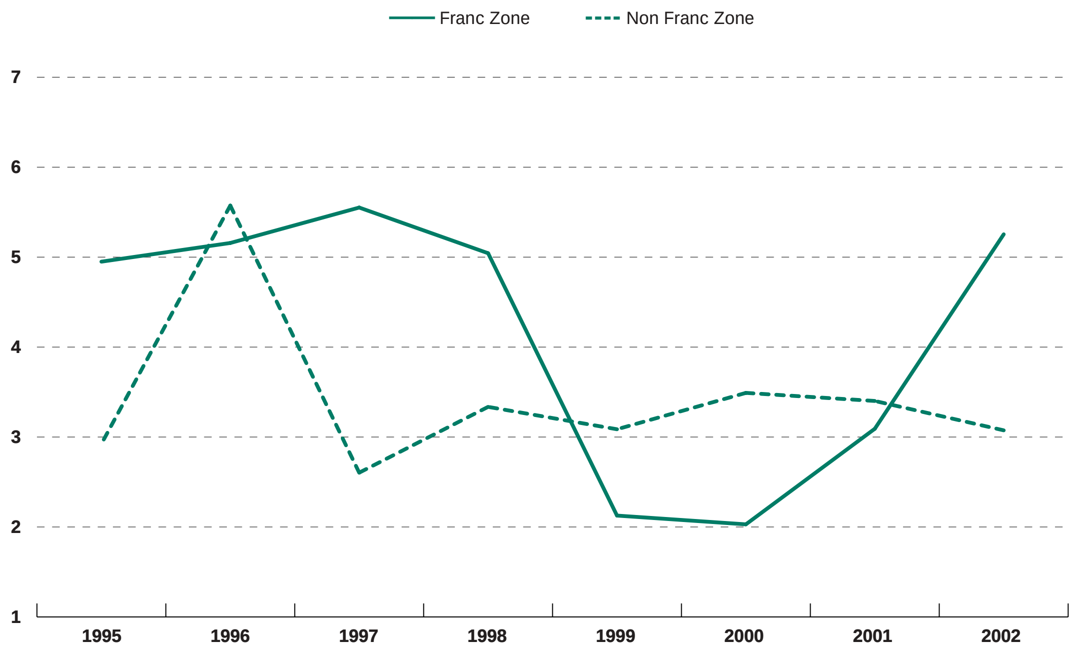
5. For a comparative analysis of the period prior to CFA devaluation, see Jorge Braga de Macedo, Daniel Cohen and Helmut Reisen (eds.) (2001) *Don't Fix, Don't Float*, Development Centre Studies, OECD, Paris.

Figure 6 - Regional Growth Indexes, 1995-2002



Source: Authors' calculations based on data in the statistical annex and the IMF's *World Economic Outlook.*

Figure 7 - Growth Rates In and Outside the Franc Zone
(percentage)



Source: Authors' calculations based on data in the statistical annex and the IMF's *World Economic Outlook.*

Table 3 - Inflation by Region in 2000 (consumer prices, percentage)

	Central Africa	East Africa	North Africa	Southern Africa	West Africa	All
Inflation 2000	203.6	6.0	2.0	22.2	6.8	21.4
Except hyper-inflation states	2.9	6.0	2.0	10.1	6.8	5.4
22 countries	**1.3**	**5.2**	**3.3**	**9.7**	**7.3**	**6.5**

Source: Authors' calculations based on data in the statistical annex and the IMF's *World Economic Outlook.*

Figure 8 - Government Expenditure and Revenue by Region in 2000
(percentage of GDP – only the 22 countries in the sample)

Source: Authors' calculations based on data in the statistical annex.

Table 4 - Current Balance by Region
(percentage of GDP – only the 22 countries in the sample)

	Central Africa	East Africa	North Africa	Southern Africa	West Africa	All
Exports	42.6	13.2	11.2	25.9	43.1	23.5
Imports	-20.2	-26.8	-22.8	-22.9	-31.4	-24.5
Trade balance	**22.3**	**-13.6**	**-11.6**	**3.0**	**11.7**	**-1.0**
Net non-factor services	-8.9	1.4	4.6	-0.8	-7.1	-0.2
Net revenue	-14.2	-0.8	0.0	-2.7	-8.0	-3.0
Net transfers	-0.2	8.4	5.6	0.3	3.6	3.3
Current balance	**-1.0**	**-4.5**	**-1.4**	**-0.3**	**0.2**	**-1.0**

Source: Authors' calculations based on data in the statistical annex.

Faso, Egypt, Ghana, Ethiopia, Morocco, Chad and Zimbabwe for a wide variety of reasons. In the last three countries, recent internal conflicts have been partly responsible. The Franc Zone, even though it includes several countries in deficit or in delicate financial situations (Senegal and Gabon), is generally controlling public deficits better than the rest of Africa.

Efforts to stabilise current account balances have also varied greatly. East Africa has the highest regional deficit (Table 4) thanks to Ethiopia and Uganda. In West Africa, several countries have big deficits (Burkina Faso, Ghana, Mali and Senegal). In Southern Africa, Mozambique, which has received large amounts of foreign aid in recent years, including emergency relief after floods in 2000 and 2001, also has a considrable current account deficit. These shortfalls are partly due to government funding of development, though other factors are at work. So in the Franc Zone, where the operational account with the French treasury helps short-term deficit financing, the current account deficit in 2000 was much larger than in other countries (4.6 per cent of GDP against 0.6). Nevertheless the year was rather untypical for the zone, with bad weather reducing harvests in the Sahel states.

Recent Trends in Poverty

The positive growth in Africa as a whole has boosted per capita income in recent years, since volume GDP grew by one percentage point more than the population growth of around 2.3 per cent between 1995 and 2000. When per capita income growth is measured at world prices, real average per capita income of Africans grew by a significant 1.8 per cent a year over the period, according to the World Bank[6]. This improvement was noted in nearly all countries and affected 90 per cent of the continent's population. Only Central Africa, because of its conflicts, showed no progress in this area.

Recent World Bank studies show that growth in per capita purchasing power significantly reduces poverty, defined as the percentage of the population living on less than one dollar a day. The elasticity of poverty to income growth (as recorded in national accounts) is about minus 2[7]. If such elasticity is applied to changes in real per capita income measured in international prices, the probable changes in the level of monetary poverty between 1995 and 1999 can be obtained (Figure 9) for the countries in the sample for which data was available. There are very sharp differences between countries, with a large number of poor people in Burkina Faso, Mali and Nigeria in 1999. Monetary poverty is also persistently high in middle-income countries such as Gabon and Namibia because of their very unequal income distribution. The drop in poverty levels shown in Figure 9 is less than population growth in Kenya, Nigeria and South Africa, implying a net increase in the number of poor in those countries, which contain nearly 24 per cent of Africa's population. In Central Africa (13 per cent of the continent's population), such data is only available for Gabon, but the percentage and number of poor people is presumably high there and has probably increased in recent years. So the overall picture of progress has to be significantly qualified and this has led the World Bank to predict that Sub-Saharan Africa will be the only region of the world where the number of poor will steadily increase until 2015, and thus the only region where the development goals set at the start of this century will definitely not be reached.

The survey of disposable income is completed with a look at non-monetary aspects of poverty. Health is definitely one area where the little progress made contrasts with the general economic improvement. Life expectancy at birth did not on average increase between 1995 and 2000, mainly owing to the HIV/AIDS epidemic in several countries, but figures vary greatly from region to region. West, Central and North Africa, which were less affected by the epidemic (except for Côte d'Ivoire, Cameroon, Central African Republic, Burundi and Rwanda) showed improvements in life expectancy, while it declined by six years in

6. Calculated from data in the World Bank's *World Development Indicators.*

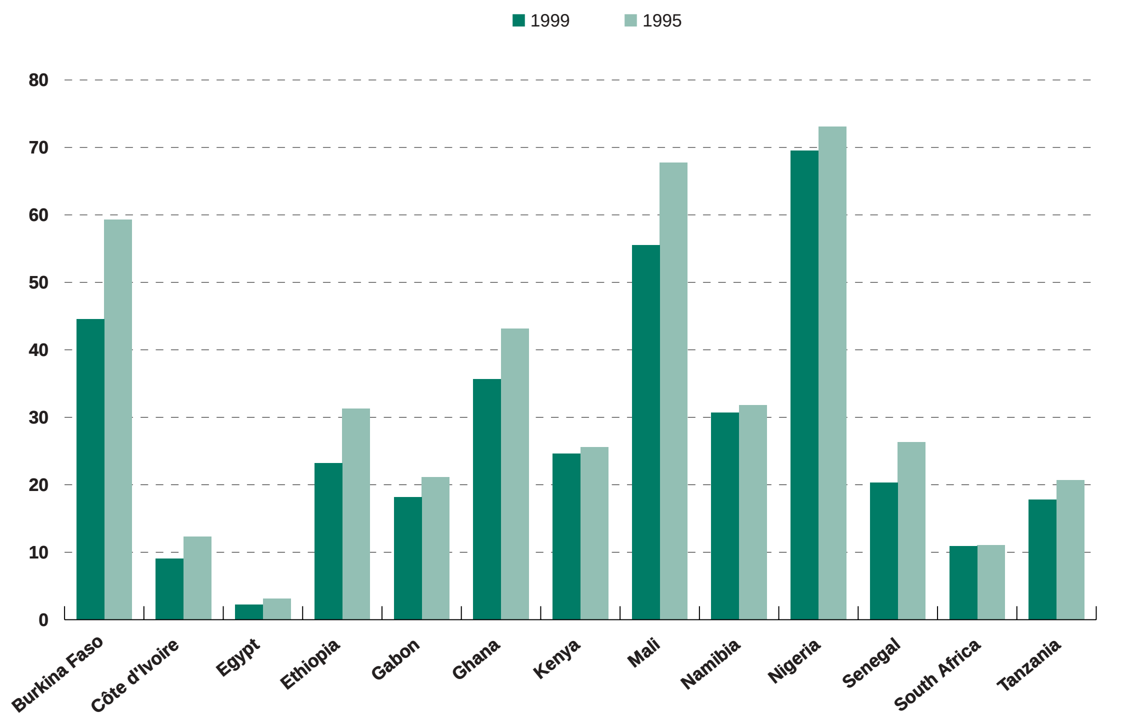
7. Martin Ravallion (2001), *Growth, Inequality and Poverty: Looking Beyond Averages*, Working Paper no. 2558, World Bank, Washington D.C.

Southern Africa and 0.5 years in East Africa. The situation was especially bad in Botswana and Mozambique, where life expectancy at birth is now less than 40 years, but life expectancy is more than 70 years in Mauritius. Without HIV/AIDS, life expectancy would now be about 59 years in Southern Africa, 16 years more than at present. All this shows the urgent need for prevention campaigns that will produce long-term results.

Educational indicators have improved in recent years, with a working population that has spent more years in school than before. The average period of schooling increased by nearly a third between 1990 and 2000 (Figure 11), according the OECD's Development Centre figures[8]. This progress however hides very large country-to-country differences. The greatest progress was made in Southern Africa (except for Mozambique) and North Africa, but good advances were made in other regions. In Mauritius, primary school attendance has been virtually 100 per cent for several years now and the educational level of the population is higher than in North Africa and similar to that on some OECD countries. In Ghana, thanks to long-standing investment in education, the level by 2010 will be close to that of Mauritius in 1980. In Uganda, progress has been made recently which may bring education up to a similar level in 2020. These are only quantitative indicators, however, that must be weighted by the quality of education provided, for which it is hard to get comparative assessments. The figures show clearly positive trends in the countries studied.

In education, as in health, the policies implemented will only produce results in the long term, so it is urgent to encourage such programmes in countries that are

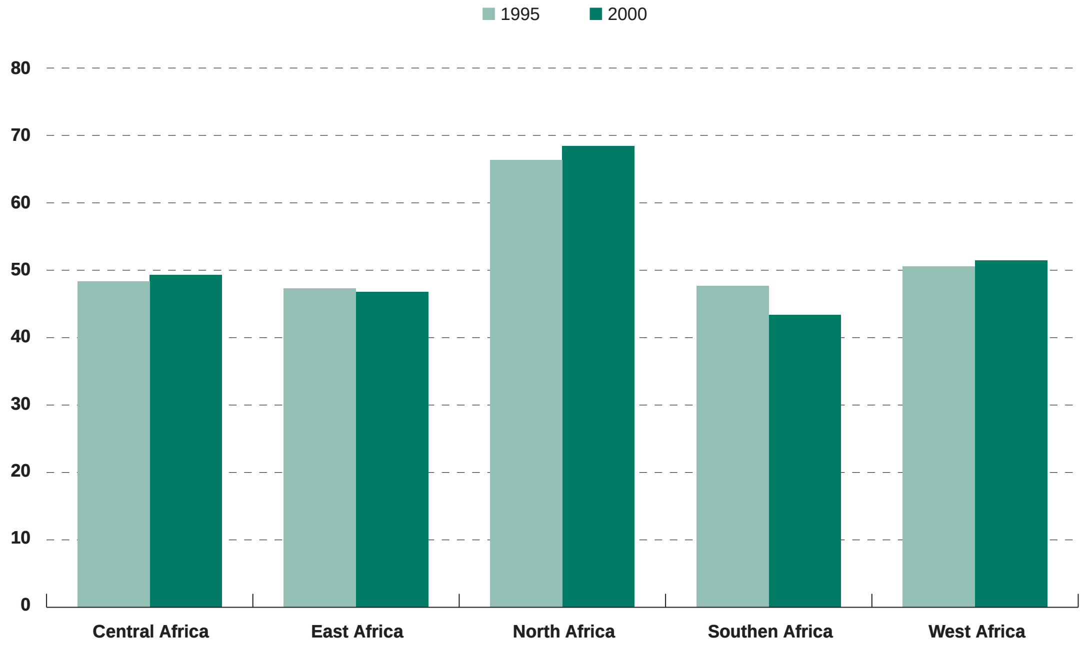
Figure 9 - Assessment of Poverty Level
(people living on less than $1 a day – percentage)



Source: Authors' calculations using the World Bank's *World Development Indicators.*

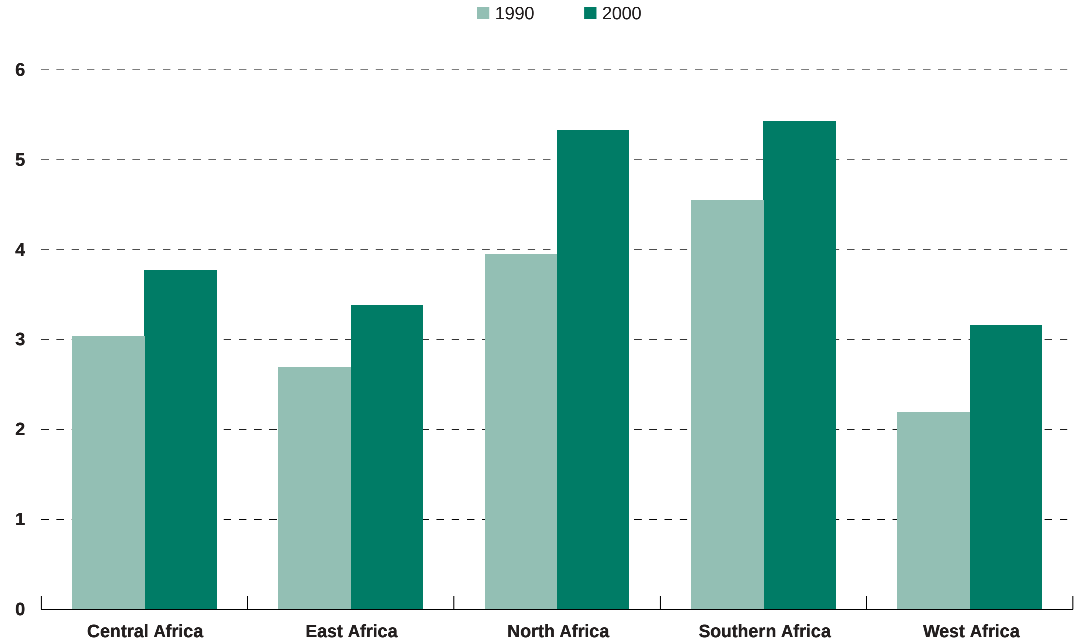
8. Cohen, D. and M. Soto (2001), *Growth and Human Capital: Good Data, Good Results*, Technical Paper No. 179, OECD Development Centre, Paris.

Figure 10 - Trends in Life Expectancy at Birth, by Region



Source: Authors' calculations based on the statistical annex.

Figure 11 - Change in Number of Years Spent in School, by Region



Source: Authors' calculations based on OECD Development Centre data.

lagging behind. The design of the policies is also just as important as the amount of money behind them. Government spending on education is not clearly linked to the sector's performance. Unit costs (recurrent costs of primary education relative to the number of children in school) vary greatly from country to country, with differences as big as 1 to 6 or 7 between Uganda and countries such as Senegal and Cameroon[9]. In some (Gabon and Namibia), the very large number of children having to repeat years greatly increases the cost of running the system. Budgets do not always give priority to basic education, even where it is quite inadequate, as in Senegal and Mali. Decentralising primary education is vital, as the success story of Uganda shows, but is rarely done.

International Aspects of an African Recovery

The number of poor people in Sub-Saharan Africa is likely to increase between now and 2015, so mobilising African and international resources to fight poverty is more urgent than ever. Africa's partners are trying to help in different ways, with economic policy advice mainly from the Bretton Woods institutions, moves to ease the debt burden through the Heavily Indebted Poor Countries (HIPC) Initiative and aid for development and trade policies.

Similar Policies Under Adjustment Programmes

Nearly all African countries have started implementing adjustment and reform programmes proposed by the World Bank and the International Monetary Fund. Aimed at boosting growth and fighting poverty, they seek to stabilise public finances and monetary policy and further liberalise economies through micro economic reforms. They began in the 1980s in Ghana and Uganda and spread in the early 1990s as more countries adopted them and the extent of the reforms grew. Nigeria opposed the Bretton Woods institutions for many years but was reconciled with them in 2000 and Côte d'Ivoire, whose poverty reduction and growth facility (PRGF) was suspended in 1999, completed discussions in October 2001 for implementation of a programme acceptable to the IMF. These two countries plus Zimbabwe are the only ones among the 14 eligible countries in this report that are not yet benefiting from a PRGF.

The various programmes have many common points, which raises fears that blanket ready-made solutions are being imposed. In fact, the programmes are quite varied.

Many countries have made a lot of progress in stabilising budgets and monetary policies, as shown by the substantial reduction in public primary deficits and the slowing of inflation, but structural reform of public finances has not got very far in many others, though a few positive experiences in recent years have shown what can be done. These include:

- Introduction of a value-added tax (VAT) in the Franc Zone countries.
- An attempt by Burkina Faso to tighten up public spending by asking government ministries to set their own priorities and stick to them.
- Automatic adjustment of spending according to the influx of revenue, which has allowed Tanzania and Uganda to restore the balance of their public finances quickly.
- Introduction of a medium-term budget framework in Mozambique.
- Civil service reform in several countries (Burkina Faso, Tanzania), involving reduction of the workforce and better incentives.

The problems shared across-the-board, or at least by many countries, remain worrying. Persistent recurrence of new budget deficits in election years, as recently in Côte d'Ivoire, Ghana, Uganda and Senegal, is a sign that control of government spending still needs to be strengthened in conditions of greater transparency.

Approaches and results concerning micro economic reforms also vary greatly from country to country, especially where privatisation is concerned:

9. Browne S. (2001), "Waiving and Drowning? HIPC Debt and the Millenium Development Goals", article for the meeting on debt relief, WIDER Development Conference, August.

- In Namibia, which had announced it would privatise though it had never had an IMF programme, new public enterprises were set up, no competition policy was applied and privatisation has now come to a halt.
- In Mali and Uganda, privatisation was done without a clear regulatory structure, which led to allegations of fraud.
- In Burkina Faso however, privatisation was carried out carefully, within a defined legal and regulatory framework and with a real concern in recent years for dialogue, even if many large enterprises remain to be privatised.

In this area too, African countries share recurrent problems they are not managing to solve. Many, such as Senegal, Mali, Burkina Faso, Nigeria and Chad, are having difficulty reforming their energy sectors. The failed privatisation of Senelec, which the Senegalese government has had to re-nationalise temporarily, is a good example. Liberalisation of agricultural sectors such as cotton, cocoa and coffee, which has increased in recent years, has also brought problems, as in Cameroon and Côte d'Ivoire. In other areas of the economy, such as telecommunications, liberalisation is working better.

Beyond the agreement on market-oriented policies backed by the Bretton Woods institutions and most other funding agencies, there is a broad range of experiences and reform policies whose outcome varies greatly. Success or failure very often depends on the degree of government involvement, with better results from more of it. The same goes for poverty reduction policies, especially those implemented under the debt-reducing HIPC Initiative.

The HIPC Initiative

After the G7 summit in Cologne in July 1999, the Heavily Indebted Poor Countries (HIPC) debt relief programme was enhanced to move faster towards its goals. Eight of the countries in this report, out of 12 eligible, have been admitted to the programme (Table 5).

Under the Enhanced HIPC Initiative, countries get a promise from the international financial institutions and members of the Paris Club to lighten their debt to enable them to reduce its net present value (NPV) to a sustainable level, which is 150 per cent of their exports of goods and services or, for countries with substantial exports, 250 per cent of the government's budget revenue. This relief is shared by the international financial institutions and bilateral lenders after all the standard means of bilateral relief have been applied. It is expected to help the fight against poverty through the beneficiary countries' commitment to spend the saved budget expenditure on anti-poverty programmes, and through lightening the financial constraints on growth strategies.

Depending on their initial situation, countries have obtained a wide range of debt relief through the HIPC Initiative. The combination of the different amounts of relief promised at the "decision point" along with, for reasons of comparison, the relief granted under the original HIPC programme for Mozambique, Uganda, Burkina Faso and Mali, is shown in Figure 12. Also included are Ethiopia and Ghana, which have been assessed (in February and June 2001 respectively) at their own request for possible relief under the programme. The yardstick for sustainability of the residual debt for Ghana and Senegal is the ratio between debt and public revenue, while the debt/exports ratio is used for all the other countries. Though it greatly varies from one country to another, the proposed relief in most cases is between 40 and 60 per cent of the NPV of the initial debt. However, it is less than 30 per cent for Ghana, Senegal and Chad since most of their relief will result from implementing Naples terms. At the other extreme, Mozambique's relief is 80 per cent of its initial debt, a third of it the result of applying standard bilateral debt relief procedures.

Although it was significantly speeded up in 2000, the HIPC programme is still in its infancy and various problems still have to be solved.

Transition from a decision to grant relief to actual relief is not automatic. In Burkina Faso, only two-thirds of the promised interim relief was received in 2000 and 2001, mainly due to the lengthy process of setting up the bilateral agreements under the HIPC programme. Some of the delay is the fault of the country itself: there was no such problem with Uganda. The final granting of the debt, at "completion point," depends however on presentation of a final poverty reduction strategy paper (PRSP), although most of the countries in the HIPC programme have been required only to produce an interim document, which must be finalised after consultation with all the parties involved at national level and must include precise targets to be reached. Several of the countries (Cameroon, Mali, Senegal, Tanzania and Chad) still have no reliable recent data on poverty to enable a final PRSP to be put together.

Implementation of the anti-poverty programme funded by the debt relief depends on the quality of governance in the country and may come up against a lack of institutional capacity. In most countries, it is not even possible to say how much money is spent on poverty reduction because budget procedures are inadequate. Nor is it certain that the money saved on debt service under the HIPC programme will find its way into the social budget. So the IMF and World Bank predict that while debt service in eight of the countries studied here that have reached decision point will fall from 19 to 11 per cent of their total public expenditure between 1999 and 2002, their social spending will only slightly increase, from 28 to 29 per cent of the budget. Because budget resources are fungible, the debt service relief gets used to finance existing or already-planned social expenditure rather than completely new spending. This means that, at least in the short term, more money to fight poverty will have to come from growth (and thus increased budget revenue) than from a reduced debt burden.

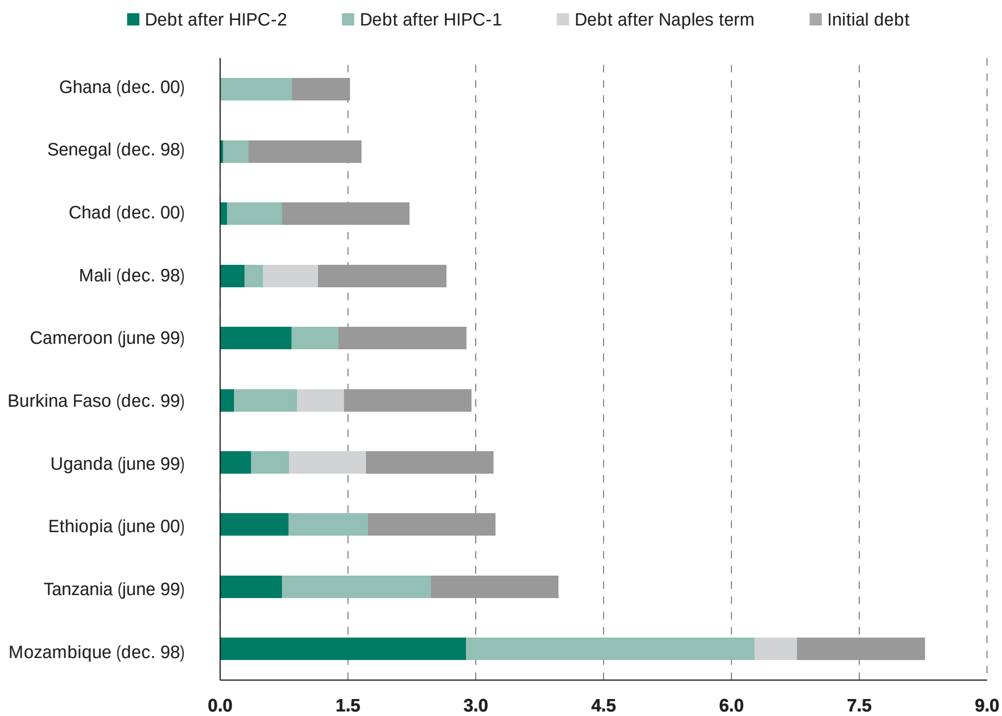
Debt relief under the Enhanced HIPC Initiative helps stabilise a country's finances. For it to reduce poverty, nearly all the countries studied here need significantly to improve their national capacities and quality of governance. This can only be done through their own efforts, although the HIPC programme can create favourable conditions for such change, notably by its requirement for more transparency and dialogue with social players and civil society.

Table 5 - Status of Countries Eligible under the Enhanced HIPC Initiative

Decision point reached	Date	Decision point not yet reached	Potentially sustainable debt	Countries not eligible
Benin	July 00	Burundi	Angola	Algeria
Burkina Faso[a]	**July 00**	Central African Republic	**Kenya**	**Botswana**
Cameroon	**Oct 00**	Comoros		Cape Verde
Chad	May 01	Congo		Djibouti
Gambia	Dec 00	Congo DRC		**Egypt**
Guinea	Dec 00	**Côte d'Ivoire**		**Equatorial Guinea**
Guinea-Bissau	Dec 00	**Ethiopia**		Eritrea
Madagascar	Dec 00	**Ghana**		**Gabon**
Malawi	Dec 00	Liberia		Lesotho
Mali	**Sept 00**	Sierra Leone		Libya
Mauritania	Feb 00	Somalia		**Morocco**
Mozambique	**Apr 00**	Sudan		**Mauritius**
Niger	Dec 00	Togo		**Namibia**
Rwanda	Dec 00			**Nigeria**
São Tomé	Dec 00			Seychelles
Senegal	**June 00**			**South Africa**
Tanzania	**Mar 00**			Swaziland
Uganda	**Feb 00**			Tunisia
Zambia	Dec 00			**Zimbabwe**

Note: a) Countries covered in this report are in bold type.
Source: HIPC documents (IMF and World Bank).

Figure 12 - Ratio of Initial Debt (before and after HIPC programme) to Exports of Goods and Services



Note: In brackets, reference date used in HIPC documents to assess proposed relief under Enhanced HIPC Initiative.
Source: HIPC documents (IMF and World Bank).

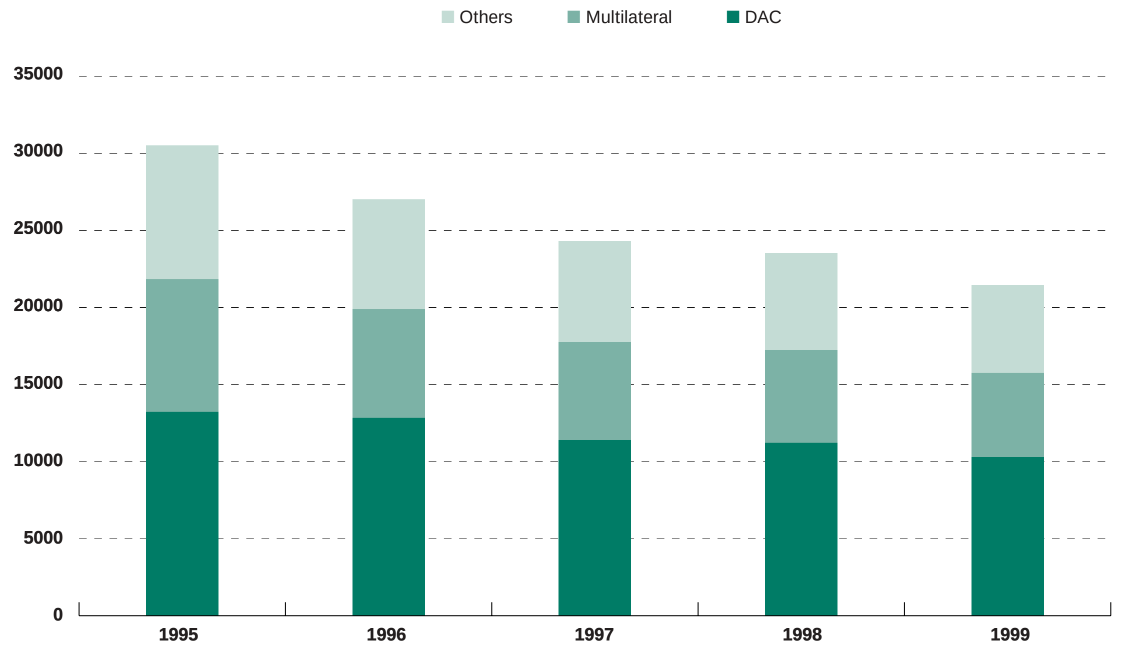
Official Development Assistance

The reform and anti-poverty programmes launched in Africa need extra funding from governments through official development assistance (ODA), but ODA in Africa has sharply declined in recent times, by about 6 per cent a year from 1995 to 1999, in a dramatic reflection of the world wide downturn in aid. Net ODA to developing countries dropped during the period, but only by 1.1 per cent a year, due to a small recovery between 1997 and 1999 from which Africa hardly benefited. The decline affects all categories of funding sources, including multilateral ones, much of whose aid comes from member-countries of the OECD Development Assistance Committee (DAC) (Figure 13). The only good thing about the trend is that 83 per cent of ODA is now in the form of grants and soft loans – including more than 99 per cent of bilateral aid from DAC countries – compared with 72 and 89 per cent respectively in 1995.

Full data is not yet available, but the situation has probably worsened since 1999. Preliminary estimates of the ODA budgets of DAC countries show a fall of 6 per cent in 2000, despite strong economic growth in the OECD countries, and this is expected to continue in 2001 and 2002 because of the recession.

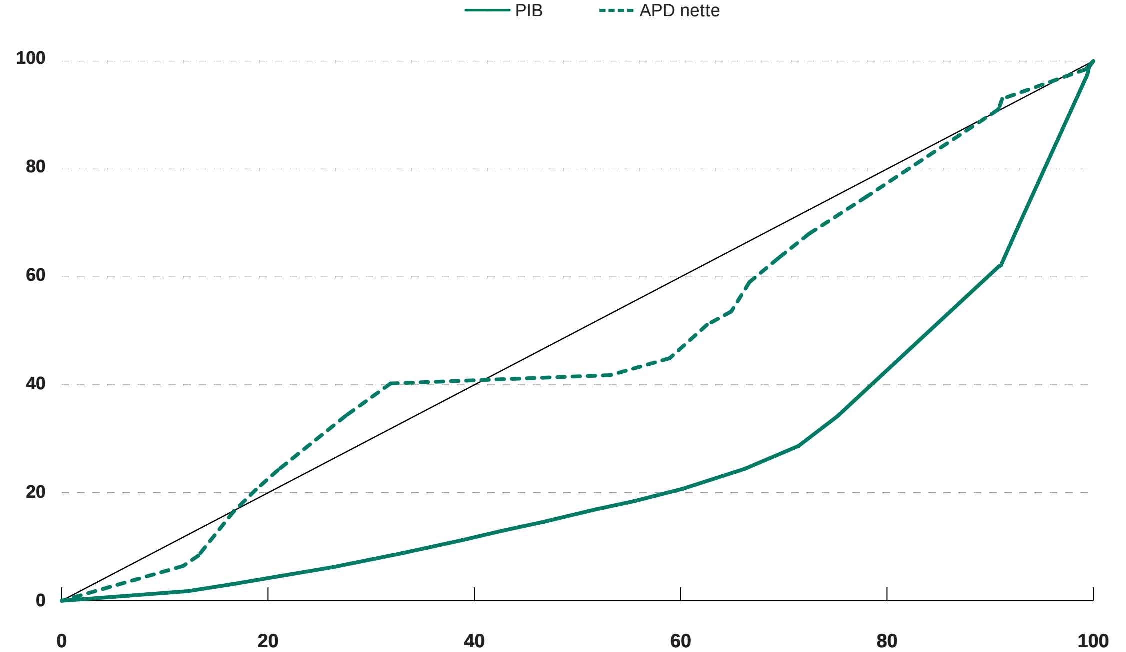
Aside from general budgetary trends in OECD countries, the decline in ODA to Africa stems partly from growing problems some countries are having in getting earmarked bilateral and multilateral aid disbursed. Promises of aid for Africa increased between 1997 and 1999, but disbursement of funds remained about the same. If the ratio between annual aid commitments and disbursements had stayed constant, the fall in the amount of aid received would have been cancelled out. In some countries, the gap is particularly wide due to lack of administrative capacity. For example, only a fifth of the credit lines promised for new projects in Mali during this period had been

Figure 13 - Change in Net Flows of ODA (thousands of dollars)



Source: OECD/DAC.

Figure 14 - Distribution of GDP and Aid Received
(overall percentage for 22 African countries)

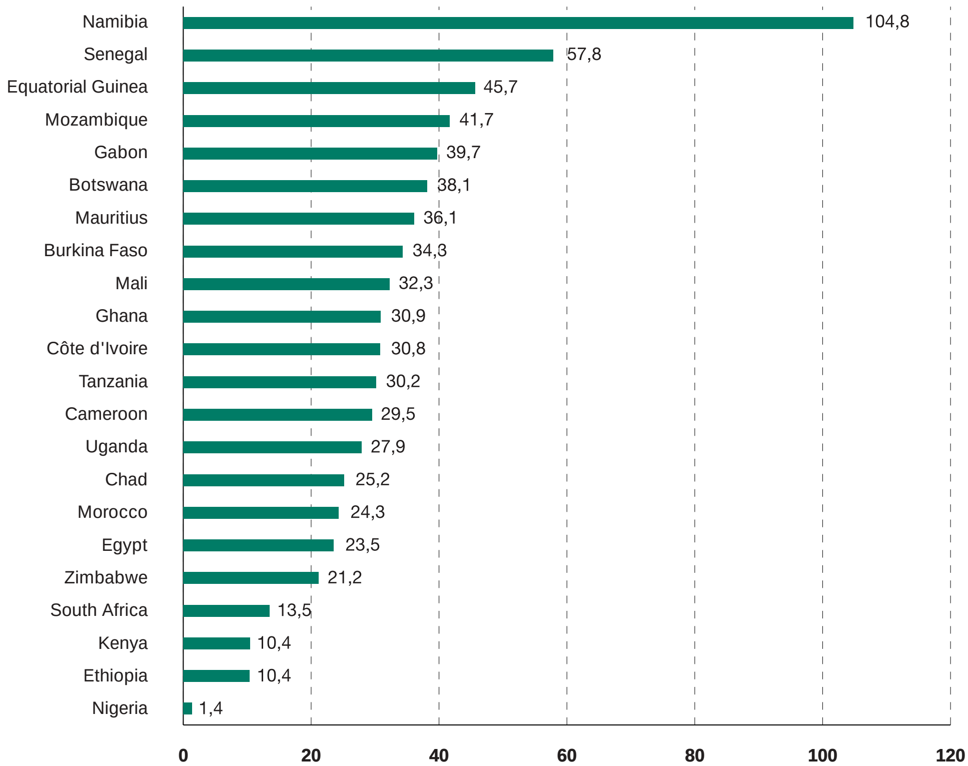


Note: Overall distribution of country populations in horizontal and their GDP and net PDA in vertical, with countries listed in rising order of per capita GDP.
Source: OECD/DAC, domestic data for GDP, and UN Population Division.

disbursed by April 2001, according to the Malian government.

A very large amount of per capita ODA in Africa goes to a group of small and quite well-off countries, such as Namibia, Equatorial Guinea, Gabon, Botswana and Mauritius (Figure 15). Among the very poorest, only Mozambique gets such a high share, but Ethiopia, the poorest country in our sample, is among those that get the least, just ahead of Nigeria. These differences are not entirely explained by multilateral and bilateral ODA being channelled to countries having the best policies. The geographical pattern of aid distribution has not changed much in the past five years, except for a sharp drop in assistance to Côte d'Ivoire and to Gabon, which in 1995 received the highest per capita ODA in Africa. This pattern only slightly improves resource distribution in the continent (Figure 14).

Figure 15 - Flow of Net Per Capita ODA (dollars, in 1999)



Source: OECD/DAC and UN Population Division.

European and US Trade Policies

In recent decades, Sub-Saharan Africa's exports have had preferential access to the European market on a non-reciprocal basis. This will change, following the signature by the EU and 77 African, Caribbean and Pacific (ACP) countries in June 2000 of the Cotonou Partnership Agreement, which replaces the Lomé convention.

Under the four successive Lomé conventions, Europe progressively granted trade preferences to all Sub-Saharan African countries except South Africa, giving their exports to Europe an advantage over competing products from other countries. The preferences are also in the form of exemptions from some non-tariff restrictions such as import quotas. Additional benefits include commodity protocols for banana, sugar, beef and veal exports, effectively extending some CAP benefits to those ACP producers. ACP countries are not yet obliged to reciprocate by giving EU products special access to their own markets. It was hoped these preferences would stimulate exports and boost growth, but they could not even prevent the share of ACP exports to Europe from falling by half – from nearly 8 per cent in the mid-1970s to about 3 per cent at the end of the 1990s. Successful examples of using preferences are limited to a few sectors and countries (mostly Mauritius and some Caribbean states). The inability of most African economies to produce more, better and a greater variety of products has prevented them taking advantage of this privileged access.

Table 6 - Agreement between African Countries and the EU, by Level of Development

LDCs *(eligible under "everything but arms")*					**Non-LDCs**	
Cotonou Partnership Agreement[1]						
Angola	Comoros	Guinea	Mauritania	Sierra Leone	Botswana	Mauritius
Benin	Dem.Rep.Congo		Guinea-Bissau	Mozambique	Somalia	Cameroon
Namibia						
Burkina Faso	Djibouti	Lesotho	Niger	Sudan	Congo	Nigeria
Burundi	Equat. Guinea	Liberia	Rwanda	Tanzania	Côte d'Ivoire	Seychelles
Cape Verde	Eritrea	Madagascar	Senegal[2]	Togo	Gabon	South Africa[3]
Central Afr. Rep.	Ethiopia	Malawi	São Tomé & Principe	Uganda	Ghana	Swaziland
Chad	Gambia	Mali		Zambia	Kenya	Zimbabwe
Euro-Mediterranean Partnership (Barcelona Process)[4]						
					Algeria	
					Egypt	
					Morocco	
					Tunisia	

Notes: 1. Other ACP signatories to the Cotonou agreement include 15 Caribbean states (Antigua-Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St Kitts-Nevis, St Lucia, St Vincent, Suriname and Trinidad Tobago) as well as 14 Pacific states (Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Vanuatu and Western Samoa). Cuba is a member of the ACP group but not part of the Cotonou agreement.
2. In 2000, the UN's ECOSOC recommended that Senegal – formerly a non-LDC – be considered an LDC.
3. South Africa formally joined the ACP group in 1998 and has a separate aid and trade agreement with the EU.
4. The other eight Mediterranean signatories to the Barcelona Agreement are Israel, Jordan, the Palestinian Authority, Lebanon, Syria, Turkey, Cyprus and Malta. Libya has observer status at some meetings.

Source: Compiled from EU website (http://europa.eu.int).

With the signing of "Cotonou", current all-ACP non-reciprocal tariff preferences will be maintained until 31 December 2007. However, the benefits are being irreversibly eroded by the EU's progressive lowering of its trade barriers (both in the multilateral WTO context and through bilateral free trade agreements) and by the replacement of tariff protection with non-tariff barriers, such as veterinary and quality standards, or anti-dumping measures, which traditional preferences cannot help African producers overcome.

From 2008, a set of reciprocal free trade pacts – economic partnership agreements (EPAs) – should replace the current regime, after negotiations starting in September 2002 between the EC and the ACP. These should be compatible with WTO rules, especially article XXIV, which says such agreements should not result in higher levels of protection against third countries, should cover "substantially all trade" and be in place within 10-12 years. ACP countries are invited to sign EPAs individually, but preferably as groups, building on their own regional integration schemes. While least developed countries (LDCs) can keep non-reciprocal preferences, non-LDCs are due to gradually offer reciprocal free market access to imports from Europe.

The LDCs – 34 out of 48 Sub-Saharan countries – are entitled to tariff-free and quota-free access to the EU market for all their exports except arms, since the EC launched its "Everything But Arms" initiative in February 2001. The improvement on the Lomé/Cotonou preferences mainly concerns three products – beef, rice and sugar – and for rice and sugar the full benefit will come in 2009[10].

Most African countries will see in the short term the continuing disappearance of traditional barriers to the EU market, though they are losing the status of "most preferred" trade partners *vis-à-vis* their competitors. More important, they face new kinds of trade barriers (NTBs) and have yet to take up the challenge of tackling supply side constraints and improving the competitiveness of their products. In the longer term, as the single all-ACP trade regime is replaced by several trade arrangements – which will largely be defined during negotiations starting in 2002 – African non-LDCs must prepare for reciprocal free trade arrangements with the EU similar to the agreement already signed between South Africa and the EU (Box 4).

Box 4 - The South Africa – EU Trade Agreement

South Africa has formally joined the ACP group since Lomé-IV bis was ratified by all European member states in April 1998 but has "qualified membership". This means that, although formerly part of Lomé, and now Cotonou, it has not benefited from the same trade and aid provisions as the other ACP countries. It was not granted Lomé non-reciprocal trade preferences and has been benefiting from the European Union's GSP while negotiating a separate EU-SA trade agreement. The negotiations, described by the EC as "highly complex", lasted for three and a half years and were sometimes difficult. The trade, development and co-operation agreement between the EU and South Africa was eventually approved by EU heads of state and government in March 1999.

The most remarkable feature of this agreement – the only free trade accord between Europe and a Sub-Saharan African country – is the inclusion of agricultural products (fish and wine/spirits are subject to separate agreements). An estimated 5 per cent of South Africa's exports (and 37 per cent of its agricultural exports) to the EU were excluded from tariff cuts, against 14 per cent of EU exports to South Africa, with a transition period of 10 years for the EU to give access and 12 for South Africa. Trade agreements with Morocco, Tunisia and Egypt excluded agricultural products. South Africa is part of a century-old customs union and its current members – Botswana, Lesotho, Namibia and Swaziland – are unofficially part of the budding EU-South Africa free trade zone.

For more details, see Page, S., P. Robinson, H.B. Solignac Lecomte and M. Bussolo, 1999, SADC-EU Trade Relations in a Post-Lomé World, ODI Special Report, ODI, London:.

Box 5 - The Range of the *African Growth and Opportunity Act (AGOA)*

The United States has designated 35 Sub-Saharan African countries as eligible to benefit from the AGOA subject to various conditions that include establishing a market economy, developing political pluralism and the rule of law, eliminating barriers to US goods and investment, protecting intellectual property, fighting corruption, having policies to reduce poverty, improving access to health care and education, protecting human and worker rights and eliminating certain child labour practices.

The eligible countries are: Benin, Botswana, Cameroon, Cape Verde, Central African Republic, Chad, Congo, Djibouti, Eritrea, Ethiopia, Gabon, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Principe, Senegal, the Seychelles, Sierra Leone, South Africa, Tanzania, Uganda, Zambia and most recently, Swaziland.

These countries have duty-free and non-quota access for a large number of their products, representing more than 1 800 tariff line items. Textiles and clothing are included if they are made with US components, without which they are subject to quotas. But the quota rule has been waived until September 2004 for countries whose per capita GDP was less that $1 500 in 1998.

For more details: www.agoa.gov

10. Stevens, C. and J. Kennan, 2001, *The Impact of the EU's 'Everything but Arms' Proposal*: A Report to Oxfam, Institute of Development Studies, IDS Sussex.

The agreement with South Africa, so far the only free trade pact between the EU and a Sub-Saharan country, goes further than the accords between the EU and some North African countries (Tunisia, Morocco and more recently Egypt) under the Barcelona Process begun in November 1995 between the EU and 12 Mediterranean countries. The South African agreement includes agricultural products, while the North African accords, which involve gradual and reciprocal lowering of traditional trade barriers, exclude them.

Among Africa's other major trade partners, the United States began a unilateral effort in May 2000 (the African Growth and Opportunity Act – AGOA) to open up to the continent's exports. It is too early to see the results of this initiative, but its range is clearly narrower than the agreements with the EU (Box 5).

African Initiatives

The New Partnership for Africa's Development

The year 2001 was a turning point in Africa's approach to its development problems, with the launching of two potentially important initiatives – The Millennium Partnership for the African Recovery Programme (MAP), proposed by Presidents Thabo Mbeki (South Africa), Abdelaziz Bouteflika (Algeria) and Olasegun Obasanjo (Nigeria), and the OMEGA plan put forward by Senegalese President Abdoulaye Wade. The two schemes to revive the continent's development, based on a shared vision of development, were combined into a plan called the New African Initiative, presented to the African Union summit in Lusaka in July 2001 and then renamed in October that year the New Partnership for Africa's Development (NEPAD).

Although the Organisation of African Unity, which became the African Union in 2001, has existed since 1963, it was the first time such an economic recovery plan had been jointly proposed by the continent's leaders, so the New Partnership is a important sign of Africa's determination to take charge of its own future. The practicality of the plan still has to be proven before it produces concrete results.

The document presented at the Lusaka summit included a political chapter, about the need to reduce conflict and ensure democracy, and an economic one, which listed seven priorities – infrastructure, new information technology, health care, education, culture, agriculture and diversifying production and exports. In each of these areas, a co-ordinated continent-wide or regional effort is proposed so that Africa can bring its development capacities up to the level of the rest of the world.

African countries are invited to choose, assess and fund joint investments, such as regional transport and telecommunication infrastructure projects and setting up new regional or continent-wide specialised higher education facilities. The current trend of cutting back development aid does not augur well for such efforts.

The success of NEPAD's economic chapter partly depends on the ability of African countries to come up with concrete regional co-operation projects and existing regional institutions will have to be used. Its success will also depend on that of the political chapter.

Regional Integration Policies

Creation of regional trade agreements (RTAs) and regional integration agreements (RIAs) gathered speed in the 1980s and 1990s, with the idea that an ever-expanding set of free trade areas could achieve world-wide free trade. The growing trend towards regionalisation is underlined by the fact that nearly all WTO member countries have signed RTAs with other countries. Since the WTO was set up in 1995, 67 RTAs have been notified, on top of the 108 between 1948 and 1994. So more and more world trade is taking place within regional blocs – rising from about 35 per cent during the 1960s to 42 per cent in the 1970s, 50 per cent in the 1980s and about 60 per cent during the 1990s.

African countries are moving towards regionalisation partly because they want to tackle obstacles to growth – including the smallness of the typical African economy and the need of the many landlocked countries to co-operate with coastal neighbours – for which integration is seen as a good way to ease such problems. Regionalisation is also attractive as a means to rationalise the continent's trade regimes and make trade policies more credible. The importance of regional integration in African development policy is shown by the many such projects for it over the past 40 years. These include (in North Africa) the Arab Maghreb Union (AMU), (in West Africa) the Economic Community of West African States (ECOWAS), the West African Economic and Monetary Union (WAEMU/UEMOA) and the Mano River Union (MRU), (in Central Africa) the Central African Economic and Monetary Community (CEMAC), the Economic Community of Central African States (ECCAS) and the Economic Community of the Great Lakes Countries (CEPGL), (in East Africa) the East African Community/Cooperation (EAC), (in Southern Africa) the Southern African Customs Union (SACU) and the Southern African Development Community (SADC) and (in East and Southern Africa) the Preferential Trade Area for Eastern and Southern Africa (PTA), which has been succeeded by the Common Market for Eastern and Southern Africa (COMESA). At pan-African level, the 1991 Abuja Treaty's aim to create a Pan-African Economic Community (AEC) became reality in 2001 with creation of the African Union, a body with proposals for strong political and economic ties to replace the Organisation of African Unity.

Most regional integration arrangements in Africa do not seem to have increased trade or regional economic growth, largely because of design and implementation problems. They have also been hampered by narrow trade patterns, dependence of most countries on raw material exports, the small potential for complementarities in goods and services and for product diversification, weak transport and communication infrastructure, local and inter-state conflicts, and lack of strong political will to push forward.

Two clusters of regional sub-groupings deserve special attention, however, because of their long experience of economic co-operation and the deeper level of integration they have achieved. These are the Southern African and the Franc Zone countries (Boxes 6 and 7).

Box 6 - Regional Integration Initiatives in Southern Africa

Southern and East African countries belong to regional integration arrangements such as the Southern African Customs Union (SACU), the Common Monetary Area (CMA), the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA). Some countries are also members of the Cross-Border Initiative (CBI), a non-institutional initiative focusing on private sector involvement in economic integration.

The Southern African Customs Union (SACU) is the oldest regional integration arrangement, dating back to 1889. The current SACU agreement was signed in 1969 and now covers Botswana, Lesotho, Namibia, South Africa and Swaziland. SACU has largely managed to remove trade barriers and achieve free movement of factors of production between member-states. There is also a common external tariff. SACU negotiated a free trade agreement with Zambia in 1999. However, it has been bogged down since the late 1970s by dissatisfaction among member-states about the current agreement. More than a decade of attempts to renegotiate it have made little progress. A major issue is the sharing of customs duties among member-states.

The Common Monetary Area (CMA) emerged in 1986 from the 1974 Rand Monetary Agreement (RMA) between South Africa, Lesotho and Swaziland, under which the rand remained the sole currency after Lesotho and Swaziland became independent in the late 1960s. Namibia joined the CMA in 1992. Member-countries are subject to South Africa's monetary and exchange rate policies, although there is provision for prior consultation on policy decisions. A positive effect has been the convergence of macroeconomic indicators among member-states since the 1970s.

The Southern African Development Community (SADC) was set up in 1992 after restructuring of the Southern African Development Co-ordinating Conference (SADCC), which was formed in 1980 in response to the challenges of independence of the Southern and East African states of Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe, and the impact of apartheid South Africa on these countries. The SADC Agreement added trade integration to the economic liberalisation agenda of SADCC. SADC members now include Namibia, South Africa, Mauritius, Seychelles and the DRC. The non-SACU members of SADC are increasingly diverging, with South Africa providing a "contagion effect", bringing the other SACU countries together.

Box 7 - Integration of Economic Policies in the Franc Zone

The Franc Zone is a monetary union of 14 countries based on four principles – convertibility guaranteed by the French treasury, fixed parities, free movement in day-to-day transactions and of capital, and a central foreign exchange reserve. The central banks of the zone's two sub-regions – one for West Africa and one for Central Africa – ensure that monetary policies are co-ordinated. Monetary union has existed since the countries' independence from France (the West African Monetary Union was set up in 1962 and the Central African Customs and Economic Union in 1964), but harmonising all the countries' economic policies is only a recent goal, with creation in 1994 of the West African Economic and Monetary Union (WAEMU/UEMOA) and the Central African Economic and Monetary Community (CEMAC). Customs and tax systems have already been harmonised, with introduction of value-added taxes (TVA) and implementation of customs unions on 1 January 2000.

This co-ordination was strengthened inside UEMOA by the December 1999 application of the Convergence, Stability, Growth and Solidarity Agreement which proposed two steps towards integration. The first, begun in January 2000 and due to be completed by 31 December 2002, is a period of convergence during which member states are supposed to move towards the Community's norms by drawing up multi-annual programmes. A stability phase will follow in January 2003 during which member-states are to stick to the convergence criteria.

The new element is setting clear priorities among the convergence criteria and thus implementation of multilateral monitoring. It establishes the key criterion of a positive balance from 2002 of a basic budget (total revenue except for grants and soft loans, minus current expenditure and plus domestically-funded capital expenditure). It also picks out three other top priorities – annual inflation of below 3 per cent, reduction of internal and external arrears and their elimination by 2002 and getting internal and external debt below 70 per cent of GDP by 2002. Any failure to meet one of the top priorities will involve corrective measures worked out by the country concerned in agreement with the multilateral monitoring commission. Four secondary criteria concern the national wage bill, domestic funding of investment, the current external deficit and the level of tax revenue. At the end of 2000, the monitoring commission obliged three countries (Côte d'Ivoire, Guinea-Bissau and Togo) to apply corrective measures because of failure to meet the criteria.

From 2001, CEMAC installed a multilateral monitoring system with the same top-rank priorities as UEMOA. The target date for total compliance was postponed however from the end of 2002 to the end of 2004.

Apart from standardising the multilateral monitoring arrangement, a number of bodies were set up in the Franc Zone so as to unify the rules in legal matters (OHADA – the Organisation for Harmonising Business Law in Africa), insurance (CIMA – the Interafrican Conference on Insurance Markets), social affairs (CIPRES – the Interafrican Conference on Social Security) and compiling statistics (AFRISTAT – the Sub-Saharan Africa Economic and Statistical Observatory). These bodies were originally set up as a way to bring West and Central Africa closer together but any African country is free to join them in the interests of greater integration.

African Politics and Governance

Meeting NEPAD's goals is largely in the hands of African governments, since those goals depend on progress in all aspects of governance.

The most urgent issue is conflicts and more broadly political and social instability. The commonest kind of conflicts in Africa, especially since the end of the Cold War, have been internal ones often springing from the political choices of governments. Political and social tension can take various forms, not always serious in themselves, but often the build-up of causes of tension is what leads to political crisis and conflict.

To measure the degree of conflict, we have done a survey of the different events (demonstrations, events involving dead and injured, attempted coups d'état) since 1998 in the report's 22 countries and used it to make a composite index of the intensity of political and social tensions[11]. We have also counted repressive measures taken by governments as well as steps to ease

11. Conflict intensity has been measured by taking into account demonstrations, strikes, disturbances involving death or injury, coups d'états and attempted coups. For more details, see the technical notes and statistical appendix.

situations, which are unfortunately less common[12]. The data gathered suggests political and social stability is essential for economic success, confirming the importance of NEPAD's political goals. Countries that have recently had major disturbances (Zimbabwe, Côte d'Ivoire, Nigeria and Chad) have overall shown much slower growth than others (Figure 16). The same would be seen in data on countries actually at war (such as Sierra Leone, Liberia and the DRC).

Between 1998 and 2000, political tensions went hand-in-hand with more repressive government, suggesting that democracy might be decisive in resolving conflict in Africa (Figure 17). There are other factors of course. In Côte d'Ivoire, the setback to democracy mainly due to the December 1999 coup d'état created serious tension with many deaths and injuries but civil war was averted and the situation has begun to return to normal. This favourable outcome is partly because the country previously had several decades of peace. In Nigeria, progress towards democracy since 1999 has not yet reduced political and social instability. Political disturbances and setbacks to democracy are very often related, even though the disturbances are usually caused by undemocratic policies or problems of governance. Each national situation has to be looked at in detail to understand the sequence of events that can damage or improve the political climate and this is done in the second part of this report.

These country studies also provide material that may help to predict what will happen. The deterioration of the political situation in Zimbabwe, as the regime becomes more repressive, gives an idea of what the country may be like in 2002. The growing tensions in Nigeria are also worrying, but the government has so far reacted without taking very repressive measures, and this restraint might save the situation. In Côte d'Ivoire, things have significantly calmed down since the last quarter of 2001, which is a good sign. The political situation in Chad has also improved since presidential elections in June 2001. With the notable exception of Zimbabwe, 2001 looks to be a year of progress towards peace and democracy in the countries in this report, continuing a trend begun in 2000 with the democratic transfer of power in Senegal and Ghana.

Three unknown factors loom over the immediate future of several countries – a possible increase in religious tensions after the 11 September attacks in the United States, key elections scheduled in several countries and the future of the DRC, which weighs heavily on the political situation in all of Central Africa. 2002 will be a busy year for elections, with parliaments due to be chosen in Burkina Faso, Cameroon, Morocco (November) and Chad (March) and presidential elections in Zimbabwe (March), Mali (May), as well as in Mauritius and Kenya (late 2002 or early 2003, along with parliamentary elections).

Improved governance does not involve just a democratic central government. More and more African governments recognise that a more just and efficient state, along with settling or preventing conflicts springing from internal divisions, requires decentralisation (Box 8). But this has run into many obstacles, such as weak local administrative capacity and lack of civil society groups to consult with. Some national politicians have fiercely opposed it because they fear undermining central authority when national unity is already fragile. Decentralisation also aims for a fairer distribution of resources but this immediately entails extra spending to set up the new structures needed and a loss of economies of scale in countries with already limited resources. Such transfers of resources are complicated and few African countries (Ethiopia, Ghana, Nigeria and Uganda) have managed it so far. It involves redistribution among regions of unequal natural resources that countries do not always have the means to do. When the central government is weak, it tends to lead to waste and greater

12. Repressive measures include arrests, expulsions, purges, curfews, dissolution of political parties, police brutality, criminal trials, bans on strikes and protests, shutting down the media, banning trade unions and political debate and closing schools. Measures in the other direction include lifting a state of emergency, freeing prisoners, promoting human rights and ending bans on strikes, demonstrations and trade unions.

corruption, fear of which slowed down the process in Central Africa, notably in Cameroon.

The wide variety of situations in Africa calls for a gradual and diversified approach to decentralisation. Slowness is justified by the need to build institutions and capacities that can be invested with political and financial power. The uniqueness of each decentralisation involves countries taking into account geographical factors (size of the country, its natural resources and the state of its infrastructure), economic ones (level of capacities and the tax base) and institutional ones (the state of governance). The experience of several English-speaking countries further along the road to decentralisation for historical reasons, deserves to be looked at closely by other African countries (Box 9).

Box 8 - Nature and Aims of Decentralisation

Decentralisation means transferring the running of public administration from central to local authorities. It involves different degrees of transferral, from simple transfer of administrative power to local officials to complete devolution where the transfer of power is to people elected by the local population. Most nation states have developed around a central government and the idea of decentralisation is fairly new. In Africa, it was agreed on during the 1980s and 1990s, when structural adjustment policies were trying to liberalise markets while, ideologically, the fall of the Soviet empire symbolised the failure of statist ideas.

Decentralisation has many aims. Politically, it needs and strengthens the involvement of the population in decision making, which encourages democratisation of a regime. It also helps to counterbalance and curb the authoritarian whims of the central government. Involving local elites in running the country has managed to preserve national unity in countries where it has been threatened by civil war, as in Mozambique and Uganda. Economically, decentralisation is justified by the need for efficient use of public funds. Local authorities are closer to the area administered, soservices provided should match needs more closely and beneficiaries can be more accurately targeted and involved in measures taken. Proximity also produces an administration better suited to managing local development and natural resources.

Figure 16 - Economic Growth and Political Troubles
(real percentage growth in 21 countries)

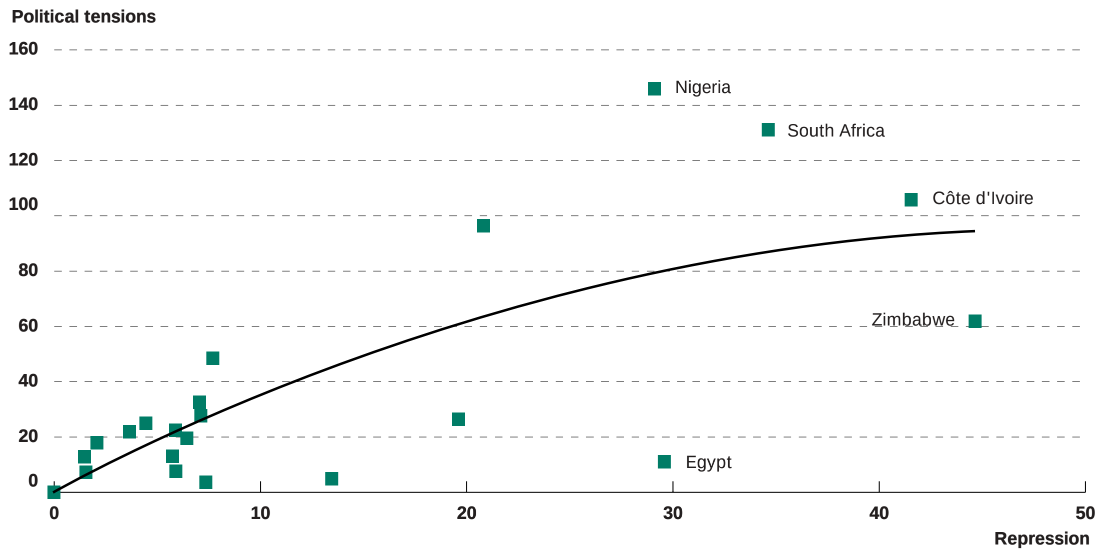
Note: Equatorial Guinea, which has double-figure growth, has not been considered. Its inclusion in the calculations would only heighten the contrasts shown here since it had little political tension during the period.
Source and definition: See statistical annex.

Box 9 - Decentralisation in Four English-speaking African Countries

Several African governments have tried to devolve power to local authorities. Nigeria now comprises 36 states with 774 local government areas, starting from only three regions at the time of independence. State and local governments now have extra responsibilities for health, education and basic infrastructure that previously rested with the federal government. The roles of state and local governments are guaranteed by the country's fiscal federalism, which has recently seen more revenue going to state and local governments. In Ghana, where the 1993 Local Government Act recognised 110 district assemblies, a District Assemblies Common Fund set up in 1995 receives by law at least 5 per cent of domestic tax revenue to finance local investment. In Uganda, since the introduction in 1986 of the Resistance Council System (now Local Council System), the government has devolved several functions and powers to the local level. Ethiopia, as part of regionalisation begun in 1994, has decentralised authority to regions and lower tiers of government (zones and *woredas*), through which some sector investment programmes are now implemented.

Despite such efforts, Africa's local government system has not been very effective, even in these four countries. Underdeveloped local civil society and turbulent economic and political conditions undermine local institutions. Manpower and financial resources of local governments are largely inadequate as most of them entirely depend on financially-strapped central governments. As a result, local authorities in many countries have neither political autonomy, real power nor the capacity to raise revenue.

Figure 17 - Government Repression and Political Tensions, 1998-2000 (22 countries)

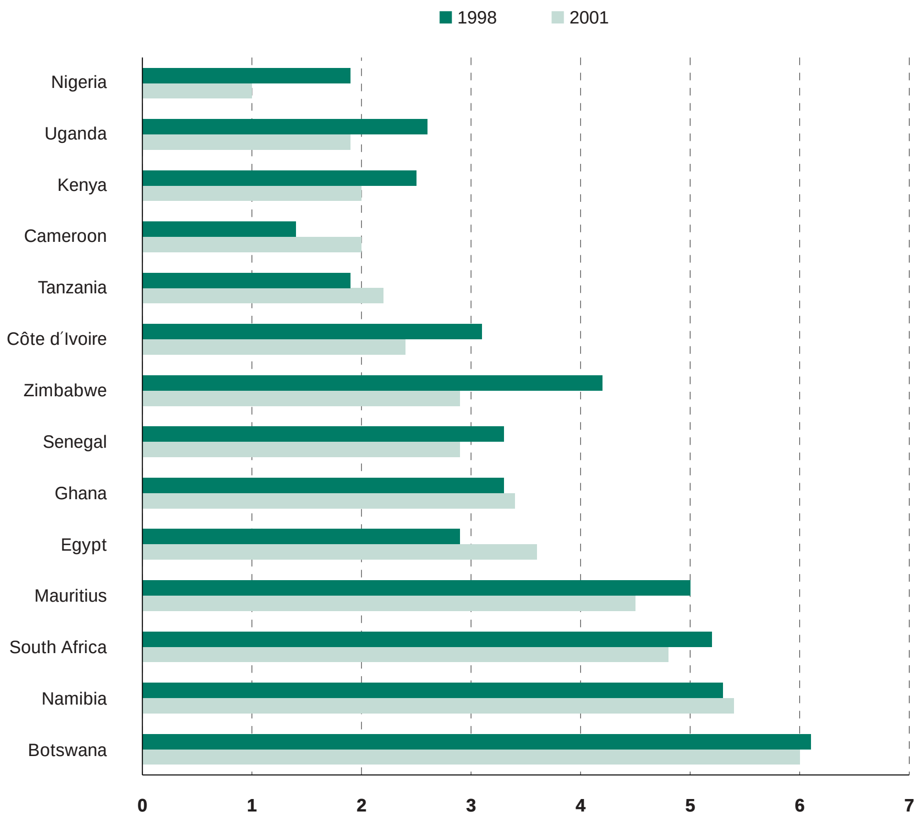


Source and definition : See statistical annex.

The fight against corruption cuts across the operation of all public services, central or decentralised and is an integral part of programmes to improve governance. Corruption is a thorny problem all over the world, but especially in Africa, where little progress has been made. Most African countries surveyed by Transparency International are still at the bottom of its perceived corruption index[13]. Things have worsened in recent years in many countries, especially Nigeria, Uganda, Cameroon, Côte d'Ivoire and Zimbabwe (Figure 18).

13. The TI index goes from 0 to 10. The lower the figure the more corruption there is.

Figure 18 - Changes in the Perceived Corruption Index



Source and definition : Transparency International.

The Battle Against HIV/AIDS

Africa is easily the continent most affected by the HIV/AIDS epidemic, with a sharp contrast between the situation in Sub-Saharan Africa and in North Africa where, despite lack of data, the disease seems fairly uncommon. In Sub-Saharan Africa, 25.3 million people were HIV-positive in 2000 – 70 per cent of the world total – and 17 million people had already died, according to UNAIDS officials. Southern Africa is by far the region most affected (Figure 19).

The epidemic has had a massive impact on the level of poverty in the countries affected, as shown by the drop in life expectancy noted earlier. Apart from this, the consequences are wide-ranging – impoverishment of families, loss of human capital and fall in productivity, increased health-care costs, a decline in savings and in spending on education, as well as higher expenditure on caring for the orphans left behind by the disease.

Households are affected by changes in their spending priorities and a fall in their income. A 1998 survey in Côte d'Ivoire[14] shows the first aspect: an HIV-positive family member needs twice as much expenditure on health care and other spending has to be reduced. A second survey, in Botswana in 1999[15], showed the

14. Bechu N. (1996), "The impact of AIDS on the economy of families in Côte d'Ivoire: changes in consumption among AIDS-affected households," in Ainsworth M., L. Fransen and M. Over (eds.), *Confronting AIDS: evidence from the developing world: Selected background papers for the World Bank Policy Research Report*. European Commission, UK, 1998.

15. Botswana Institute for Development Policy Analysis (1999), Macroeconomic impact of HIV/AIDS epidemic in Botswana, Interim Report.

second kind of impact: HIV/AIDS increased the number of poor people by between four and 6 per cent (between 65 000 and 95 000 people) over 10 years.

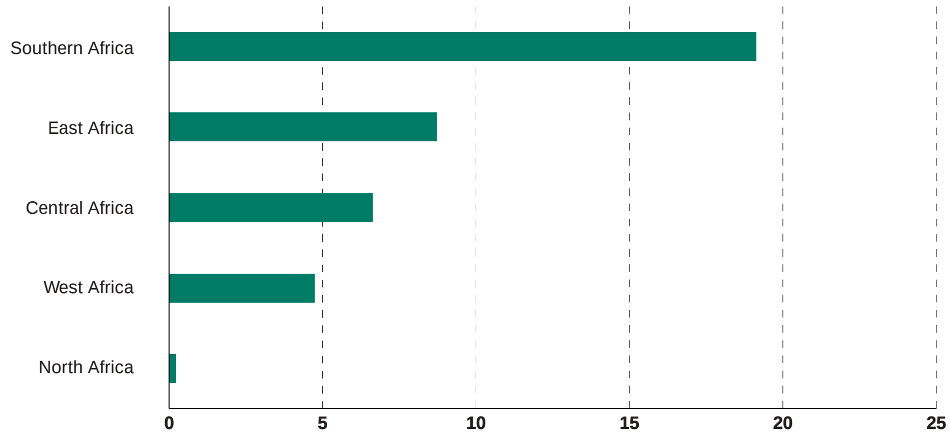
Not only is there an immediate worsening of poverty, but also fewer possibilities of economic growth. A survey by ING Barings[16] showed that South Africa's annual growth rate in the next decade could be 0.3 to 0.4 percentage points lower because of the HIV/AIDS epidemic. The World Bank[17] predicts that the disease will cut the average growth in Botswana between 2000 and 2015 from 4.7 per cent to 2.2 per cent. A similar study in Namibia[18] says growth there will be only 2 per cent instead of 3.5 per cent. This makes an annual loss of growth of 2.5 percentage points in Botswana and 1.5 in Namibia.

The impact of the disease on industry is shown by a 1997 survey in South Africa[19] which said the total cost of compensation would rise from 7 per cent of the country's wage bill in 1995 to 19 per cent in 2005 and that people were spending less time farming. A survey in Ethiopia[20] in 1994 found that the average time a family affected by HIV/AIDS devoted to agriculture was between 11.6 and 16.4 hours a week, compared with 33.6 hours in non-affected families.

The fight against the disease must become a priority for affected countries. This has not always happened in Africa but things are improving. The International Partnership Against AIDS in Africa, launched at the end of 1999 with the help of various UN agencies, aims to help countries implement policies to tackle the disease, with priority going to prevention, care and treatment of ill people and lessening the social effects of the epidemic.

The Partnership can drum up support from the international community to help affected countries set up national programmes. Results are visible already, such

Figure 19 - Average Incidence of HIV/AIDS in the Adult Population in 2000



Source: Authors' calculations based on UNAIDS data.

16. ING-Barings (2000), *Economic impact of AIDS in South Africa, a dark cloud on the horizon*, ING Barings South African Research.

17. World Bank (2001), *Botswana: Selected development impact of HIV/AIDS.*

18. World Bank (2001), *Namibia: Selected development impact of HIV/AIDS.*

19. Southern African Economist (1997), *AIDS toll on regional economies.*

20. Baryoh (2000), *Socio-economic impact of HIV/AIDS on women and children in Ethiopia*, UNDP, New York.

Box 10 - The Ugandan Experiment of a National anti-HIV/AIDS Policy

During the 1980s, Uganda was the African country worst-hit by HIV/AIDS and the first to record more than 10 per cent of its adult population having the disease. Since 1992, after the disease reached a peak, it became the first and only African country (and still is today) to have reduced its incidence, from 18.5 per cent in 1995 to 8.3 per cent in 1999. This success, given the country's meagre resources, was thanks to an organised and timely response by the government. Three key factors were an initial campaign to inform and educate people about the disease, involving the entire population in the fight and internationalising the national debate about HIV/AIDS. The first stage of the national policy was setting-up in the mid-1980s a vast information and educational operation. In 1986, the Ugandan health ministry worked with the WHO to launch its first programme to control the disease, with emphasis on prevention. The effect of the campaign was shown by more people asking to be tested for the disease. The government, backed by NGOs, local organisations and the WHO, responded in 1990 by opening the AIDS Information Centre (AIC) to provide voluntary tests along with advice.

The next stage was in 1992, when the Multisectoral Approach to the Control of AIDS (MACA) was adopted as the new national strategy and the Uganda AIDS Commission was set up to co-ordinate anti-HIV/AIDS efforts throughout Ugandan society. This second stage shows the originality of Uganda's approach in that the response to the epidemic's impact is not limited to health care but extends to all levels of society and calls for a collective effort. Since 1992, national plans have contained genuine inter-ministerial national policies about HIV/AIDS that transcend organisations.

The last stage of the campaign is continuing the multisectoral approach and winning international recognition of the country's method of fighting the disease. The National Strategic Framework for HIV/AIDS activities in Uganda (2000/1-2005/6) has three targets – reducing the infection rate by continuing the information and testing campaign as well as looking after those who were ill, curbing the social and economic impact by social and financial support and increasing the country's response capacity by mobilising more resources and encouraging research into HIV/AIDS. This global approach has become an example to Uganda's neighbours. Recognition of it has brought the backing of international organisations and the holding of meetings in Uganda such as the 1995 International Conference on AIDS and STDs in Africa.

as the fact that 10 countries (Burkina Faso, Burundi, Cameroon, Côte d'Ivoire, Gabon, Mali, Morocco, Rwanda, Senegal and Uganda) now have access to cheap generic drugs. South Africa has also managed, with difficulty, to negotiate such supplies from several pharmaceutical firms. The agreement on generic drugs won by developing countries at the WTO conference in Doha in November 2001 also gives hope for the future.

The fight against the disease is very much a matter of national governance and the trick will be to combine government determination with co-operation from all the parties involved at the grassroots. Uganda (Box 10), which has managed to reduce the percentage of HIV/AIDS in its population through a vigorous prevention campaign, is a good example, as is Senegal, which has also slowed the spread of the disease. Decisions such as the South African government's in October 2001 to boost spending fourfold over the next three years to combat HIV/AIDS may encourage other countries to take similar steps (Figure 19).

Summary and Conclusion

Now that NEPAD has emerged, what are the economic prospects for Africa, the challenges it faces and the policies it needs? This report tries to answer these questions as a guide to decision makers. It starts from two assumptions about the continent.

First, Africa is fragmented and assessment must be done country-by-country. Economies influence one another and problems are often shared by many countries, but each of them is special. In every part of the continent, some countries are going forward and others are going backwards. Combating fragmentation by pushing for regional integration (which is part of NEPAD) is a good idea, but the progress made so far has been too little to have much impact on the problem.

Second, few countries are going forward in a sustained manner and successes are unfortunately very fragile. Decision makers have to look at the medium and long term because growth and poverty reduction require steady policies over a long period, but this report focuses on recent changes and the current economic and political situation. This way, we might spot emerging problems in time to head off crises harmful to the development efforts made.

Despite many past economic successes[21], Africa has in recent decades drifted towards economic marginalisation and not profited from the potential of globalisation. This is largely due to internal politics rather than international constraints. External political efforts have been made in recent years to improve the international environment, including the new Cotonou agreement between the EU and the ACP countries, the European market's unilateral opening up to goods from the LDCs and the US scheme known as the African Growth and Opportunity Act.

The decline in development assistance in the 1990s is worrying but the HIPC debt relief strategy has begun to yield results and will enable about 20 African countries to reduce their debt burden substantially and use the money saved to fight poverty.

Africa will be affected in 2001 and 2002 by the economic downturn in the major OECD countries which has accelerated since the 11 September attacks in the United States. The immediate consequence will be lower prices for Africa's main raw material exports, except gold. Oil-producing countries will be especially hit because, except for Cameroon and Egypt, they are highly dependent on this commodity.

African countries will have to continue along the road to adjustment to strengthen their economies. The great variety of experiences here includes some very positive ones, which suggests there could be more in the future. As the most successful countries have shown, applying the ready-made solutions of the funding agencies is not a good idea. Countries must make these policies their own. However, African governments share some tough problems in areas such as energy reform and liberalising agricultural export sectors.

Economic progress and reducing poverty also depends on governments making efforts to improve health care and education. Recent developments in education are encouraging but vary greatly from country to country, with funding ranging from 10 to less than 2 per cent of GDP. However, public spending does not always produce results here due to big differences in efficiency, as data on unit costs and the extent of repeated school-years shows. Countries that have emphasised primary enrolment and favour a decentralised education system have had the most success. Recent trends in health care in Africa are more worrying, mainly because of the HIV/AIDS epidemic which, in the worst-hit Southern and East African countries, has wiped out progress that would have been made in increasing life expectancy. Prevention of the disease has not been very successful, except in Uganda and Senegal.

Africa will not make economic and social progress without political stability. Clear advances were made towards political peace in 2000 and 2001, though areas of conflict remain. The most serious situation is in Central Africa because of the international dimension of the war in the Democratic Republic of Congo and it is too early to predict when stability will return to that region. In Southern Africa, Zimbabwe is also a matter for concern and the outcome there is still very uncertain. Political problems are usually linked to government repression and their solution to moves towards democracy. Further reduction of political risks in Africa also depends on progress towards better governance. This involves more democratic central government but also moving towards decentralisation, which so far only a few English-speaking countries have managed to do.

21. Berthélemy, J.-C. *et al.* (2001), *Emerging Africa,* Development Centre Studies, OECD, Paris.

Part Two

Botswana

key figures

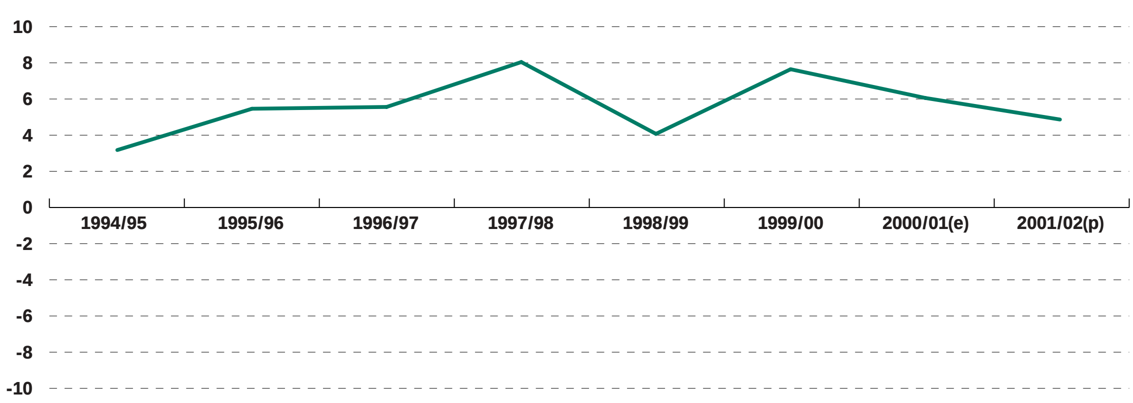
- Land area, thousands of km²: 567
- Population, thousands (2000): 1 541
- GDP per capita, $ (2000): 3 434
- Life expectancy (1995-2000): 44.4
- Illiteracy rate (2001): 22.0

BOTSWANA HAS GAINED A REPUTATION for its remarkable economic growth and prudent macroeconomic management. A small economy with abundant diamond resources, the country's good governance has enabled the resources to be put to growth enhancing and development uses. Economic growth has been strong over the past decade with real GDP growth recording 7.7 per cent in 1999/2000. Real GDP growth in 2000/2001 and 2001/2002 is estimated to rise but at a slightly lower rate than in 1999/2000. The estimated lower growth rate at 6.1 per cent in 2000/2001 and 4.8 per cent in 2001/2002 is due to the fact that diamond production reached a plateau in 1999/2000 and future growth in diamond revenues will be dependent on price increases.

Botswana is a politically stable country, with efficient institutions running the economy. The country continues to put in place reforms and measures to strengthen the economy as well as attempt to diversify it away from its dependence on diamonds. Botswana's strong economic growth and efficient institutions have, however, not translated into poverty alleviation as the country is still riddled with high levels of poverty. The education system, considered one of the best in Africa, is still not empowering citizens to access jobs in a highly competitive labour market. Botswana has a health system that provides free primary health care. However, the country suffers from one of the highest rates of HIV/AIDS infections in the world.

Good governance has enabled the resources to be put to growth enhancing and development uses

Figure 1 - Real GDP Growth

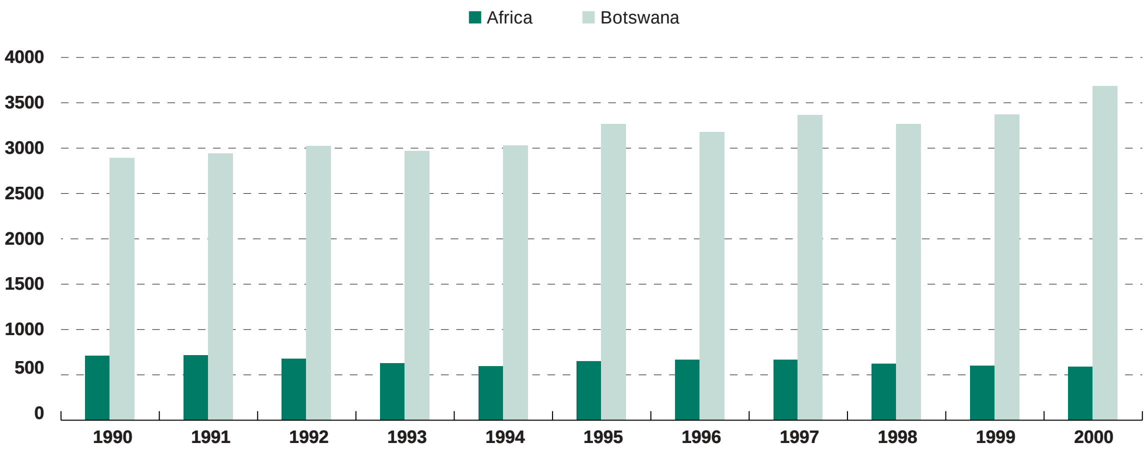


Source: Authors' estimates and predictions based on domestic authorities' data.

Recent Economic Developments

Over the past five fiscal years, real GDP in Botswana averaged about 6.2 per cent per annum, with the growth rate in 1999/2000 recording 7.7 per cent. The growth performance has depended heavily on the diamond sector. Thus, the weak international demand for diamonds in the wake of the 1997 Asian crisis led to a downturn in the rate of growth of the mining sector in 1997/1998, and resulted in the relatively slower growth of the economy at 6.2 per cent in that year. Significant diamond sales in 1998/1999 and 1999/2000 resulting from double-digit growth in diamond output contributed to reversing the growth setback in 1997/1998. Some additional production in diamonds will be forthcoming from the "B/K pipes", near the Orapa mines, where development is about to start for diamond production to commence in 2001/2002. However, production from this new mine will be small compared with production from existing mines.

Figure 2 - GDP Per Capita in Botswana and in Africa (current $)



Source: Authors' estimates based on IMF data.

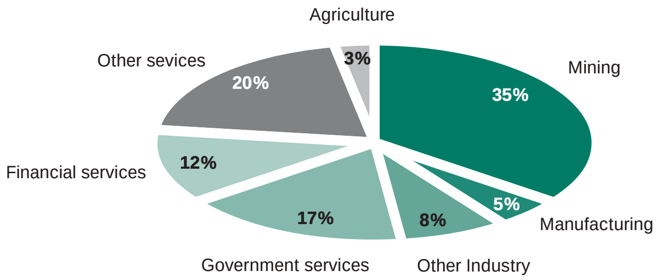
Consequently, growth is projected to level at 4.8 per cent in 2001/2002.

The mining sector accounts for about 35 per cent of GDP, with diamonds contributing about 94 per cent of the total mining share in GDP. Botswana produces the world's largest gem diamonds, with an output that represents about 40 per cent of the total world output. The recent completion of the Orapa Expansion Project (Orapa II) has contributed to strengthening the country's position in world diamond output. The Orapa complex, officially inaugurated in May 2000, is considered to be the world's largest diamond mine. Botswana produces other minerals including copper and nickel, soda ash and salt. Soda and salt production increased by 19 per cent and 8.5 per cent respectively in 1998/1999 compared to the 1997/1998 levels. Outputs of the two minerals were however down in 1999/2000 because of brine dilution from the floods of early 2000.

Other sectors of the economy have also performed well, in part as a result of Botswana's market-friendly environment, sound macroeconomic policies, and social and infrastructural investments. The performance of the manufacturing sector, which accounts for about 4 per cent of GDP, slowed in 1999/2000 with a growth rate of 0.6 per cent compared with 5.3 per cent in 1998/1999. The sector suffered a setback in 1999 with the closure of the country's main automobile assembly plant, following the liquidation of the Motor Company of Botswana (MCB) Hyundai assembly plant. The liquidation of MCB was in the wake of the liquidation of the Wheels of Africa Group of South Africa of which MCB was a member. The Government of Botswana has since opened discussions with several automobile groups with a view to re-establishing production at the motor assembly plant.

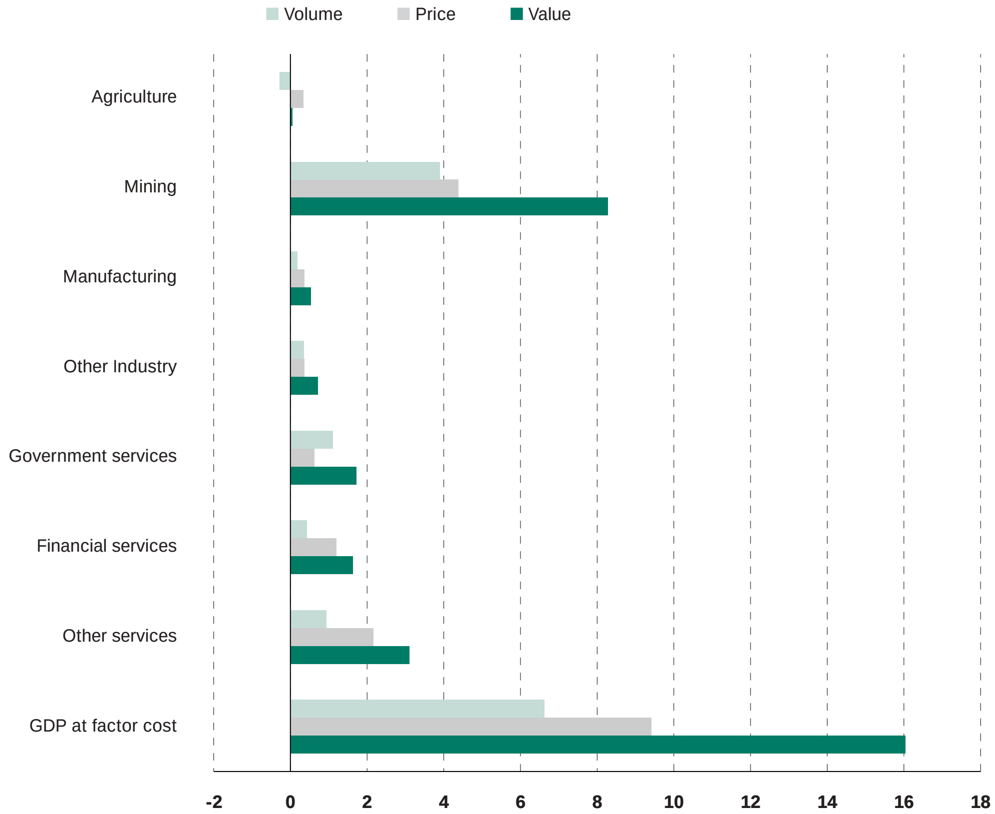
Bucking the growth trends, the agricultural sector has experienced a pattern of negative growth, leading to the share of the sector in GDP declining gradually. In 1999/2000, agriculture accounted for 3 per cent of GDP, off from its highs of about 5 per cent in the early 1990s. The climatic conditions of the country, marked by recurrent droughts, the relatively low levels of investment in the sector especially in irrigation, agricultural infrastructure and marketing are contributory factors to the decline in agriculture. The decline in agriculture was manifested mainly in crop production. In 1999/2000, total crop production was estimated at only 12 per cent of normal output, with the shortfalls having to be met from commercial imports. The drought of 1999 followed by the floods in early 2000 prevented farmers from carrying out proper crop management, paving a conducive environment for pests. In addition, there was the outbreak of quelea birds and the bollworm, which

Figure 3 - . GDP by Sector in 1999/2000



Source: Authors' estimates based on domestic authorities' data

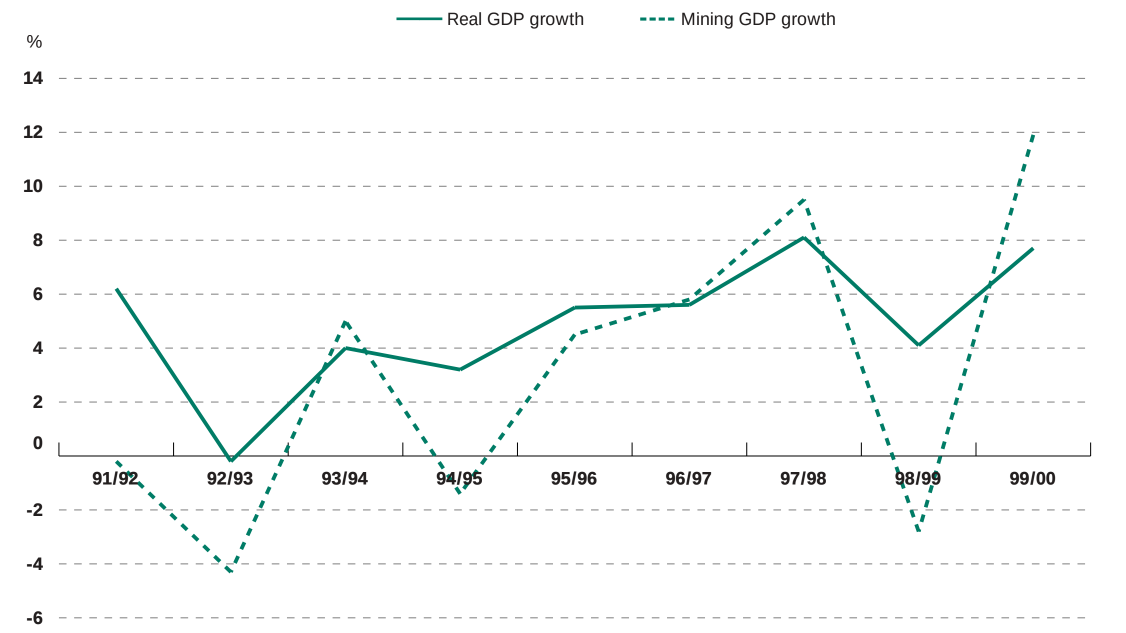
Figure 4 - Sectoral Contribution to GDP Growth, 1999/2000



Source: Authors' estimates and predictions based on domestic authorities' data.

affected yields. The decline in agriculture is, however, not across the board. The livestock sub-sector still caters for about 80 per cent of Botswana's rural population and about 46 per cent of the national population. Though the sub-sector is largely underdeveloped and characterised by extensive systems in communal areas, it produces beef that remains a major foreign exchange earner after diamonds. Although the cattle herd declined by about 12 per cent following the outbreak of Cattle Lung Disease in 1996, the numbers have increased markedly in the last three years; as at the end of September 2000, a total of 122 216 cattle had been re-stocked in the affected area.

Figure 5 - Trends in Growth Rates of Total and Mining GDP



Source: Based on domestic authorities' data.

The services sector has also boomed along with the economy. Tourism that hinges upon the country's extensive wildlife resources is estimated to contribute about 3 per cent of GDP. Telecommunications have seen significant growth, with the total number of mobile phone subscribers growing from 88 000 in December 1999 to 195 000 in December 2000. Similarly, the Botswana Telecommunications Corporation (BTC) increased its number of main lines from 110 000 in 1999 to 132 866 at end-2000.

The strong economic growth performance in Botswana is clearly derived from strong export performance that has enabled increasing consumption (private and public) in recent years. The level of domestic investment that appeared to decline in 1999/2000 to 26.6 per cent of GDP compared with 36.8 per cent of GDP in 1998/1999 is expected to increase in 2000/2001 to 28 per cent of GDP at the back of the strong growth of economic activity in 1999/2000. The level of domestic investment is projected to continue

Table 1 - Demand Composition (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Gross capital formation	**25.8**	**30.0**	**36.8**	**26.6**	**27.9**	**31.7**
Public	8.4	10.2	16.8	14.8	12.9	15.0
Private	17.3	19.8	20.0	11.8	15.0	16.7
Consumption	**63.7**	**57.5**	**62.8**	**60.9**	**57.2**	**57.2**
Public	28.9	27.0	30.6	29.9	28.7	28.9
Private	34.7	30.4	32.2	31.0	28.5	28.3
External sector	**10.6**	**12.5**	**0.4**	**12.5**	**14.9**	**11.1**
Exports	49.5	56.5	46.7	56.0	53.6	50.3
Imports	-38.9	-44.0	-46.3	-43.5	-38.7	-39.3

Source: Authors' estimates and predictions based on domestic authorities' data.

its upward trend in 2001/2002. Significantly, the high level of domestic investment in Botswana has always been below the level of domestic savings, thus reducing the country's need to source foreign savings for domestic investment.

Macroeconomic Policy

Fiscal and Monetary Policies

Owing to mineral taxes, the government has been able regularly to run surpluses on its budget. However, the situation changed in 1998/1999 when the overall budgetary position deteriorated sharply, recording a deficit of 6 per cent of GDP. Total revenues as a percentage of GDP fell by 11 per cent largely owing to the world's reduced demand for diamonds in the preceding year that hit mining revenues in 1998/1999. The revenue shortfall combined with a 25 per cent increase in civil service salaries and increased development spending to result in the budget deficit of about 6 per cent of GDP, which was the first in 16 years. In 1999/2000, total revenues recovered as a result of significantly higher mineral revenues. The recovery combined with selective cuts in both recurrent and development expenditures to turn the 1998/1999 deficit of 6 per cent of GDP to a surplus of 6 per cent of GDP in 1999/2000. A similar level of surplus is estimated for 2000/2001, as mineral revenues remain strong. However, the primary surplus is projected to reduce to 2.4 per cent of GDP in 2001/2002 owing in part to the anticipated transfer of substantial revenue for the Public Officers Pension Fund, which became effective on 1 April 2001.

Table 2 - Public Finances[a] (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Total revenue and grants[b]	**36.5**	**41.1**	**35.7**	**47.4**	**44.8**	**43.3**
Tax revenue	29.6	33.6	26.2	39.4	36.9	35.5
Total expenditure and net lending[b]	**34.9**	**36.7**	**42.1**	**41.8**		
Current expenditure	24.5	24.4	29.1	28.4		
Excluding interest	*23.8*	*24.0*	*28.7*	*28.0*	*26.9*	*27.2*
Wages and salaries	9.0	8.4	9.7	9.7	9.3	9.5
Interest on public debt	0.7	0.4	0.4	0.4		
Capital expenditure	11.2	13.4	13.6	13.7	11.9	13.9
Primary balance	**2.3**	**4.8**	**-6.0**	**6.0**	**6.2**	**2.4**
Overall balance	**1.6**	**4.4**	**-6.4**	**5.6**		

a. Fiscal year begins 1 July.
b. Only major items are reported.
Source: Authors' estimates and predictions based on domestic authorities' data.

Botswana experienced a credit boom in 1998, reflecting the strong demand conditions in the economy, when broad money (M2) expanded by over 30 per cent in the year. Since then the monetary policy objective of the Bank of Botswana (BOB) was to dampen inflationary pressures in the economy by stricter control on growth of monetary aggregates. The growth of money supply subsequently slowed in response to the BOB open market operations involving sales of BOB certificates, repurchase agreement transactions and commercial banks utilisation of the secured lending facility. Broad money (M2) growth fell to 18 per cent in 1999 and fell further to 9 per cent in 2000.

The rate of inflation continued on an upward trend increasing from 6.4 per cent in 1998 to 7.4 per cent in 1999 and further to 8.4 per cent in 2000. The rising rate of inflation was attributed to a number of factors including the international crude price increases. Also, the rate of inflation in Botswana broadly mirrored the core inflation in South Africa, with which Botswana has close trading ties and with the exchange rate pegged to the South African rand and the SDR. Inflation is estimated to reach 8.0 per cent in 2001 as the strong demand condition in the economy continues. It is then projected to come down to 4.2 per cent in 2002 as economic growth stabilises.

In the attempt to achieve the objectives of price stability and positive real interest rate, the BOB re-discount rate was increased twice in 2000. The first was in February from 13.25 per cent to 13.75 per cent, and a subsequent increase to 14.25 per cent made in October. The rise in inflation reduced real interest rates, which nevertheless remained generally positive. The three-month real money rate ranged between 1.66 per cent and 4.3 per cent during January to October 2000. However, savings deposit real interest rates were negative.

The exchange rate of the Botswana pula is pegged to the South African rand and the SDR. The pegged system has helped the pula to be generally stable in effective terms. In nominal terms, however, the pula has recently followed a downward trend against the US dollar, as the dollar has generally appreciated against other world currencies: the rate of depreciation, however, reduced from about 16 per cent in 1998 to 2.2 per cent in 2000.

External Position

Botswana operates trade policies that are varied and complex. The country is simultaneously a member of a customs union, the Southern African Development Community (SADC); with one group of neighbouring countries, the Common Customs Area (CCA); has a free trade agreement with another, South Africa; participates in a highly successful cartel for governing its principal export, the Central Selling Organisation for diamonds; and has preferential access to a large, highly protected market for another major export. In spite of Botswana's strong import demand, stronger export performance attributable to the performance of the diamond industry has generated current account surpluses year after year. Consequently Botswana has developed a strong external position over the last 20 years.

During 1999/2000, exports rose sharply gaining a 40 per cent increase compared with 1998. The rise was attributed to an increase in sales of diamonds, copper/nickel and hides and skins: the shares of diamonds and copper/nickel in total exports rose to 79 per cent and 8 per cent respectively during the first quarter of 2000, from 71 per cent and 6 per cent during the same quarter of 1999. There was also a shift in the relative importance of export markets away from the United Kingdom and the CCA to other European countries and Zimbabwe. The export share of the United Kingdom fell from 30 per cent in 1998 to 23 per cent in 1999, while that of the CCA declined to 9 per cent from 17 per cent. The rest of Europe and Zimbabwe increased their export market shares to 61 per cent and 7 per cent from 47 per cent and 3 per cent. Imports grew at a faster rate of 8 per cent in 2000 compared with 3 per cent in 1999. A slowdown was substantial in imports of metals, metal products, vehicles and transport equipment. On the other hand, there was a significant rise in imports of machinery, electrical equipment, food, beverages, tobacco, chemicals, rubber products, textiles and footwear. In 2001 and 2002, imports are expected to stabilise around 33 per cent of GDP while exports of diamonds could experience a decrease depending on the price. The trade balance would then deteriorate slightly although remaining largely positive.

The country's current account surplus amounted to 12.2 per cent of GDP in 1999. The higher current account surplus resulted in further accumulation of foreign exchange reserves estimated at $4.9 billion at end-2000, sufficient to cover about 36 months of imports of goods and services.

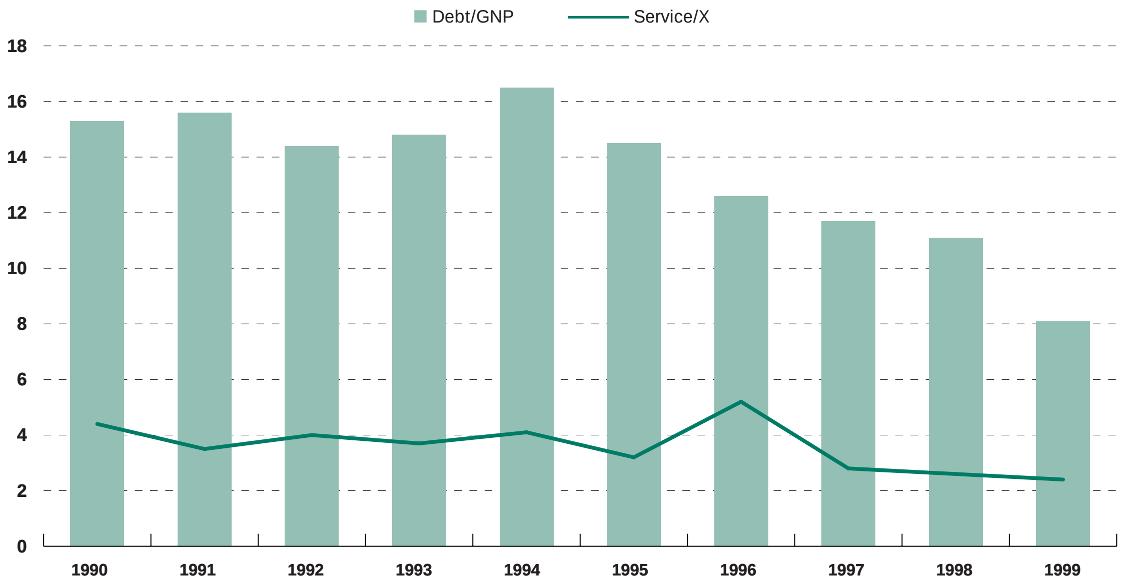
Botswana continues to avoid contracting any new debt from commercial creditors. The total external debt stock amounted to $462 million at end-1999 and represented only 8.1 per cent of GNP. The country's debt stock is composed of 73 per cent bilateral debt and 22 per cent multilateral debt, with the remaining 5 per cent owed to private creditors. As a result of the low level of debt and the sizeable foreign exchange reserves, Botswana is among the very few developing countries that have not implemented the IMF/World Bank structural adjustment programme.

Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	11.6	1.6	15.5	15.3	13.1	9.9
Exports of goods (f.o.b.)	45.3	41.8	52.6	49.0	45.4	42.6
Imports of goods (f.o.b.)	-33.6	-40.2	-37.1	-33.7	-32.2	-32.7
Services	-3.9	-4.7	-3.1	-3.7		
Factor income	-0.7	2.4	-5.2	-5.2		
Current transfers	-0.8	4.9	5.0	3.9		
Current account balance	**6.3**	**4.1**	**12.2**	**10.4**		

Source: Authors' estimates and predictions based on domestic authorities and IMF data.

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

Structural Issues

In addition to its characteristic high economic growth performance deriving from its vibrant mining sector, Botswana continues to implement reforms and put in place investment incentives packages that are among the most attractive in the world. An Act of Parliament which came into effect in April 1998 transformed the Trade and Investment Promotion Agency (TIPA) into an autonomous parastatal, Botswana Export Development and Investment Authority (BEDIA) — a one-stop-service-centre for investors that offers services relating to land acquisition, factory shell, work and residence permits, travel visas, grants and any other regulatory authorisation. Incentive packages in place include refund by the government of 80 per cent of the wage bill of shop-floor workers in manufacturing during the first two years, 60 per cent in year three, 40 per cent in year four, and in year five, 50 per cent of training costs are refunded by the government. Corporate tax is only 15 per cent for manufacturing enterprises; and profits and dividends are readily repatriated. There is no foreign exchange control.

The development strategy of Botswana puts the accent on the diversification of the economy away from its heavy dependence on diamonds. Regarding investment opportunities, Botswana currently places emphasis on the diversification of the industrial base away from the mineral sector. The sectors that are currently being promoted include textiles and garments, assembly of cars as well as production of parts and components for the automobile industry, polishing of diamonds and semi-precious stones, leather products including the setting up of tanneries, ceramics, etc. However, there are indications that some policies and programmes aimed at the diversification of the economy are not achieving results. One such programme is the Financial Assistance Policy (FAP), whose fourth evaluation was completed in 2000. The evaluation revealed, among other things, high failure rates among FAP-assisted businesses, as well as widespread abuse of the scheme by some beneficiaries: about 75 per cent of small-scale FAP projects have not survived beyond the period of assistance; corresponding failure rates were 45 per cent for medium-scale and 35 per cent for large-scale projects.

Botswana initiated a privatisation programme in 2000, out of a desire to improve efficiency in the delivery of services and from the need to create further opportunities for the growth of the private sector. Privatisation in Botswana, unlike in many other sub-Saharan African countries, was not adopted as a solution to financial, economic, or political crisis. Many of the most important state enterprises are earmarked for privatisation. These include the Botswana Development Corporation (BDC), the National Development Bank (NDB), the Botswana Power Corporation (BPC), the Water Utilities Corporation (WUC), the Botswana Telecommunications Corporation (BTC), Air Botswana (AB) and the Botswana Meat Commission (BMC). The privatisation process is expected to commence during the 2001/2002 financial year, as an interim board of directors for the Privatisation Agency was appointed in January 2001.

The financial system of Botswana is characterised by efficient institutions and infrastructure of high standard with good telecommunications facilities and institutional support mechanisms. Over the past decade, the government has liberalised licensing requirements for banks and developed local capital and money markets in an effort to establish a more efficient financial services sector. A new Banking Act has widened the regulatory powers of the Bank of Botswana to include merchant banks, discount houses and other forms of specialised financial institutions. The Act also includes a reform of capital adequacy requirement that strengthens financial management beyond minimum international standards: currently, the minimum risk asset ratio for banks in Botswana is 15 per cent of risk weighted assets, which is considerably higher than the Basle Committee's 8 per cent stipulation. The banking sector continues to grow, with the licensing of the Bank of Baroda (Botswana) Limited, a wholly owned subsidiary of the Bank of Baroda Group of India. Further, ULC (Pty) Limited was granted a licence to provide merchant and investment banking services in Botswana in 2000. The government has also established a Contributory Funded Pension Scheme for the public services. The scheme commenced in April 2001.

Botswana is also developing an International Financial Services Centre (IFSC). By May 2001, five companies had been approved under the IFSC, and accordingly issued with tax certificates. Among them were: ABC Bank Holdings, African Alliance, NatGilt and the Seed Company of Zimbabwe.

Other recent reforms include the restructuring of the Botswana Development Corporation. The Botswana Agricultural Marketing Board (BAMB) has also been undergoing restructuring which involves, among other actions, closing down of depots, leasing some of their storage facilities as well as right-sizing its staff. A draft Bill on public procurement and asset disposal was presented to Parliament in March 2001. The Bill proposes legal, institutional and procedural changes, aimed at bringing the procurement system in line with regional and international practice, as well as improving the overall performance of the public procurement system. The proposed changes include the devolution of procurement decision-making to line ministries up to a certain threshold, the establishment of an independent complaints review mechanism, standardisation of procedures and documentation across departments and structured consultation between government and the private sector.

The Botswana Stock Exchange started operations in 1995. Earlier reforms on the Exchange included the amendment of the Botswana exchange control regulations to permit dual listing; that is, shares in approved companies could be dual listed on the Botswana Stock Exchange (BSE) and other international stock markets. In 2000 there were 16 domestic listed companies with a market capitalisation which stood at the end of October 2000 at P5.3 billion ($0.989 billion), an improvement of 10.4 per cent over the level recorded at end-1999. The number of dual listed companies on the BSE decreased by 2 to 7 in 2000 while the foreign companies share index declined by 1.85 per cent in October 2000 from end-December 1999. The performance of the market is affected by the perceived risk in investing in the region, which was brought about by political and economic problems in Zimbabwe. However, it is anticipated that there will be more activity on the BSE in 2001 because of the privatisation process. The establishment of an independent office to administer the BSE is also expected to boost the activities of the stock market.

Political and Social Context Developments

Botswana is a politically stable country with elections held every five years. The Government of Botswana generally adheres to democratic principles. The country's institutions work effectively to provide checks and balances on both the Executive and Legislative arms of the government. Consequently, there is a fairly predictable economic policy-decision environment and a stable environment for the private sector. Botswana is doing relatively well in terms of the incidence of corruption in the country. According to the Transparency International Corruption Perception Index of 2001, Botswana was ranked as the 26th least corrupt country in the world, and the least corrupt on the African continent.

In spite of its remarkable economic performance, and despite several social welfare/safety net initiatives, Botswana is still riddled with a high level of poverty resulting mainly from weak economic base in rural areas, lack of sufficient human capabilities, high population growth, unequal access to resources and socio-cultural problems (including gender relations) and a high unemployment rate estimated at 19.6 per cent of the labour force (1999). Available statistics indicate that over 47 per cent of the population live below the poverty line of US$1 a day. The level of poverty appears surprising in view of Botswana's impressive growth record but it is not unexpected. According to the UNDP, the structure of income distribution in Botswana is broadly comparable to that prevailing in other countries in the region. The degree of inequality is, however, greater in Botswana than in many other developing countries. The distribution of income and the incidence of poverty are related to the urban-rural distribution of the population. Geographically, poverty is highest in rural areas, with 55 per cent of the rural population living below the poverty line compared with 46 per cent in urban villages and 29 per cent in urban areas. Poverty also varies significantly by region. The Central and North East districts have the largest number of poor people, but poverty rates are especially severe in the Western districts of Ghanzi and Kgalagadi, where the climate and soils are most poorly suited for arable agriculture.

The health system in Botswana provides free or near free primary health care for all. By the early 1990s virtually all Botswana had access to a health facility within a distance of 15 km. Considerable improvement has been achieved in preventive and curative health care: the infant mortality rate has declined from 71 per thousand in 1981 to 58.6 per thousand in 1998 following an expanded programme of immunisation that has achieved 90 per cent immunisation against DPT, polio, tuberculosis, and measles. The core disease pattern in Botswana is functionally related to levels of poverty, with patterns of morbidity characterised by a high incidence of respiratory diseases (including tuberculosis) and gastro-intestinal infections.

Recently, HIV/AIDS is offsetting much of the country's impressive health progress as Botswana suffers from the highest rates of HIV/AIDS prevalence in the world. Botswana's historic labour migration to South Africa, and the tradition of shuttling between village homesteads, land areas and cattle posts across seasons, and more recently urban areas, make Botswana one of the most mobile populations in the world. This constant population mobility makes the distinction between a rural and urban area, at least in terms of disease patterns, ineffectual in Botswana. These factors explain in part the high rate of HIV/AIDS infection and the narrow gap between the rural and urban infection rates in Botswana. In 1999, an estimated 18 per cent of the population was infected with the HIV/AIDS virus. Infections are substantially high at 35.8 per cent for the adult age group of 15-49 years. In the worst cases, such as in Francistown, it is estimated that at least 45 per cent of the adult population is HIV positive. Young children are also significantly affected with almost 15 per cent of recorded HIV/AIDS cases in the 0-4 age group and HIV/AIDS responsible for 64 per cent of deaths of children under five. As a result, the country will lose some of its skilled and experienced labour, which will significantly reduce productivity, and consequently, the rate of economic growth. Lack of data to guide government to respond effectively to the challenges of HIV/AIDS led to the undertaking of a six-component study on the impact of HIV/AIDS on the economy and society. Four components of the study have been completed and a national dissemination seminar was planned for 2001, with a view to discussing ways to implement the findings and recommendations of the study reports.

Although the educational system in Botswana is considered to be among the best in Africa, the system is not empowering people to access jobs in a highly competitive labour market, leading to unemployment and widespread poverty. The educational statistics are impressive by African standards: the gross primary school enrolment ratio is 107.8 (1996) compared to the African average of 79.5; the gross secondary school enrolment ratio is 64.6 (1996) compared to the African average of 28.3; close to 75 per cent of adult Botswana (15+ years) are literate compared to the African average of 43.5 per cent. The 1997 Botswana National Literacy Survey shows a national literacy rate of 69.9 per cent; 66.9 per cent for males and 70.3 per cent for females. Despite the higher literacy rate amongst women in the country, girls are sometimes denied schooling because of religious or customary beliefs. Overall, girls outnumber boys in primary and junior secondary school but the opposite is true at the level of senior secondary and higher education.

Burkina Faso

key figures

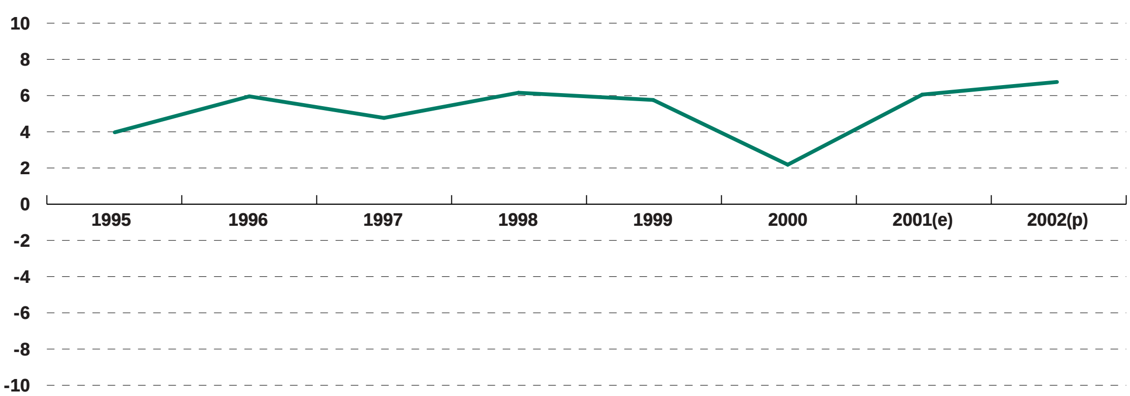
- Land area, thousands of km^2: 274
- Population, thousands (2000): 11 535
- GDP per capita, $ (2000): 192
- Life expectancy (1995-2000): 45.3
- Illiteracy rate (2001): 75.2

Burkina Faso

BURKINA FASO'S ECONOMIC PERFORMANCE is heavily dependent on what happens beyond its borders because it lives mostly off export agriculture, especially cotton, and receives a large amount of foreign funding. Though one of the world's poorest countries, with 61 per cent of its population living on less than a dollar a day, since 1995 it has achieved sturdy annual GDP growth of around 5.5 per cent. The economy slowed down sharply in 2000 because of an increased value of the dollar, higher oil prices, lower cotton prices, poor rainfall and political and social tension in neighbouring Côte d'Ivoire. But growth should pick up again — to 6.1 per cent in 2001 and 6.8 per cent in 2002 — as a result of better cotton harvests and a healthy level of investment, helped by political stability, progress towards good governance and an international credibility that makes for good relations with funding agencies.

Burkina Faso depends heavily on performance in the cotton sector and foreign aid

Figure 1 - Real GDP Growth



Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

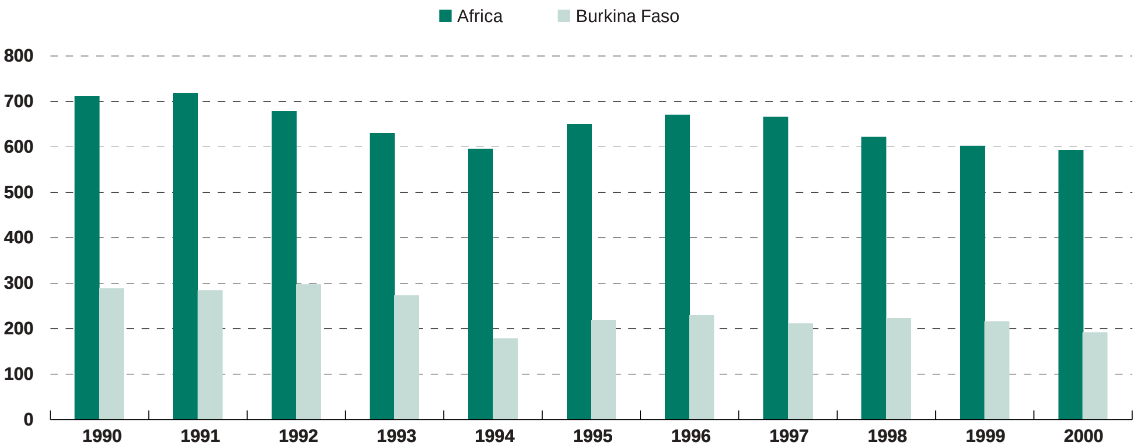
Recent Economic Developments

Agriculture and its processing are the main element in Burkina Faso's growth. Farming, cattle-raising, forestry, hunting and fishing occupy virtually all the population (88 per cent in 1997) and account for 70 per cent of export earnings and 40 per cent of GDP.

The primary sector shrank by about 4.2 per cent in volume in 2000, the weakest showing since devaluation of the CFA franc in 1994, because of poor rainfall which sharply reduced cereal production. Gross output was 2 287 400 tonnes in 2000, which was 15.3 per cent less than the 1999/2000 harvest. The net food cereal shortfall reached 400 000 tonnes and food prices rose in the most needy areas in the north. To meet the deficit and avoid famine, the government appealed to the international community for an emergency 65 000 tonnes, which were distributed with the help of NGOs.

Apart from heavy dependence on the weather, the cereals sector is also disorganised, resulting in very low prices to farmers and bad management of stocks. To remedy this, the government in early 2001 helped set up *Soprofa*, a three-quarters privately owned firm, to organise inputs, funding and harvesting. But the workings of this new arrangement have not yet been

Figure 2 - GDP Per Capita in Burkina Faso and in Africa (current $)



Source: Authors' estimates based on IMF data.

clearly defined and whether to continue state subsidies has been widely discussed in view of the trend of state withdrawal from the public sector.

The 1994 devaluation and structural reforms (especially towards greater involvement of farmers in running the state-owned cotton firm *Sofitex*) greatly boosted cottonseed production — from 143 000 tonnes in 1994 to 214 000 in 1996 and 338 000 in 1997. Despite problems with insect attacks and lower world prices, these gains partly held due to greater productivity. Rainfall was poor in 2000, but the harvest was 8 per cent up on the previous one of 254 000 tonnes. *Sofitex* is predicting a record 400 000 tonnes in 2001/02 because 30 per cent more land has been planted with cotton, farmers are getting a better price of 200 CFA francs/kg and Burkina citizens[1] have returned from Côte d'Ivoire.

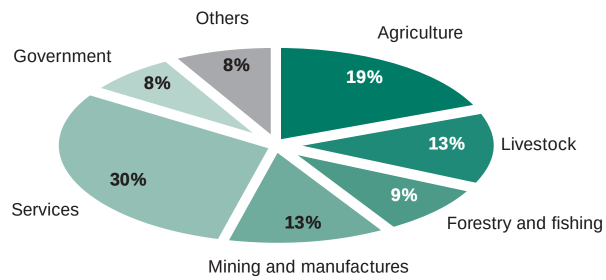
Despite competition from Asian imports, rice cultivation is increasingly important in the Burkina economy. The government has encouraged this with irrigation and other projects and production has nearly doubled in six years (from 53 800 tonnes in 1993 to 94 200 in 1999 and 103 100 in 2000). A 10 billion CFA franc ($14 million) support plan funded by the European Union is under way to sow an extra 6 000 hectares and produce 18 000 tonnes a year more by 2006, but these improvements are hampered by the country's limited capacity for hulling, which is done only by hand. The government is also relying on fruit and vegetables to expand and diversify agriculture, despite inadequate transport and packaging facilities.

A great deal of investment in mining has not produced as much growth as expected. Gold production was four tonnes in 1997, from the mine at Poura. Lower world prices since then have visibly slowed prospection and mining. In 2000, mining accounted for less than 0.5 per cent of GDP. Until prices improve, large-scale production will not be very feasible since costs are around $300 an ounce. However the government is looking at small-scale mining which appears much more promising because of its lower costs.

The manufacturing sector is only 13 per cent of GDP and is still mostly cotton ginning and food processing. Here too, volume growth sharply slowed in 2000. The sector's firms complain of high energy prices and especially increased competition, that they

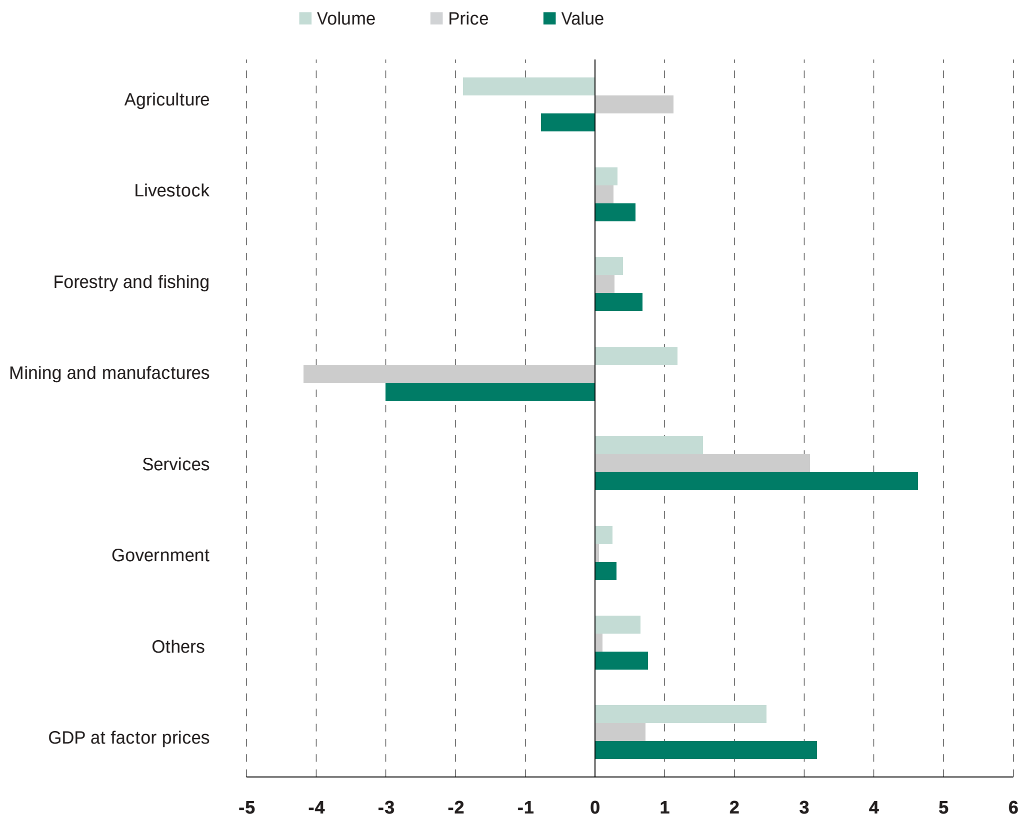
1. About 12 000 Burkina citizens have returned to their country as a result of the disturbances in Côte d'Ivoire. This should boost cotton production since they have received government aid (drawn from international funds) to settle in the cotton-growing area and help increase the amount of cultivated land.

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates based on domestic authorities' data.

Figure 4 - Sectoral Contribution to GDP Growth in 2000



Source: Authors' estimates based on domestic authorities' data.

see as unfair, resulting from the abolition of tariffs between all UEMOA states from 1 January 2000. The informal sector is very large in Burkina and tax fraud appears to have grown since devaluation, through liberalisation of the economy and greater trade with other countries. The tax authorities have little capacity to effectively monitor the situation.

The tertiary sector accounts for 40 per cent of GDP and grew by nearly 6 per cent in 2000, slightly less than the annual average since 1995. The sector is mostly commerce, but transport has done particularly well since 1995 because of liberalisation and investment in the road network.

Figure 5 - Cotton Production and Prices in Burkina Faso

a. Production and farmers' prices concern cottonseed. The international price given by the World Bank is for cotton fibre, so it has been converted into the equivalent of cottonseed at a conversion rate of 42 per cent.
Source: French Development Agency and World Bank.

As far as demand is concerned, investment has been substantial in recent years, increasing from an annual rate of 23.8 per cent in 1995 to 30.7 per cent in 2000. This was due to strong growth of public investment and a sizeable recovery in private investment connected with the staging in Burkina in 1998 of the Organisation of African Unity summit and the African Nations Cup football tournament. Higher savings rates also boosted investment.

The strength of demand also greatly depends on remittances from the five million or so Burkina citizens abroad, two-thirds of them in Côte d'Ivoire (compared with Burkina's population of 11.8 million). The recent

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**23.8**	**26.1**	**29.5**	**30.7**	**30.2**	**27.8**
Public	10.2	14.6	16.1	16.3	16.9	15.4
Private	13.6	11.5	13.4	14.4	13.3	12.3
Consumption	**91.2**	**90.8**	**87.6**	**89.2**	**88.2**	**86.8**
Public	11.1	10.6	11.7	12.2	11.8	11.1
Private	80.1	80.2	75.9	77.0	76.4	75.7
External sector	**-15.0**	**-16.9**	**-17.1**	**-19.9**	**-18.4**	**-14.6**
Exports	13.3	15.6	13.0	12.4	10.9	12.1
Imports	-28.3	-32.5	-30.1	-32.3	-29.3	-26.7

Source: Authors' estimates and predictions based on domestic authorities' data.

ethnic conflicts in Côte d'Ivoire have affected Burkina's economy in several ways. The return of Burkina citizens has created short-term logistic problems while the decline in remittances — from 51 billion CFA francs ($72 million) in 1999 to 36.1 billion (just over $50 million) in 2000 — reduced demand.

Macroeconomic Policy

Budgetary and Monetary Policy

Burkina Faso's economy has been under IMF supervision since 1991 and a trio of three-year programmes backed by an enhanced structural adjustment facility have stabilised government finances.

From 1991 to 1999, government revenue grew steadily by about 21 per cent annually due to an increased tax base and better collection of import and income taxes. A VAT value-added tax was introduced in 1993 and reduced to a single rate of 18 per cent in 1995. Total revenue (except grants) grew from 11.9 per cent of GDP in 1995 to 15.3 per cent in 1999 but tax revenue is still short of the UEMOA goal of a minimum 17 per cent of GDP. Government finances also still depend heavily on external funding, with grants accounting for 9.3 per cent of GDP in 2000 — 40 per cent of all revenue.

Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[a]	**19.6**	**20.4**	**24.4**	**23.2**	**23.7**	**22.6**
Tax revenue	11.1	12.3	14.2	12.9	14.4	14,1
Grants	7.7	7.0	9.1	9.3	8.3	7.5
Total expenditure and net lending[a]	**21.5**	**23.4**	**27.9**	**27.4**		
Current expenditure	11.5	10.6	11.7	12.4		
Excluding interest	*10.1*	*9.7*	*10.8*	*11.3*	*12.4*	*11.6*
Wages and salaries	5.4	4.8	5.3	5.6	5.3	5.0
Interest payments	1.4	0.9	0.9	1.1		
Capital expenditure	10.2	12.8	16.2	14.8	15.5	14.0
Primary balance	**-0.5**	**-2.2**	**-2.6**	**-3.2**	**-4.3**	**-3.1**
Overall balance	**-1.9**	**-3.0**	**-3.5**	**-4.2**	**-5.3**	

a. Only major items are reported.
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Expenditure has been rising steadily since 1995 with a bias towards investment (in 1997, capital expenditure finally exceeded current expenditure). A civil service reform on 1 January 1999 introduced a broader salary scale and promotion on merit. Spending on health and education increased, from 28 per cent of current expenditure in 1996 to 32.6 in 1999, and their share in investment rose even faster, from 10.3 per cent in 1997 to 17.6 in 1999.

The external shocks to the economy in 2000 caused major reduction of public finance targets during the financial year. Revenue was sharply revised owing to the slowdown in activity (with automatically less revenue from the VAT) and implementation of the UEMOA common external tariff (which the government said deprived it of 25 billion CFA francs — $35 million). Revenue was also hit by the deterioration of ties with Côte d'Ivoire from October 2000 and the resulting drop in trade.

To soften the effect on domestic prices, the government reduced the impact of higher oil prices by cutting taxes on standard petrol. Adjustment loans to the government fell because of suspicion raised by a United Nations probe into whether Burkina was involved in diamond smuggling with Sierra Leone. Some external funding agencies chose to wait for the final UN report before disbursing promised funds, thereby delaying some investments.

Budget expenditure was smaller in 2000, mainly because of less money going to investment. Current expenditure however exceeded targets under the salaries heading because the civil service pay scale reform incurred more pay increases than expected.

The government plans in the short term to continue boosting public finances by reorganising expenditure through greater transparency in management, improved efficiency and tighter control. A lot remains to be done on the revenue front because the economy's main sector, agriculture, is not in the tax system and in those sectors that are, evasion is rife. Weak revenue will increase the primary deficit in the short term.

Like other UEMOA countries, Burkina Faso's currency is pegged to the French franc and its monetary policy is conducted by the BCEAO, leaving budget policy as the government's main economic instrument.

In 2000, inflation fell significantly after a very good cereals harvest in 1999. In the last few months of 2000 and in 2001, however, it rose again slightly as a result of a bad cereals harvest and reached an annual rate of 5 per cent in July 2001. The UEMOA limit of 3 per cent could therefore be exceeded in 2001, even with lower oil prices and a good 2001/02 harvest.

External Position

Burkina Faso's exports are very narrowly based. Cotton alone brings in half of all foreign earnings, so the balance of payments is heavily dependent on the state of that sector. Livestock is the second biggest export, at 20 per cent of the total. Gold accounts for 4 per cent, while manufactured goods and other farm products make up the remaining 26 per cent. Imports are mainly machinery (about one third), semi-processed goods (around 30 per cent), oil products (18 per cent) and food products. About half of all trade is with Europe. UEMOA countries (led by Côte d'Ivoire) come second with roughly a quarter.

Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-10.8	-12.4	-13.0	-14.4	-14.0	-11.1
Exports of goods	10.3	12.8	10.1	9.4	8.5	9.4
Imports of goods	-21.2	-25.2	-23.1	-23.8	-22.5	-20.5
Services balance	-4.9	-4.9	-4.6	-4.7		
Factor income	-0.5	-0.5	-0.7	-0.9		
Current transfers	10.4	7.5	5.7	5.4		
Current account balance	**-5.8**	**-10.3**	**-12.6**	**-14.5**		

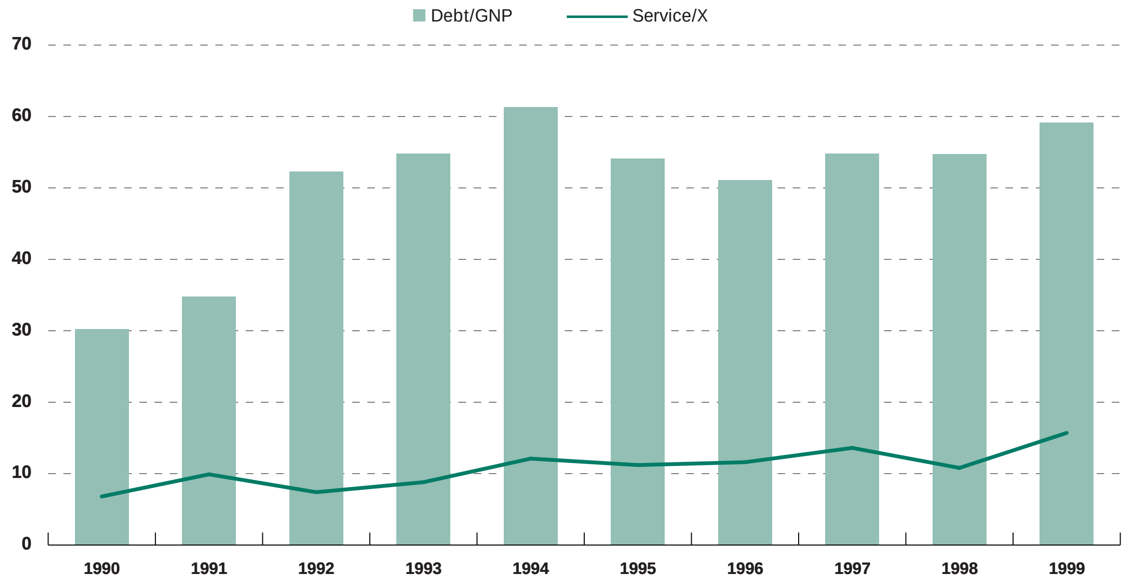
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Burkina's trade deficit is structural because of its weak export sector. Between 1995 and 1998, export growth was more than made up for by increased imports, mostly machinery, for the influx of foreign direct investments linked to the expanding mining and construction sectors. Exports have stagnated since 1998 because of ups-and-downs in the cotton and gold sectors. In 2001 and 2002, better cotton harvests should reduce the trade deficit.

Liberalisation of telecommunications drew more foreign direct investment in 2000 than in 1999 and the flow should continue in the next few years as privatisation advances.

Dependence on external funding is a major feature of the Burkina economy and at the end of 1999 the national debt was 97 per cent external and 85 per cent multilateral. However, as the external debt was 40 per cent soft loans, its NPV was only 26.4 per cent of

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

GDP while the nominal debt was 59 per cent. The internal debt, mostly to commercial banks, dropped sharply in 2000.

In September 1997, Burkina Faso became one of the first countries declared eligible for the Heavily Indebted Poor Countries (HIPC) Initiative. It achieved completion point in July 2000, giving it a right to $400 million in debt relief ($229 million NPV) and automatically qualifying for the Enhanced HIPC, which provided a further $300 million ($169 million NPV). Completion point for the latter was delayed for several months until September 2001[2], when a report was to be presented on the preceding period. Burkina Faso was an experimental country for the HIPC, and had to endure the teething troubles of the scheme. While the country qualified for a series of debt reductions from 2000, some creditors took their time signing the documents granting relief. Burkina should have received 11 billion CFA francs ($15.5 million) in debt service relief under the HIPC in 2000, but only 7 billion ($9.8 million) was realised. In 2001, only 17 billion CFA francs ($23.9 million) out of 25 billion ($35 million) was due to be realised.

Structural Issues

Burkina Faso has made great progress in structural reform since 1995 and has managed to take control of the process. To create business confidence, the chamber of commerce has been reorganised and business law updated in line with the principles of OHADA, the African commercial law harmonisation body. To encourage transparency and participation, the cotton sector has been reformed with originality by involving farmers in running Sofitex. The legal system, including the supreme court, has been restructured, the defence ministry audited and a national plan for good governance implemented.

A first round of privatisation, now nearing completion, was begun in 1991 and concerned 45 medium-sized state enterprises. Twenty-five were sold

2. To allow for better co-ordination between all parties involved.

to the private sector, five are still in transition, 12 were or are being disbanded and three were withdrawn from the programme[3]. The government has done well out of these sell-offs and by the end of 1999 had raised 10.8 billion CFA francs ($17.5 million) for the state budget and enabled it to reduce government subsidies from 20.5 billion CFA francs ($33.5 million) in 1991 to 1.4 billion CFA francs ($2.3 million) in 1999. The privatised firms kept the same number of workers (even slightly increasing them, by a total of 135 jobs), while the disbanded firms involved a loss of 1 047 jobs. The social unrest set off by the first privatisations led to changes in the programme in 1998 about the keeping-on of workers.

This first round of divestments only concerned small and relatively unimportant firms. In July 2001, a new round began, this time of some sensitive infrastructural enterprises — nine to be partly-privatised and 11 to be completely sold. Part-privatisation was set for *ONEA* (water), *Sonabel* (electricity) and *Sonabhy* (oil). Those to be completely sold were firms in which the government had a minority of shares. The new programme was to begin in October 2001 with a publicity campaign, but although the government would like to move quickly, these bigger-scale privatisations are unlikely to happen very soon.

Burkina Faso is a landlocked country with poor infrastructure**.** The lack of roads is a serious obstacle to getting children into schools and expanding trade but great progress has been made over the last decade. From a single main road leading to neighbouring Ghana, the network now includes 15 000 km of good roads (2 000 km of them surfaced), 7 000 km of minor roads and 46 000 km of rural tracks. The government recently decided to give priority to rural tracks as a centrepiece of its fight against poverty, hoping to boost agriculture by ending the isolation of country areas. The country's single railway runs 622 km from Kaya (north of the capital) to the Ivorian border, where it connects to the Ivorian line to Abidjan, and carries mostly freight, half of it oil. Sitarail, which has run the line since 1995, recently completed a remarkable turnaround in its fortunes, increasing freight tonnage from 240 000 in 1994 to 896 000 in 2000. Passenger traffic is stagnant because of the price and duration (36 hours) of the journey to Abidjan. The national airline, *Air Burkina*, was sold (56 per cent of it) in February 2001 to a group controlled by the Aga Khan which plans to expand services to Senegal and Central Africa.

Until the 1999 disturbances, Côte d'Ivoire's capital, Abidjan, was the outlet for 80 per cent of Burkina's trade, with the rest passing through Lomé. Burkina recently tried to diversify by turning to its traditional partner, Ghana, for a new route to the Gulf of Guinea owing to much cheaper port services and more freedom of movement than in Côte d'Ivoire. To encourage this, Ghana has carried out major improvements at the port of Tema.

Burkina has one of the region's lowest levels of electrification — an average of 10 per cent, concentrated in the capital, Ouagadougou, which consumes 70 per cent of the supply, and the second town, Bobo Dioulasso (20 per cent). It is costly — 86 CFA francs ($0.12) per kWh for standard current and 110 CFA francs ($0.15) for high voltage — but the price has stayed the same since 1994. Bobo Dioulasso was connected to the Ivorian grid in April 2000 and an extension to Ouagadougou is being considered, but the link would not be made before 2005. Meanwhile, to meet demand, which is set to grow at about 11 per cent annually for the next five years, the government has tried to open the sector to private suppliers. Negotiations bogged down over the price of current, so the government decided to up the capacity of the Ouagadougou power station by 30 MW, including 10 MW in 2002. Most households still use wood fuel, which causes serious deforestation.

Telecommunications are being liberalised. The state-owned *Onatel* is the sole fixed-line operator, but since May 2000 it has shared the mobile phone market with two other companies, *Telecel Faso* and *Celtel*. The

3. To be transferred to the Ministry of Secondary and Higher Education and Research or else returned to the owner after change of a court decision.

different networks were connected up with each other in April 2001. The liberalisation of the mobile phone sector led to a drop in rates in January 2000, while fixed-line rates fell by 20 per cent in May 2000.

As a consequence of frequent drought and the country's heavy dependence on agriculture, the water supply, until recently free, has become a major concern. The government took a new approach in February 2001 by starting to charge for its commercial use (in heavy construction, for example), but this will require extensive monitoring by the authorities.

The financial system is small but major reform of it began in 1991, when the government promised the international financial institutions it would withdraw from the banking sector. Since then, the banks have prospered while competition in the sector has steadily grown. The opening of two new banks — Ecobank and Bank of Africa — in 1997 and 1998 ended the unofficial monopoly of BICIA-B (the International Bank for Commerce, Industry and Agriculture) and the BIB (International Bank of Burkina) which between them had controlled 69 per cent of the market, and increased the number of banks to seven. Because only 6 per cent of the population use banks, the newcomers set off much competition, which led to a big drop in the margin of intermediation and encouragement to offer a broader range of funding. But though the banks have strong short-term liquidity, they lack long-term funds. Bank credit is also mostly directed to agriculture, mainly *Sofitex*. Other sectors criticise the failure to offer credit to them, but the banks say firms have only vague accounting and cite the restrictions imposed by the BCEAO.

Important efforts have been made to provide micro-credit, which appeared very early in Burkina, as far back as 1972, as a way to mobilise rural savings. It spread very quickly to urban areas however and increasingly serves to make up for the lack of financial instruments available to small and medium-sized firms. On account of their rapid growth, micro-credit organisations face growing problems of transaction security and risk losing sight of their original role of being a way to fight poverty.

Political and Social Context

Burkina Faso is politically stable but social tensions have grown in recent years. The country has been ruled since a coup d'état in 1987 by President Blaise Campaore and elections since then — parliamentary in 1997, presidential in 1998 and local in 2000 — confirmed the dominance of his party[4].

Despite President Campaore's ascendancy, the country went through a turbulent period after the December 1998 murder of journalist Norbert Zongo, editor of the newspaper *l'Indépendant*. The killing sparked strong protests by students, trade unions and people angry at the opposition's crushing election defeats. The government defused the situation with political and institutional reforms, limiting the president to two terms of office (reduced from seven to five years), along with a new electoral law and a law on funding political parties officially aimed at increasing opposition participation in the political system so as to head off extremist positions. But tension remains.

Decentralisation, encouraged in the early 1990s, has continued and Burkina has gone further than its neighbours. The 2000 local elections established a new generation of mayors and the first rural councils are due to be created in 2003. The decision to be pragmatic and gradual has made it possible to create ways to more effectively transfer money and skills. All this adds up to a political opening and greater transparency and highlights the participatory nature of Burkina society.

The situation is also improving internationally and the country has been recently cleared by the United Nations of any involvement in smuggling diamonds from Sierra Leone. This verdict was important since the European Union had expressed doubts about the issue

4 The ruling party won 101 of the 111 seats in the national assembly and control of 43 of the country's 49 towns. Campaore was re-elected as president in the first round of the 1998 voting.

and threatened to suspend aid if Burkina was found to have been involved.

Social statistics show a very poor health situation. Burkina Faso comes 172nd out of the 174 countries on the UN Human Development Index, ahead of Niger and Sierra Leone. Life expectancy is one of the lowest in the sub-region — 45.4 years according to UN figures for 1995-2000 — though this may be an underestimate since a 1998 National Statistics and Demography Institute survey put it at 54 years. Infant mortality is lower than in Mali but still high at 86.6 per 1 000. Child mortality is very high, at 155 per 1 000, because of malaria, malnutrition and infectious diseases that affect 29 per cent of children under five. Burkina is also hard hit by HIV/AIDS, with a 6.4 per cent infection rate, second only in the region to Côte d'Ivoire (10.8 per cent).

Health care has been expanded in recent times but is still inadequate and varies greatly from region to region. Trained personnel are lacking and health workers are unevenly spread throughout the country. Forty-seven per cent of health personnel are concentrated in Ouagadougou, where 980 000 people live (only 8.3 per cent of the population). The 10-year national plan drawn up by the health ministry in 2001 provides for extending coverage and training people.

Despite marked progress since the early 1990s, gross primary education enrolment is still a low 42.7 per cent, with huge differences between boys and girls (only a third of whom are in school) and between regions. Enrolment is 76 per cent in the central part of the country but only 15 per cent in the Sahel region. The low enrolment is largely due to poverty. Poor and often illiterate parents do not always realise the importance of schooling, instead seeing the cost as an obstacle. Lack of infrastructure is also a big factor, so classes are often overcrowded, with an average size of 54.5 pupils and some classes having as many as 150. About 75 per cent of the population is illiterate.

Since 1995, Burkina Faso has made determined efforts to develop basic education, with the share of the education budget for this increasing from 45 per cent in 1990 to 58 per cent in 2000. The government plans to increase the amount earmarked for basic education in the total budget from 13 per cent in 1999 to 20 per cent by 2009. A 10-year (2000-09) national education plan provides for building 2 013 classrooms annually, improving basic education by training 2 067 new teachers every year and setting up 4 000 literacy centres.

Unrest in higher education in recent years forced closure of the university and cancellation of the 1999/2000 academic year. Concessions to the students defused the protests, the university reopened in January 2001 and exams were held peacefully.

The 1998 national demographic survey suggested that despite the recently registered growth, poverty had increased slightly, to 45.3 per cent of the population from 44.5 in 1994. The situation appeared to have aggravated in the towns (rising from 10.4 to 15.9 per cent) but is slightly better in the countryside, where most poor people (mainly cereal farmers) live. The growing poverty is of concern to the government, which had tackled the problem relatively early on and thought it had created the economic conditions (growth) and political conditions (stability) for its reduction.

The country has very good relations with foreign funding agencies which means a high level of public development aid can be maintained. Poor results from such aid stem largely from lack of co-ordination and follow-up of programmes. To fight poverty effectively, the government is counting on better information through its poverty monitoring centre, better use of resources through the HIPC Initiative, and a vigorous civil society.

Cameroon

key figures

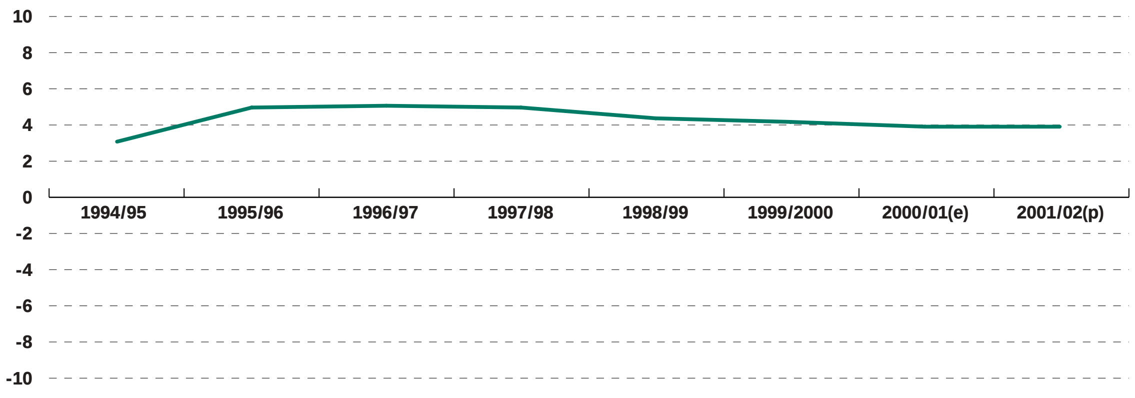
- Land area, thousands of km^2: 465
- Population, thousands (2000): 14 876
- GDP per capita, $ (2000): 597
- Life expectancy (1995-2000): 50.0
- Illiteracy rate (2001): 23.0

Cameroon

THE CAMEROON ECONOMY has performed satisfactorily since 1996, with growth of more than 4 per cent a year and low inflation (less than 3 per cent). The country also has better education and health indicators than the rest of sub-Saharan Africa. However it suffers from weak institutions and persistent corruption that hampers development projects. Medium-term prospects depend very much on solving problems of governance, especially making good use of the debt remission obtained under the Heavily Indebted Poor Countries (HIPC) Initiative. But in the short term, support from international funding agencies and the spin-off from building the Chad-Cameroon oil pipeline should ensure good investment performance. The recovery of the purchasing power of wages, very badly hit by devaluation, continues. GDP growth should be around 3.9 per cent in 2000/01, below the average performance of recent years, because of disruption in export crops (cocoa and coffee) and the timber sector. Lower oil production and a drop in world oil prices from 2001/02, along with the fall in the price of coffee, may keep the growth rate at 3.9 in 2001/02.

The future of Cameroon depends very much on solving problems of governance

Figure 1 - Real GDP Growth



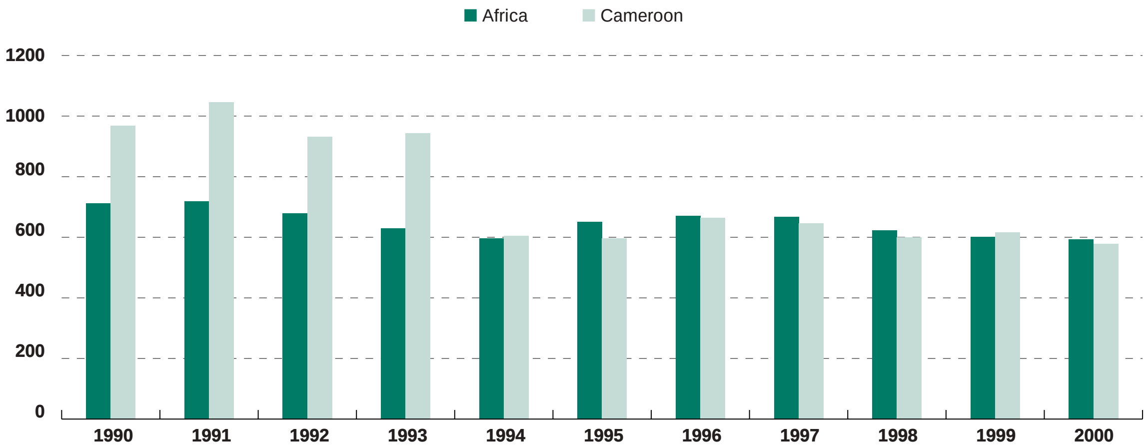
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Recent Economic Developments

Since devaluation in January 1994, Cameroon has seen renewed growth of between 4 and 5 per cent a year. Population increase has been about 2.7 per cent over the period, resulting in GDP per capita growth of between 1.5 and 2.7 per cent. Apart from its economic vigour, Cameroon has stood out among its neighbours in recent years for its steady performances (despite erratic results in the oil sector), demonstrating its relatively broad-based productive capacity.

In the early 1980s, Cameroon's economy was heavily dependent on oil. But from 1986, oil production fell in volume, from 9 million tonnes to 5 million in 1997. At the same time, the price dropped sharply because of the oil slump and the fall in the US dollar. Oil accounted for 20 per cent of the country's GDP (in current dollars) in the early 1980s but only 5.6 per cent in 1998/99. But in 2000, the big rise in oil prices almost doubled the share of oil in the GDP (current dollars). The price rise, however, hid a 4.7 per cent drop in the volume of production.

Figure 2 - GDP Per Capita in Cameroon and in Africa ($ current)



Source: Authors' estimates based on IMF data.

Agriculture remains a key sector of the economy[1], making Cameroon self-sufficient in food, unlike its neighbours. Agriculture employs 70 per cent of the working population and brings in 40 per cent of export revenue. Food crops have enjoyed good weather since the mid-1990s, resulting in good harvests and a steady annual growth in production of between 3 and 8 per cent since 1995. Export crops face problems however due to the fall in world prices and because of disruptions in the cocoa and coffee sectors following privatisation.

Major structural reforms were recently begun in the forestry sector. A law banning the export of unprocessed timber, passed in 1994 but not implemented until 1999, was recently amended to make it more applicable by partially exempting some species, with the aim of encouraging processing without threatening government revenue[2]. At the same time, timber companies were subject to greater control and public forests were introduced. But it was hard to apply these ambitious reforms. The biggest obstacle was the difficulty of effectively monitoring the new standards and the currently widespread problem of illegal felling. The 22 per cent drop in production in 2000 can be blamed on the timber market becoming more informal as well as on the new forest regulations.

In the secondary sector, construction and manufacturing grew strongly in 2000 due to revival of public investment and consumption. But the tertiary sector seems to have contributed most to GDP growth in 2000/01, accounting for 4.65 per cent of the 5.4 per cent total growth figure. The partial recovery in purchasing power as well as the numerous events held in Yaounde and Douala explains the new vitality in the commerce, hotels and restaurants category, while road and port repairs along with privatisation of mobile telecommunications accounts for the vigour of the transport and communications item. The "other commercial services" grouping, which includes activity linked to the informal economy such as handicrafts, services and micro business, also grew strongly in 2000.

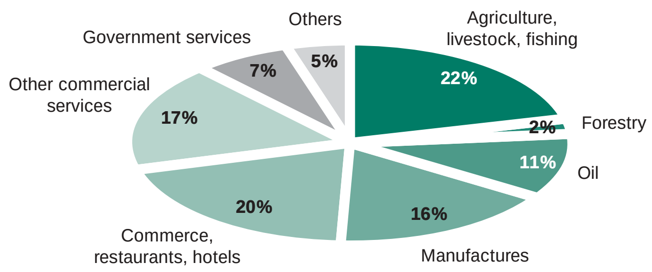
The economic crisis appears to have boosted the importance of the informal sector, which now employs about three-quarters of the urban workforce and a sizeable number of skilled people.

From 2000/01, non-oil growth has mainly been fed by internal demand. The notable increase in private investment is helped by the resumed flow of international funding, but the rate of investment at the end of the 1990s was still much lower than it was during the

1. Data is lacking for this sector however, the last survey on the ground being in 1992.

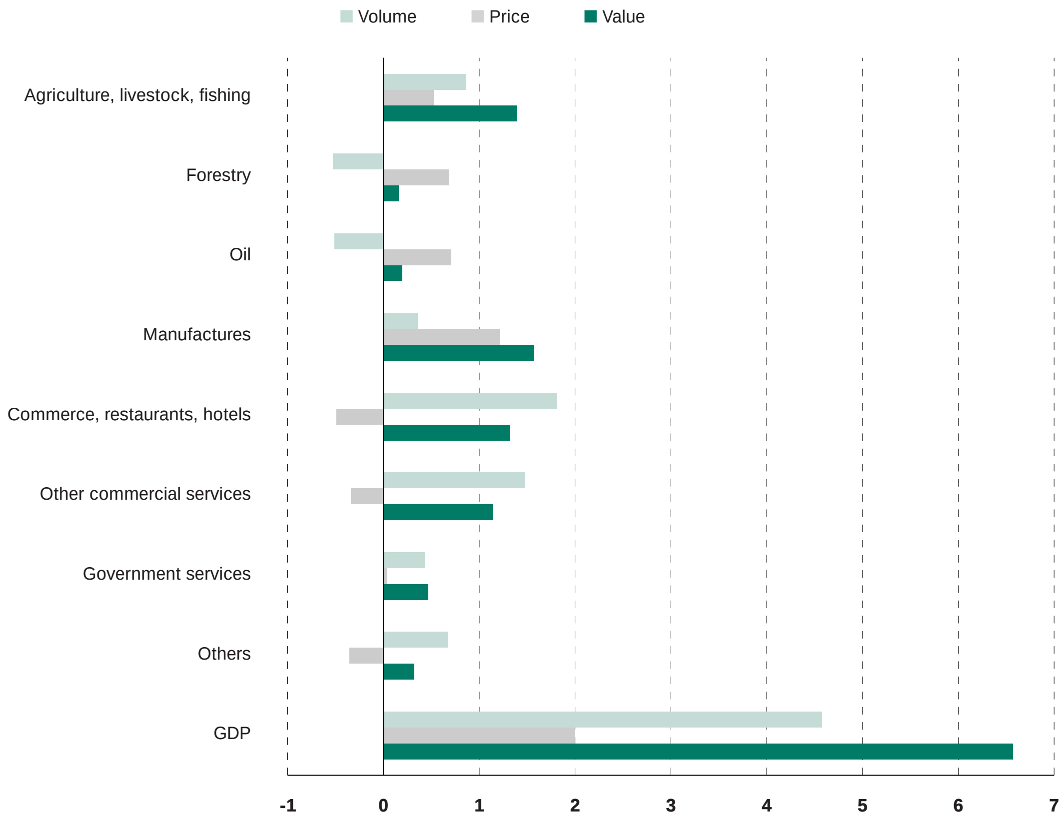
2. Until 1999, taxes were higher on unprocessed timber than on processed, which gave no incentive to the government to apply the ban on the unprocessed product. Recently a tax based on land area created a more balanced tax structure.

Figure 3 - GDP by Sector in 2000/01



Source: Authors' estimates based on National Statistics Institute data.

Figure 4 - Sectoral Contribution to GDP Growth in 2000/01



Source: Authors' estimates based on National Statistics Institute data.

golden age of the early 1980s. In the coming years, investment should grow even more with the building of the Doba-Kribi oil pipeline, whose spin-offs could have a substantial effect on the Cameroon economy.

Civil service salary increases (after gradual payment of arrears and following pay rises in 1997 and 2000) somewhat boosted consumption, but this was offset by sluggish agricultural income and high urban unemployment that also affected white-collar workers. The pick-up in investment and consumption has also seen a big increase in imports which, along with the drop in oil production, is expected to produce an external deficit by 2002.

Tableau 1 - Demand Composition (percentage of GDP)

	1994/95	1997/98	1998/99	1999/2000	2000/01 (e)	2001/02 (p)
Gross capital formation	**14.5**	**17.5**	**18.7**	**16.4**	**20.1**	**21.6**
Public	1.2	2.0	2.7	3.6	4.1	5.9
Private	13.3	15.5	16.0	12.8	16.0	15.7
Consumption	**80.5**	**80.8**	**81.6**	**79.7**	**79.9**	**78.8**
Public	8.6	9.2	10.0	10.2	11.1	10.0
Private	71.9	71.6	71.6	69.5	68.8	68.8
External sector	**5.0**	**1.7**	**-0.3**	**3.9**	**0.0**	**-0.4**
Exports	25.7	26.5	24.4	30.7	28.0	27.6
Imports	-20.7	-24.8	-24.7	-26.8	-28.0	-28.0

Source: Authors' estimates and predictions based on National Statistics Institute data.

Macroeconomic Policy

Budgetary and Monetary Policy

Until mid-1996, Cameroon was seen as one of the IMF's "bad pupils". None of the four programmes negotiated with the international financial bodies had been completed by then. But the figures began to change in 1996-97 with the advent of a new government and drafting of a new programme that aimed to consolidate the benefits of devaluation, fight poverty and create favourable conditions for the private sector. The new political direction led to notable improvement in state finances despite the low price of oil and substantial debt servicing. However, the budget austerity was only made possible by a huge cut in capital expenditure, which eventually led to serious neglect of national infrastructures.

Since 1994, the budget has been helped by major structural reforms such as the TCA business turnover tax, introduced as part of the June 1993 tax and customs reforms and replaced in 1999 by the VAT. This has boosted tax revenue and tax transparency in the non-oil sector. Openness about oil revenues, still a key to budgetary balance, was helped by annual audits of the national oil company SNH (*Société Nationale des Hydrocarbures*). In 1999/00, higher oil prices produced a budget surplus and VAT revenue reached four per cent of GDP, which is high, compared with other sub-Saharan countries.

In the first half of 2000/01, oil revenue fell sharply because of the drop in oil prices. But the shortfall was made up for by increased revenue from non-oil items. Increased expenditure occurred under the headings of consumption of goods and services, investment and

Tableau 2 - Public Finances (percentage of GDP)[a]

	1994/95	1997/98	1998/99	1999/2000	2000/01 (e)	2001/02 (p)
Total revenue and grants[b]	**13.1**	**16.4**	**15.7**	**18.8**	**20.6**	**18.5**
Tax revenue	9.3	11.0	12.1	12.1	12.5	12.1
Total expenditure and net lending[b]	**16.2**	**17.9**	**18.9**	**17.4**	**18.3**	
Current expenditure	15.0	14.9	15.2	14.5	15.1	
Excluding interest	*8.6*	*9.2*	*10.0*	*10.1*	*11.1*	*10.6*
Wages and salaries	4.7	4.9	5.1	5.0	5.3	5.2
Interest payments	6.4	5.7	5.2	4.4	4.0	
Capital expenditure	1.1	2.9	3.6	2.7	3.1	4.4
Primary balance	**3.3**	**4.3**	**2.0**	**5.7**	**6.3**	**3.3**
Overall balance	**-3.1**	**-1.4**	**-3.2**	**1.4**	**2.3**	

a. The financial year begins 1 July.
b. Only major items are reported.
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

wages and salaries. But higher public investment is a positive sign pointing to the country's clearly improved capacity for absorption, even though there are still serious shortcomings in this domain. The government also continued to pay off its internal arrears on schedule. The fiscal year 2000/01 showed a strong overall balance but 2001/02 may be more tricky, with an expected fall in oil revenues and thus a smaller overall budget surplus.

Like the other CEMAC countries, Cameroon has an exchange rate pegged to the French franc and a monetary policy controlled by the BEAC, leaving budgetary policy as the government's main economic instrument. From 2000, the pick-up in investment and consumption was accompanied by inflation in the food and construction material sectors. But price rises should be modest and amount to 2.4 per cent inflation for 2000/01 and then fall to 0.3 per cent in 2001/02.

External Position

Cameroon's trade structure is fairly broad-based, with oil accounting for less than 10 per cent of GDP and a third of total exports. Export crops account for another third by value and are themselves quite varied, including coffee, cocoa, cotton, bananas, palm oil and rubber. The other important export item is timber (15 per cent of exports).

Cameroon has an overall trade surplus but this hides a decline of trade in non-oil items. Since 1995, imports have been rising while non-oil exports have stagnated. This is connected to the gradual revival of demand following devaluation along with major adjustment problems in the country's productive capacity. Traditional export crops have been neglected because of low market prices and disruptions in the production process[3]. The Asian crisis slashed demand for timber in 1999 and despite recovery in 2000, the partial ban on exporting unprocessed timber has reduced the number of logging permits being issued.

Tableau 3 - Current Account (percentage of GDP)

	1994/95	1997/98	1998/99	1999/2000	2000/01 (e)	2001/02 (p)
Trade balance	7.3	4.1	2.2	6.6	3.7	3.4
Exports of goods	20.8	20.7	18.3	24.0	21.9	21.5
Imports of goods	-13.5	-16.6	-16.1	-17.4	-18.1	-18.1
Services	-2.3	-2.4	-2.5	-2.7		
Factor income	-6.7	-5.4	-5.1	-6.7		
Current transfers	0.8	1.1	1.3	1.1		
Current account balance	**-0.9**	**-2.5**	**-4.1**	**-1.7**		

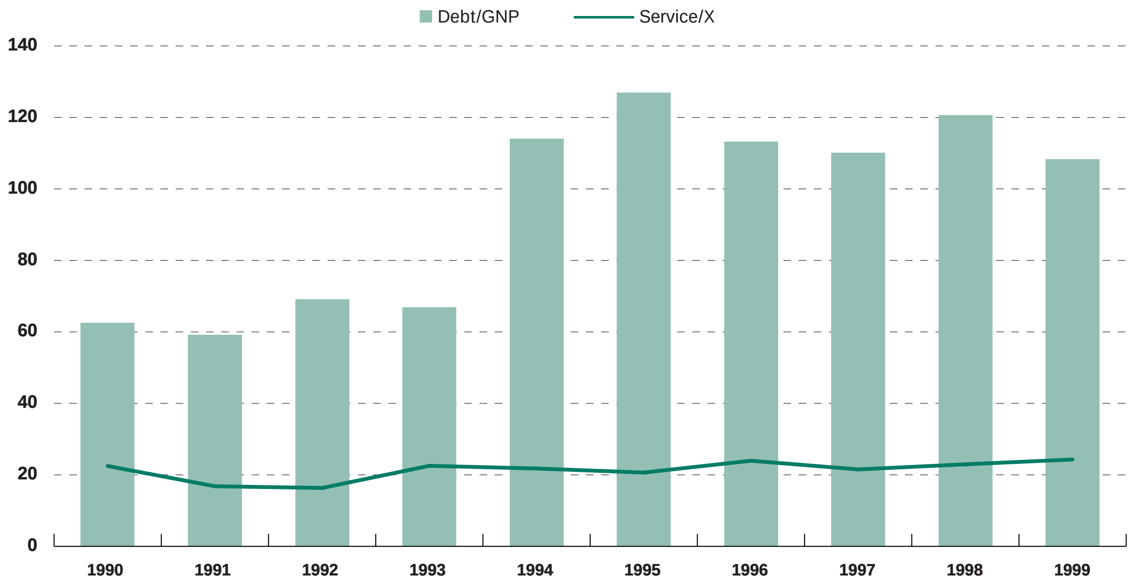
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

For many years, Cameroon has received far fewer soft loans than other members of the franc zone (about half the number they did between 1985 and 1997). However, when oil prices collapsed in the 1980s, it accumulated a large external debt that is now a heavy burden on economic development since servicing it absorbs a third of the national budget. It amounts to 108 per cent of GDP, despite a big reduction following devaluation, before which it was 127 per cent of GNP.

Because of the large external debt servicing by the government, net transfers from multilateral funding sources became negative in the early 1990s. The system of international aid was a factor in this reversal. After much evidence of corruption in the late 1980s and failure to fulfil the conditions of the structural adjustment programmes, the international financial bodies became very wary about supplying credit. But Cameroon's low absorption capacity and a lack of

3. Dilapidated infrastructure hinders shipment of these crops. There is also no adequate means of financing cultivation and privatisation in the cocoa and coffee sectors has made the procedures unreliable.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Ratio of Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

communication also contributed to the meagre disbursement of credit.

To lighten the debt burden on the economy, Cameroon was declared eligible for the Enhanced HIPC Initiative, though this was not at first planned. The country reached decision point in October 2000 and got a very substantial debt cancellation of $2 billion in nominal terms ($1.26 billion NPV). It should reduce the amount of government revenue spent on debt servicing from 23 per cent in 2000 to 10 per cent by 2008 and to cut the ratio of total debt to exports from 200 per cent in 2000 to 120 per cent in 2001 and 100 per cent in 2007.

The meeting of the Paris Club authorising the start of project funding was held in January 2001. The effects of debt reduction have not yet been felt however because despite availability of the first part of the money released through the HIPC, the projects are not ready. So 37 billion CFA francs (about $50 million) have been rolled over from the 2000/01 budget to 2001/02. Completion point still depends, among other things, on drafting a final version of a plan for the poverty reduction and growth facility (PRGF) which should be ready by spring 2002, meaning it could be reached in late 2003.

Structural Issues

Broad reforms are under way to restructure the banking sector, encourage privatisation and improve national infrastructure. Despite delays, the goals of the 1997-2000 programme have been achieved.

Privatisation was started fairly late in Cameroon and was an especially big task because the partly state-owned sector was very extensive. It has been completed for sugar (*Camsuco*), rubber (*Hevecam*) and part of the palm oil sector (*Socapalm*). The railway (*Camrail*) and recently the electricity company (*Sonel*) have also been privatised. Two mobile phone licences have been granted to private firms (SCM and MTN). Banking and insurance have been thoroughly reformed and the companies in the sector either sold or disbanded. A road maintenance fund has been set up.

The third wave of privatisation, which began in 1999, involved the major public services. There have been delays, mainly because of the size and complexity of the enterprises concerned. The telephone and water companies, *Camtel* and *Snec*, are embroiled in disputes over the financial terms of transfer. *Telcel*, which wants to take control of *Camtel*, is questioning the latter's share value in view of its large outstanding debt. The company's assets are being revalued. The French firm *Lyonnaise des Eaux* has made a bid for *Snec* that the government thinks is far too low. The firm's offer is being studied by private experts. All the major public bodies should be in private hands by the end of 2001. The takeover of *Sonel* by AES Sirocco was approved on 19 July 2001.

A final series of privatisations is due to start in 2002/03 and procedural problems are currently being studied. A private manager has been appointed to head the national airline *Camair* and a consultant will soon be named to organise its privatisation. The situation at *Sodecoton* is at a standstill because of a legal challenge to the initial share offering. In agro-industry, privatisation of CDC is still under study because of land problems. The commercial side of the port of Douala is also to be privatised.

Restructuring the banking sector and its general restoration to health has been one of the successes of the programme approved in 1997. However it is little suited to the country's needs. A financial system is being set up, with the opening of a stock exchange in Douala (along with a regional one in Libreville), but these are only beginnings. The Cameroon economy lacks financial machinery. Local co-ops manage to attract some of the population's savings while the banks offer low interest loans to some large-scale operators. But the intermediate section of small and medium-sized firms and those seeking long-term funding usually have nowhere to turn. As well as these shortcomings are legal deficiencies that raise fears of arbitrary action. Recently, for example, courts ordered several bank deposits to be seized in the course of litigation.

Cameroon's infrastructure was quite poor when *Camrail* was privatised in 1999. The railway had very little traffic and was badly managed. Roads are also in a very bad way, especially in Douala where virtually all the country's industry is located. The inadequacy of the road network is made worse in towns by lack of public transport and by population pressure (47 per cent of Cameroonians lived in towns in 1998 and the number was growing by 5 per cent a year). These facilities are to be rehabilitated however as part of the HIPC programme.

SCCF, a South African-French joint venture, took over the railway in 1999 with the intention of restoring the track and rolling stock. The service has definitely improved despite investment delays. A number of major road programmes are under way, including repair of the Nsimalen-Ebolowa-Amdam section and the resurfacing of several roads in the north. Other projects, funded by the European Union, will improve links with the rest of the sub-region. One such road, between Bertoua, Garoua and Boulai (248 km) has just been completed.

A project to increase the freight capacity of the port of Douala, which handles 95 per cent of the country's foreign trade, is in progress and substantial work has already been done. Privatisation of the shipping side at the end of 1997 led to a major drop in freight charges while in August 2000 administrative reforms at the port speeded up handling of goods. Privatisation of its commercial activity is being considered and the customs accounting system is being made watertight.

After various snags[4], construction of the Chad-Cameroon oil pipeline officially began in October 2000.

The Political and Social Context

Public finances have been stabilised and structural reforms started, but Cameroon's clear weakness is governance. A national consultation in March-April 2000 showed this to be the people's major concern. Unlike some West African countries, business people do not see taxes as the main obstacle to their activities

4. Among them the withdrawal of Elf and Shell from the project as well as disputes concerning the effect on the environment. For more details, see the section on Chad.

but administrative red tape and the risks of investment. This view is also based on blunders by a rickety legal system that they see more as a threat to freedom than a defender of it. The civil service has also been bled of its managers and resources since the 1980s and is plagued with corruption.

Corruption is endemic in Cameroon and has been aggravated by the loss of purchasing power that followed the 1994 devaluation (between 1992 and 1995, the real wage of government workers dropped by 75-80 per cent). To compensate, many civil servants take a second job or top up their wages by taking bribes. All this has given Cameroon a very bad image and in 1998 and 1999, Transparency International named it as the most corrupt of respectively 85 and 99 countries, based on a survey of people's attitudes. A slight improvement was observed in 2000 and it moved up from the bottom of the list to seventh from bottom.

Institutional failings combine with very poor organisation of civil society and concentration of power at the centre. Despite the 10 000 or so officially acknowledged NGOs in Cameroon, there is no body that represents them. This is partly because of the nominal nature of many of them, which are therefore not very active[5]. Civil society is not encouraged to be a significant partner of the state because the authorities fear their power will be watered down. At the same time, decentralisation, which officially started with the January 1996 local elections, is being obstructed by problems with transferring funds and by lack of trained people. The central authorities have also retained substantial power to intervene and have replaced mayors elected by government representatives and even postponed for a year the local elections due in January 2001.

The authorities and the international funding agencies are aware of the gravity of the problem and have focused their programmes on governance. A committee to fight corruption, chaired by the Prime Minister, has been set up. Several reforms have improved transparency, including one involving the system of handling state procurement contracts.

Politically, Cameroon is an island of stability in an especially turbulent region. The country has officially been a democracy since 1990, when the national assembly endorsed freedom of association and creation of political parties. But it was not until 1991/92, after strikes that paralysed the economy for six months, that President Paul Biya restored the post of Prime Minister and announced elections and constitutional reform. The first parliamentary and presidential elections were contested by the opposition and led to rioting in coastal areas. Another series of elections five years later strengthened Biya's position as president and that of his *Rassemblement Démocratique du Peuple Camerounais* (RDPC) party in parliament.

Cameroon has sought international credibility and made efforts to integrate itself more fully in the globalisation process. It is a member of the franc zone and the Commonwealth but is also very active in regional affairs as a member of the economic and monetary grouping CEMAC. However, relations with Nigeria are complicated by a persistent border dispute over the oil-rich Bakassi Peninsula, details of which are being considered by the International Court of Justice at The Hague.

Socially, Cameroon has better health and educational indicators than the rest of sub-Saharan Africa. Infant mortality is 79.3 per thousand, lower than in Côte d'Ivoire. Gross primary school enrolment is about 90 per cent, with a resulting fairly high literacy rate of around 77 per cent, but the long crisis that began in 1985 has markedly eroded these social performances. Government shortcomings[6] have caused a major deterioration in social services (and an increase in their cost), which has also stimulated the growth of the informal sector.

5. Handling the HIPC money requires a tripartite committee of international funding agencies, NGOs and the government, so an appeal was made to find representatives of civil society. Of the 10 000 NGOs, 63 applied but only 22 provided a complete application. Two representatives were finally chosen.

6. More than half the social services are to be provided by the private sector as the government offloads them.

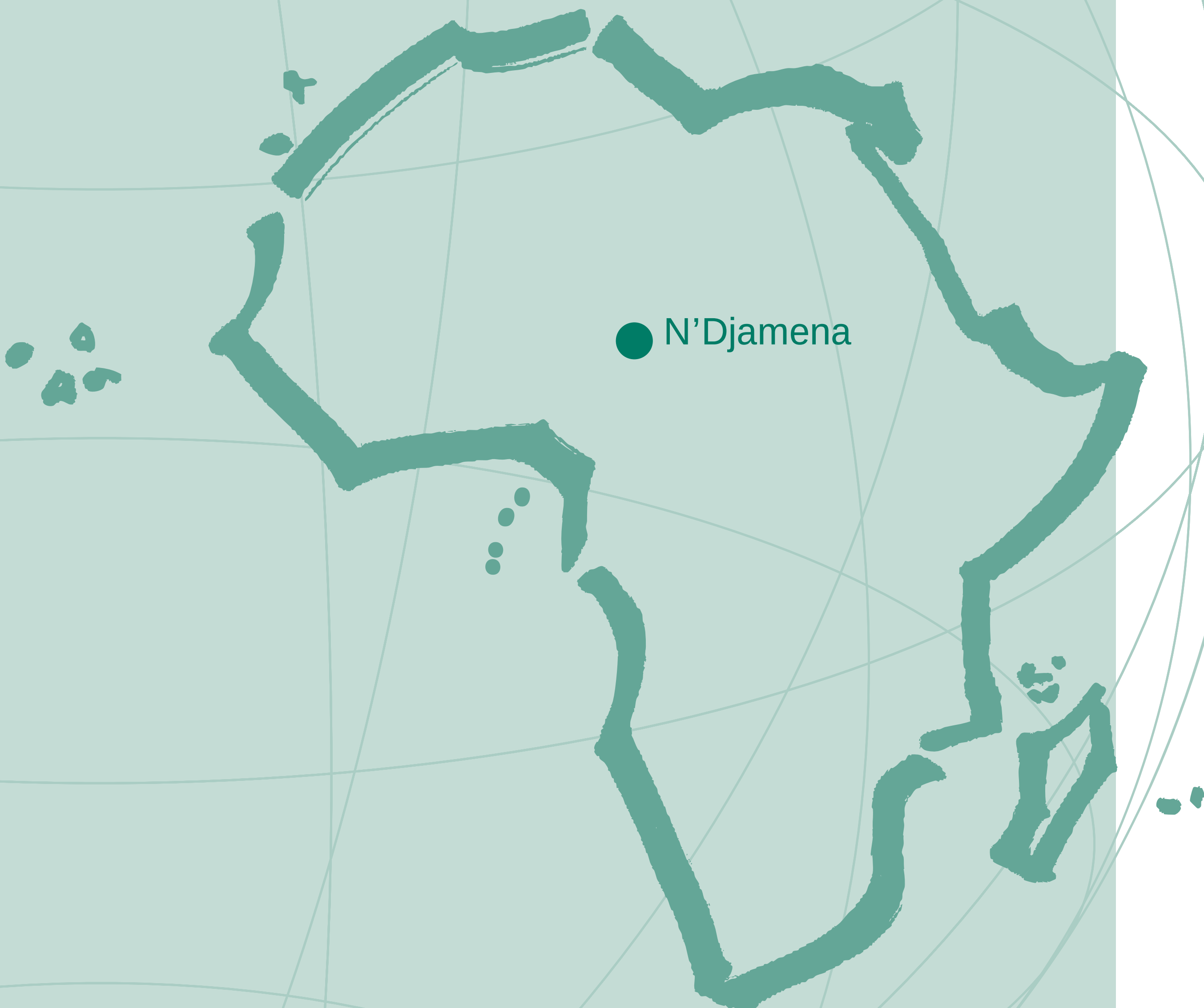
Health services have been broadly affected by the drop in the real value of wages. To make up for this, doctors have been obliged to conduct private practices to the detriment of public clinics. The gross primary school attendance rate is thought to have dropped by 25 percentage points between 1985 and 1995 and the quality of education has fallen sharply too.

About half the population lives below the national poverty line, a 25 per cent increase over the 40 per cent figure of 1983. Some 87 per cent of poverty was once to be found in the countryside, but this fell to 72 per cent in 1996 as the towns became poorer. In 1983, less than one per cent of the inhabitants of Douala and Yaounde were living below the poverty line. This figure had risen by 1996 to 21.4 per cent for Douala and 29.6 per cent for Yaounde.

Decline in economic performance is not the only cause of the weaker social indicators. Meagre social investment has also been a key factor in the deterioration of infrastructures, along with small returns on the investments made. Cameroon has a very low absorption capacity (though it is fast improving) because only a tiny proportion of credit lines are used. Also, the funds that are disbursed sometimes disappear because of lax government handling.

The HIPC Initiative has brought about some changes however. An anti-HIV/AIDS programme has been started (though the first information campaign was not launched until December 2000) to reduce the already-high infection rate of 7.7 per cent in 1999 among people between 15 and 49. A focus on improving infrastructure will also increase access to basic social services.

Chad



key figures

• Land area, thousands of km^2:	1 259
• Population, thousands (2000):	7 885
• GDP per capita, $ (2000):	177
• Life expectancy (1995-2000):	45.2
• Illiteracy rate (2001):	55.8

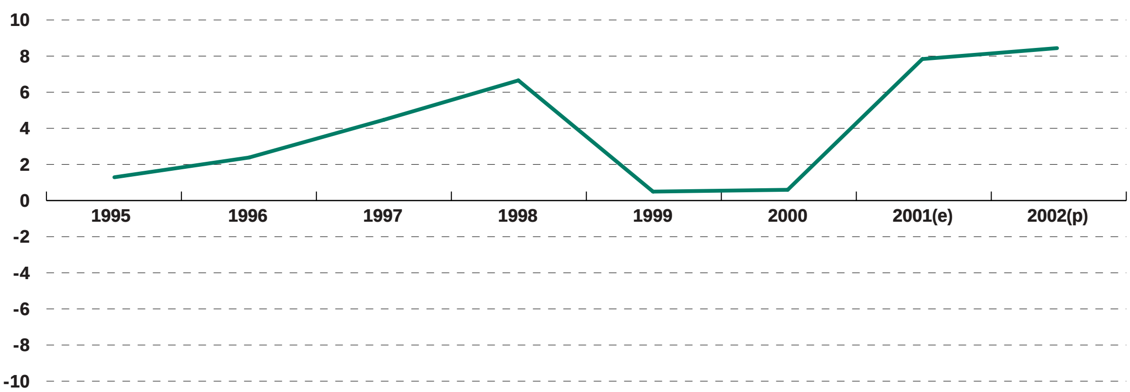
Chad

THIRTY YEARS OF CIVIL WAR have profoundly affected Chad. Infrastructure, institutions and the health and social situation have been badly hit by the political instability and the country is now one of the world's poorest. However, a tilt towards democracy since the mid-1990s has brought much better economic and social performances. Among signs of change is an extensive oil drilling project (centred on the Doba oilfield) that had been held up by the serious political instability but was finally started in 1996. Civil society groups have made great efforts to protect the interests of local people affected by it.

A new period of energy shortages and lack of rainfall, as well as stepped-up fighting in the north of the country, began in 1999. The government is counting on the start of oil production in 2004 to revolutionise the country's economy and make it less dependent on the uncertainties of agriculture. In the short term, increased investment linked to building the oil pipeline should see high growth rates — around 7.9 per cent in 2001 and 8.5 per cent in 2002. But this will not bring about sustained prosperity unless it involves growth of the private sector and unless governance is strengthened to produce good resource management.

Thirty years of civil war have profoundly affected Chad

Figure 1 - Real GDP Growth



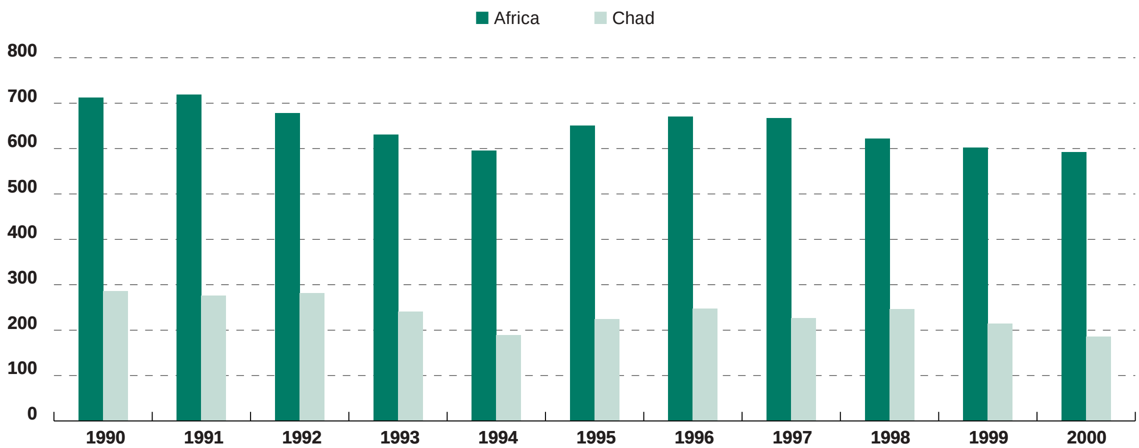
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Recent Economic Developments

Agriculture accounts for 35 per cent of Chad's GDP and occupies 80 per cent of the population, which puts the country's economy very much at the mercy of the weather. The economy is also largely informal — 40 per cent of GDP, according to a 1996 survey, and taking in half of all urban activity and three-quarters of non-agricultural activity in the countryside.

Until 2000, agriculture was the motor of the Chadian economy owing to the area of land farmed and improved yields. However, irregular rainfall that year sent production tumbling and forecasts for 2000/01 were for only 890 000 tonnes of cereals, a 38 per cent drop from the previous year's 1 229 800 tonnes. Chad achieved food self-sufficiency in recent years, but shortages have now reappeared and the country is expected to suffer the worst famine in a decade. It has appealed for international help to head off a

Figure 2 - GDP Per Capita in Chad and in Africa ($ current)



Source: Authors' estimates based on IMF data.

humanitarian disaster. The IMF is due to provide an extra 5 billion CFA francs (about $7 million) in aid.

As well as problems in subsistence agriculture, there have been a several bad harvests of cotton, traditionally the country's main export. Cotton production has fallen steadily — from 261 000 tonnes in 1997 to 180 000 in 1999 and to 140 000 in 2000. The drop in the world price is partly responsible for dwindling interest of farmers in the crop. But the sector has also suffered from the bad management of *CotonTchad* and resulting technical difficulties, including late deliveries of supplies and failure to tackle problems such as locust plagues.

Livestock accounts for 12 per cent of GDP and is the second major source of exports (mainly herds driven on foot to Nigeria). There are thought to be more than 12 million animals in this key sector that occupies about 40 per cent of the population, who use cattle as currency and a unit of savings. The number is hard to estimate however because 80 per cent of the cattle are nomadic. This sector too is mostly informal for tax reasons. Government taxes are quite low, but illegal levies by customs, local officials and tribal authorities are numerous from one end of the trading chain to the other[1]. Farmers must also pass through inspection centres before exporting their animals, but there are only two in the whole country, both in the southwest, which obliges farmers to make long detours of sometimes several hundred kilometres.

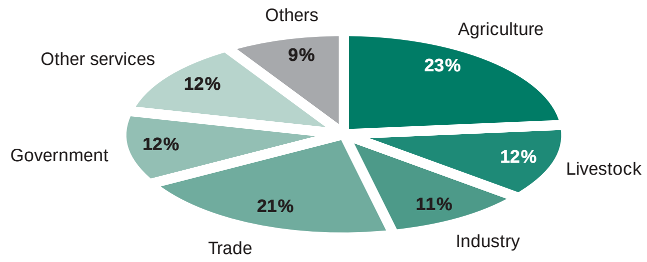
Little is known about mineral resources. Only sodium carbonate and kaolin are currently mined, but uranium, tungsten, tin, iron and gold deposits are believed to exist. A permit to mine gold was recently granted to the South Korean firm Afko, which has invested $20 million to build a plant that will be able to treat 200 tonnes of ore a day. But it is still too soon to measure the impact on the economy of gold production, which should start in 2002/03.

Chad has large oil reserves that have not yet been tapped because of the political instability, making the country very dependent for energy on neighbouring Cameroon and Nigeria. The situation changed in 1996 when the government signed an agreement with Exxon, Mobil, Shell and Elf Aquitaine to develop the Doba oilfield and build a 1 050 km pipeline to the Cameroon port of Kribi. Human rights and environmental groups strongly oppose the project, which has been revised[2] many times. The consortium has also changed and Elf

1. The Ministry of Livestock reckons that about 4 000 CFA francs ($5.60) are illegally levied per animal.

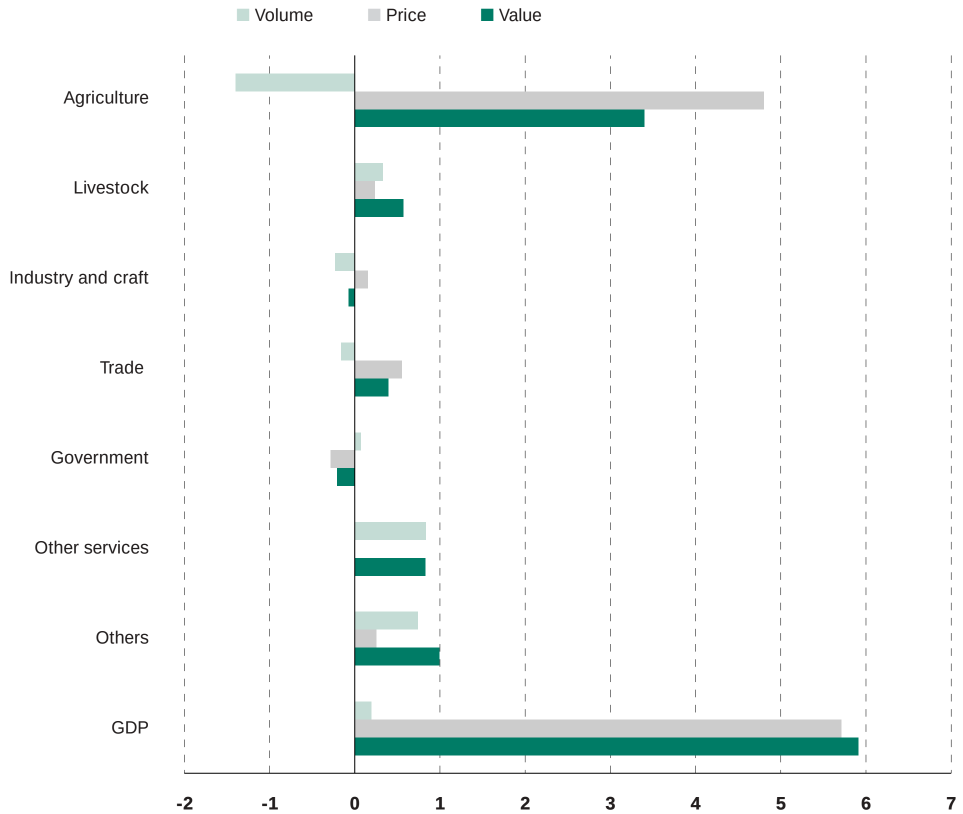
2. The pipeline will now be entirely underground, The authorities will be obliged to say how they spend the oil money, giving priority to education, health and infrastructure.

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates based on data from the national statistics office.

Figure 4 - . Sectoral Contribution to GDP Growth in 2000



Source: Estimates by the authors based on data from the National Statistics Office.

and Shell were replaced in April 2000 by Chevron and Petronas before the scheme finally got off the ground in October 2000. Production is expected to start in 2004 at the rate of between 225 000 and 250 000 barrels a day for 25 years. The project is expected to greatly benefit the rest of the economy, even though most of the companies involved are foreign.

At the same time, the Sedigi Basin development project should produce 2 000 to 3 000 barrels a day which will be processed at a refinery to be built at Facha and fuel Ndjamena's electric power station.

Chad's secondary sector is very small and only amounts to 40 or so firms employing about 2 000 people in all. Four companies dominate industry — *Coton Tchad* (handling cotton), the *Compagnie Sucrière du Tchad* (sugar*), la Manufacture des Cigarettes du Tchad* (MCT) and the Logone brewery chain. Energy and infrastructure limitations disrupted output of these firms in 2000. *Coton Tchad* was also hit by the slump in world cotton prices. Logone had to cope with growing competition from neighbouring countries such as Cameroon as a result of abolition of tariffs inside the CEMAC area. MCT had slightly better sales. All the firms complained of frequent electricity cuts, customs fraud and also tax pressure, the effect of which was magnified by the very small size of the country's formal sector.

The increasingly important tertiary sector is dominated by trade. Chad is firmly landlocked but is a meeting point of various peoples and an important centre of sub-regional trade. The telecommunications sector is growing with the appearance of two operators (Celtel and Libertis). The share of non-traded goods is also very high, with 30 000 civil servants making the government the country's main employer.

Since 2000, growth has been mostly fed by investment linked to the Doba and Sedigi oil projects. Consumption fell however because of lower household income due to bad harvests and a wage freeze for civil servants.

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**8.8**	**16.0**	**9.7**	**18.1**	**40.1**	**47.3**
Public	4.5	6.4	9.5	11.5	19.4	15.8
Private	4.3	9.7	0.2	6.6	20.7	31.6
Consumption	**103.2**	**95.7**	**103.6**	**96.6**	**88.2**	**82.2**
Public	8.6	6.9	7.9	9.4	4.4	4.8
Private	94.7	88.8	95.7	87.3	83.9	77.5
External sector	**-12.0**	**-11.7**	**-13.3**	**-14.7**	**-28.3**	**-29.5**
Exports	22.3	18.7	16.7	16.1	13.4	11.7
Imports	-34.3	-30.3	-30.0	-30.9	-41.7	-41.3

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Macroeconomic Policy

Budgetary and Monetary Policy

Government revenue increased significantly between 1993 and 1998 despite the heavily informal nature of the economy. The budget deficit fell from 8.6 per cent of GDP to only 2.5 per cent due to broadening of the tax base and wage control. Civil service recruitment, except in the social sector, was frozen and there has been no salary review for government workers since 1989, except for a 10 per cent rise after devaluation in 1994. The growth in tax revenue was boosted in 2000 with the introduction of VAT, which has become the main revenue source (a third of all tax receipts), making up for the shortfall caused by CEMAC's abolition of tariffs. However, the tax collection ratio is still very low (about 7 per cent of GDP), well under CEMAC's 15 per cent target, because of the smallness of the formal sector supplying this revenue. Funding from internal revenue sources is thus limited and nearly 90 per cent of investment comes from abroad.

Chad signed a new three-year agreement in 2000 with the IMF as part of a poverty reduction and growth facility (PRGF), giving it access to $13.7 million to help structural reform. But various problems in 2000 delayed release of these funds.

Expenditure was much higher than expected, easily offsetting the slight increase in revenue. Despite its promise, the government used some of the $25 million "bonus" received when Chevron and Petronas joined the oil consortium to reduce the budget deficit[3]. By mid-October 2000, 60 per cent of this sum had been allotted to non-priority sectors,

Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[a]	**13.9**	**12.8**	**11.9**	**12.9**	**12.6**	**12.1**
Taxes	5.6	7.0	7.1	6.8	7.4	7.2
Grants	7.6	5.1	3.7	4.9	4.0	3.6
Total expenditure and net lending[a]	**18.3**	**15.5**	**16.6**	**18.6**		
Current expenditure	9.1	7.6	8.9	9.3		
Excluding interest	*8.1*	*6.7*	*8.0*	*8.2*	*7.1*	*6.5*
Wages	4.2	3.2	3.5	4.0	3.5	3.2
Interest payments	1.0	0.9	0.9	1.1		
Capital expenditure	9.2	7.9	7.7	9.3	15.7	12.7
Primary balance	**-3.5**	**-1.8**	**-3.8**	**-4.7**	**-10.2**	**-7.2**
Overall balance	**-4.5**	**-2.7**	**-4.7**	**-5.7**		

a. Only major items are reported.
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

more than half of it to defence. The government also made a number of extra-budgetary payments — mainly to do with the Sedigi oilfield — that were retrospectively recorded. As a result, at the halfway mark, the expenditure picture was very different to the declared goals, with spending on subsidies, transfers and defence exceeding limits and social sector expenditure falling short. The government also resorted to allowing arrears in external payments and civil service wage payments to build up.

However, since November 2000, the government has moved to correct the situation. More money has gone to health and education and less to other sectors. The remainder of the "bonus" was added to the 2001 budget and is expected to go to the priority sectors[4]. Despite the failure to meet targets, the IMF took note of government efforts to change its ways and released a second tranche of the growth assistance money.

The budget year 2001 was tricky. Tax collection goals were on target in mid-June, but forecasts for the second half of the year were troubling. During the rainy season, the third quarter is usually quiet, with low tax revenues. In 2001, this was added to by the holding of presidential elections in May and the prospect of parliamentary elections in April 2002, which slowed down economic activity and also saw some irregular expenditure. The growth of public investment is expected to lead to an increased primary balance deficit.

As with other CEMAC countries, Chad's exchange rate is pegged to the French franc and its monetary policy is controlled by the BEAC, leaving budgetary policy as the government's main economic instrument. The authorities managed to get inflation down from 41 per cent after the 1994 devaluation to 4.3 per cent in 1998, but recent food shortages have set off inflation. Between December 2000 and December 2001, inflation exceeded 14 per cent, reflecting a rise in the price of staples as well as industrial supply problems. However it is expected to fall around 3.2 per cent by 2002 thanks to good harvests and despite the investment boom related to the oil sector.

External Position

Chad's exports show very little diversity, with half of export revenue coming from cotton and a quarter from livestock. The country also exports gum arabic, of which it is the world's second biggest producer. Industrial exports are very few, amounting to cigarettes

3. Interpretations differ, with the government refusing to see the companies' "bonus" payment as part of oil revenue subject to the agreement on priority social funding. The 2000 money was spent without consulting the government's partners, which was a major failure in communication.

4. After setting aside one billion CFA francs ($1.4 million) for food to head off famine.

Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-2.4	-0.6	-2.3	-3.4	-11.2	-12.3
Export of goods (f.o.b.)	17.1	15.5	13.5	13.2	10.8	9.5
Import of goods (f.o.b.)	-19.4	-16.2	-15.9	-16.7	-22.1	-21.8
Services	-9.8	-11.3	-10.9	-11.5		
Factor income	-1.4	-0.6	-0.6	-0.7		
Current transfers	5.6	3.6	1.9	2.2		
Current account balance	**-8.0**	**-9.0**	**-12.0**	**-13.5**		

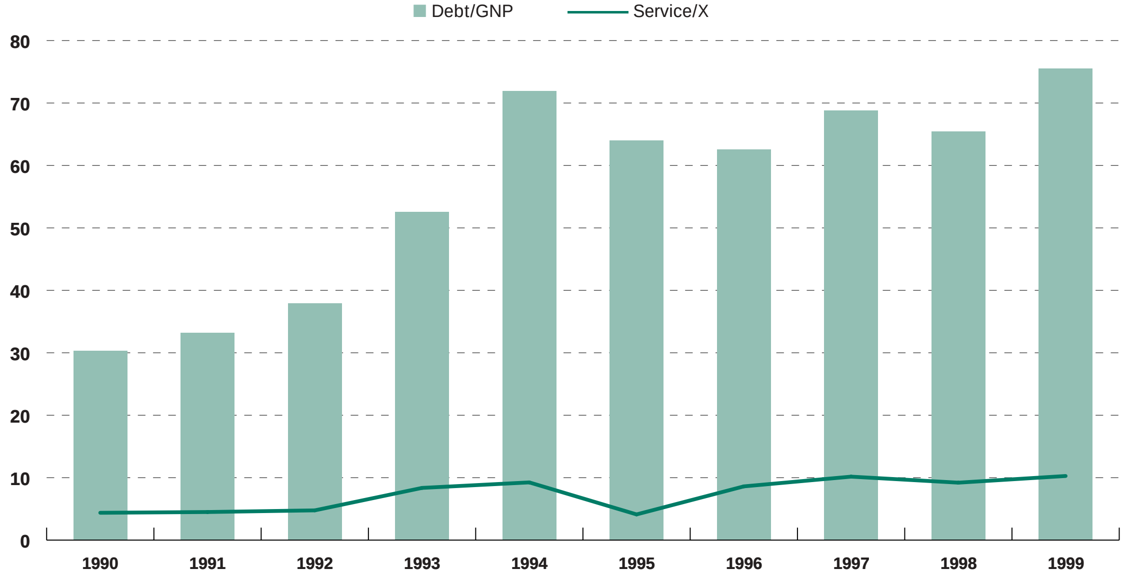
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

and beer to the sub-region. But since Chad's trade is largely informal, any accounting is difficult.

The national trade balance is inherently negative on account of heavy dependence on oil imports. This deficit is likely to increase in the next few years with the growth of material imports to build up the oil project infrastructures and is expected to reach 11.2 per cent of GDP in 2001 and 12.3 per cent in 2002. Later however, in about 2004, the trade balance should improve as oil exports ease the need for the current imports of it.

Chad depends heavily on international funding for investment because domestic private savings are inexistent and government resources are very small. However, as a result of the kind of finance Chad receives — mostly grants and soft loans — the debt burden is fairly light. So while the nominal external debt is $1.1 billion (three-quarters of GDP), it is less than half that (34.6 per cent) in net present value (NPV) terms. In recent years, negotiations with bilateral funding sources have involved "multilateralising" the debt structure (83 per cent multilateral at the end of 2000, including 48.2 per cent to IDA). Bilateral debt

Figure 5 - Stock of Total External Debt (percentage of GNP) **and Debt Service** (percentage of exports of goods and services)



Sourc: World Bank (2001), *Global Development Finance.*

was 15.8 per cent, including 5.1 per cent of it being renegotiated with the Paris Club. Commercial debt is very low, at just 0.5 per cent of total external debt.

As a consequence of the disastrous handling of the oil bonus, funding agencies, including the IMF and the European Union, suspended aid disbursements in 2000 and external funding dried up. As a result, Chad began in November 2000 to accumulate internal and external debt arrears for the first time since 1995. Resumption of the aid flow in 2001 enabled some of these debts to be paid off.

Chad has also been declared eligible for the Heavily Indebted Poor Countries (HIPC) Initiative. However, on account of its failure to meet the PRGF targets, Chad was unable to reach its decision point on time in June 2000. It did so on 16 May 2001, which should give it the right to $260 million ($170 million NPV) of debt relief in 2002. Completion point still depends on the government presenting a poverty-reduction plan for World Bank and IMF approval by first quarter 2002.

Structural Issues

Despite the delays at the end of 2000, great progress was made in structural reform. In line with the CEMAC agreements, virtually all price controls were abolished and in April 2001, a proposal to end price control on petrol was presented to parliament. The labour laws were revised to make wage regulations less strict. The OHADA rules have been introduced which should improve the legal climate and enable better use to be made of the oil investments. An investment charter and a mining code were drawn up.

The privatisation programme began in the early 1990s with restructuring of the economy's non-strategic sectors. In June 1999, 14 state firms were disbanded, 14 privatised and 12 restructured. The government then tackled larger bodies whose privatisation was more complicated. *Sonasut* and the *STEE* had serious financial problems when they were put up for sale, which made their disposal difficult. *Sonasut* was taken over in April 2000 by the *Compagnie Sucrière du Tchad* (part of the Somdiaa group) for 15 billion CFA francs ($21 million), 11.2 billion CFA francs ($15.7 million) of which went to pay off the firm's long-term debts. In 2001, after a year's operation, the company was back on a sound footing after being a drag on the state budget for years.

The *STEE* was taken over in September 2000 by the French group *Vivendi* through a management contract. *Vivendi* is also to run things after the new Farcha oil refinery and the new electric power station begin operating. Until then, the French firm has agreed not to raise electricity prices. Rates after that will depend on the price of oil. Meanwhile, firms are suffering from frequent power cuts, the *STEE* has major financial problems and *Vivendi* is complaining about the antiquated operation it has taken over. Getting the refinery going is also problematic, with the government querying the high cost of the supply contract. The situation is frozen for the moment and international institutions cannot provide funding because the deal has not been publicly tendered.

Another tricky problem is *CotonTchad*, whose profitability dropped sharply with the world price of cotton. In early 2000, a new method of setting prices was introduced that was based on consultation with the farmers. In July 2001, the oil and soap factory was split up and was due to be privatised by the end of the year. At the same time, an audit of *CotonTchad*'s finances and operations was carried out, a financial restructuring plan adopted and a comptroller general appointed. A review of possible privatisation formulas is under way.

Chad is a firmly landlocked country more than 1 500 km from the nearest major sea outlets of Douala and Port Harcourt. Its infrastructure is one of the most primitive in Africa. Despite the country's size (two and a half times bigger than France), only 500 km of roads are paved and they are only passable for 6-8 months a year. The only major road goes south from the capital but does not reach Moundou, a major economic centre and the headquarters of *CotonTchad*, the Logone breweries and the cigarette-making firm. Infrastructure has suffered greatly from the political instability since independence. The weather is an extra problem and the roads nearest to Sudan are under water in the rainy season, cutting the region off from the rest of the country. However, the oil project will involve a great deal of road improvement and the World Bank agreed to a $67 million loan in October 2000 to improve rural roads. The government has also begun building a road network, mainly linking the country with Cameroon, using European Union funds. A road maintenance fund was set up in January 2001.

Health services and electricity supply networks are also in a very bad way. No towns have drainage systems and only 16 of 84 have any piped drinking water. In the countryside, three-quarters of villages of over 300 inhabitants have no water, despite the fact that there is enough water underground to supply the whole country. Only one per cent of Chadian households are connected to the public electricity network. Firewood remains the chief source of energy, seriously aggravating deforestation and desertification. In addition, energy supplies from Cameroon and Nigeria have been irregular since 1998. Such dependence explains the very high cost of electricity in Chad, at 190 CFA francs ($0.27) per kWh the highest in Africa.

The banking system is being stabilised but is still extremely weak and undeveloped and has been hard hit by the country's successive wars. Chadians regard it with much suspicion and keep their savings at home. Bank use is very low and 80 per cent of deposits are government funds. The country's five banks have an acute lack of funds made worse by the fact that foreign firms make use of the little there is. Local businesspeople do not know enough about the system and do not operate in formal enough ways to be able to draw on the small amount of funding that exists. So it is hard for Chad's banks to support economic development, and local funding for projects in agriculture and cattle raising (the core of the economy) is virtually non-existent. The unsuitable structures are especially problematic at a time when the oil project is offering major investment opportunities.

For all these reasons and despite clear improvements, the private sector remains very weak in Chad. Its lack of human and institutional capacity and of transport and energy infrastructures has prevented it so far from taking advantage of the knock-on effect of the oil project.

The Political and Social Context

Problems of governance are a recurring issue in Chad. They arose most recently over the controversial handling of expenditure relating to the oil "bonus". To meet the conditions imposed by the international financial institutions and obtain the second tranche of the funding negotiated with the IMF, the government promised at the end of 2000 to act with more transparency. Decisions were made about the irregularities that took place. The unspent part of the money paid by the oil consortium was frozen until the *Collège de Contrôle et de Surveillance des Revenus Pétroliers* (CCSRP) monitoring agency begins operating. At the end of December 2000, the authorities submitted details of their accounting to the IMF and the World Bank and said there would be no more extra-budgetary expenditure.

Structural reforms were also begun in other areas to improve transparency. A review of the civil service was completed in November 2000 and is expected to result in updating the salary structure and eliminating some irregularities. An action plan was introduced in January 2001 to monitor social spending and its suitability to programmes. In the political field, decentralisation was started in 2000 with creation of territorial *départements*. However the change is still largely on paper. Parliament has not yet passed the decentralisation law and there has been no transfer yet of powers and responsibilities, and even less any interest in it by Chadians[5]. The first municipal elections are due to be held in 2002.

Political instability is a constant problem, especially as it was behind the recent government financial irregularities[6]. Since independence, Chad has been plagued by rebellions and coup d'états that have been

5. In some regions, government-appointed prefects have been rejected by the inhabitants.

serious obstacles to development. President Idris Déby, who came to power in December 1990 after overthrowing Hissène Habré in a coup d'état, has led the country in the general direction of democracy. Political parties were allowed in 1992 and the following year, a Supreme National Conference (*Conférence Nationale Souveraine*) was held and led to appointment of a transitional government and the setting up of pluralist institutions. A new national constitution was introduced in 1996, presidential elections were held in June and July the same year and a parliament began work in 1997.

Despite the regime's opening-up, democracy is not at all firmly established in Chad. The president is widely accused of keeping the political and economic apparatus under the control of his Patriotic Salvation Movement (*Mouvement Patriotique de Salut*). The May 2001 presidential elections, at which Déby was re-elected, were marred by charges of human rights violations and fraud and the six defeated candidates were arrested along with about 30 other opposition supporters. The April 2002 parliamentary elections will be a good pointer to how far democracy has taken root in the country.

A major destabilising factor is the revolt in the northern Tibesti region that began in October 1998 led by former defence minister Youssouf Togoimi and his Movement for Democracy and Justice in Chad (MDJT). The rebellion, which is quite small, involves only about 2 000 men and is confined to the north, shows how fragile national unity is. A similar revolt in the south recently ended with the death of its leader, Moise Ketté, and the defection of his supporters to the government side.

Seasonal movement of livestock is another internal source of conflict. The sparseness and poor quality of vegetation in traditional areas has forced the nomads to look elsewhere, which has sometimes led to clashes with farmers who are also pushing beyond the old arable areas.

Chad is not only threatened from within. It has prickly relations with its northern neighbour, Libya. Despite the return of the Aouzou Strip from Libya in 1994 and Tripoli's mediation in the dispute with the MDJT, the government suspects it of secretly backing the rebels.

In terms of social indicators, Chad is one of the world's poorest countries and is in 167th position on the UN's 174-country Human Development Index. Some 46.5 per cent of its 7.9 million people are below the age of 15 and population growth (3 per cent a year) is one of the highest in Africa. This means Chad's population may double over the next 30 years and worsen poverty. A 1997 national survey said food poverty (below a daily per capita income of 173 CFA francs — $0.25) affected 46.2 per cent of the rural population and 38 per cent in urban areas[7].

Poverty hits rural people and women the most. An attitude survey by the UN Development Programme in 2000 showed that perceived causes of poverty varied widely from region to region according to standard of living. In the towns, people mentioned problems of access to health care and education. Near the Sudanese border, personal security and availability of food were the main concerns. In the Sahel part of the country, agricultural supplies (material and credit) were seen as the key to fighting poverty.

The social sectors of the economy are usually a small part of the national budget (health gets 7 per cent, including wages) and are mainly funded by foreign sources. But good progress was made during the 1990s with a significant structural shift of government spending towards social sectors.

Health statistics for 1999 gave life expectancy as only 46 years and infant mortality as 116 per 1 000 (in Cameroon, these figures are 50 and less than 79). Maternal mortality remains about 830 per 100 000, compared with less than 600 in Mali and Madagascar.

6. The government says the expenditure on weaponry was in the interests of national security because of the recent unrest in the north.

7. The World Bank estimates that 80 per cent of the population is living on less than $1 a day.

Only 29 per cent of children are vaccinated. Malnutrition and weak health infrastructure have meant Chad has epidemics of malaria (which kills an estimated 38 000 people every year), leprosy, river blindness, tuberculosis and sometimes cholera and dysentery. Under the HIPC programme, the government plans to strengthen basic health care, especially training personnel so that each clinic has at least one qualified nurse — a tall order because of the country's scattered population.

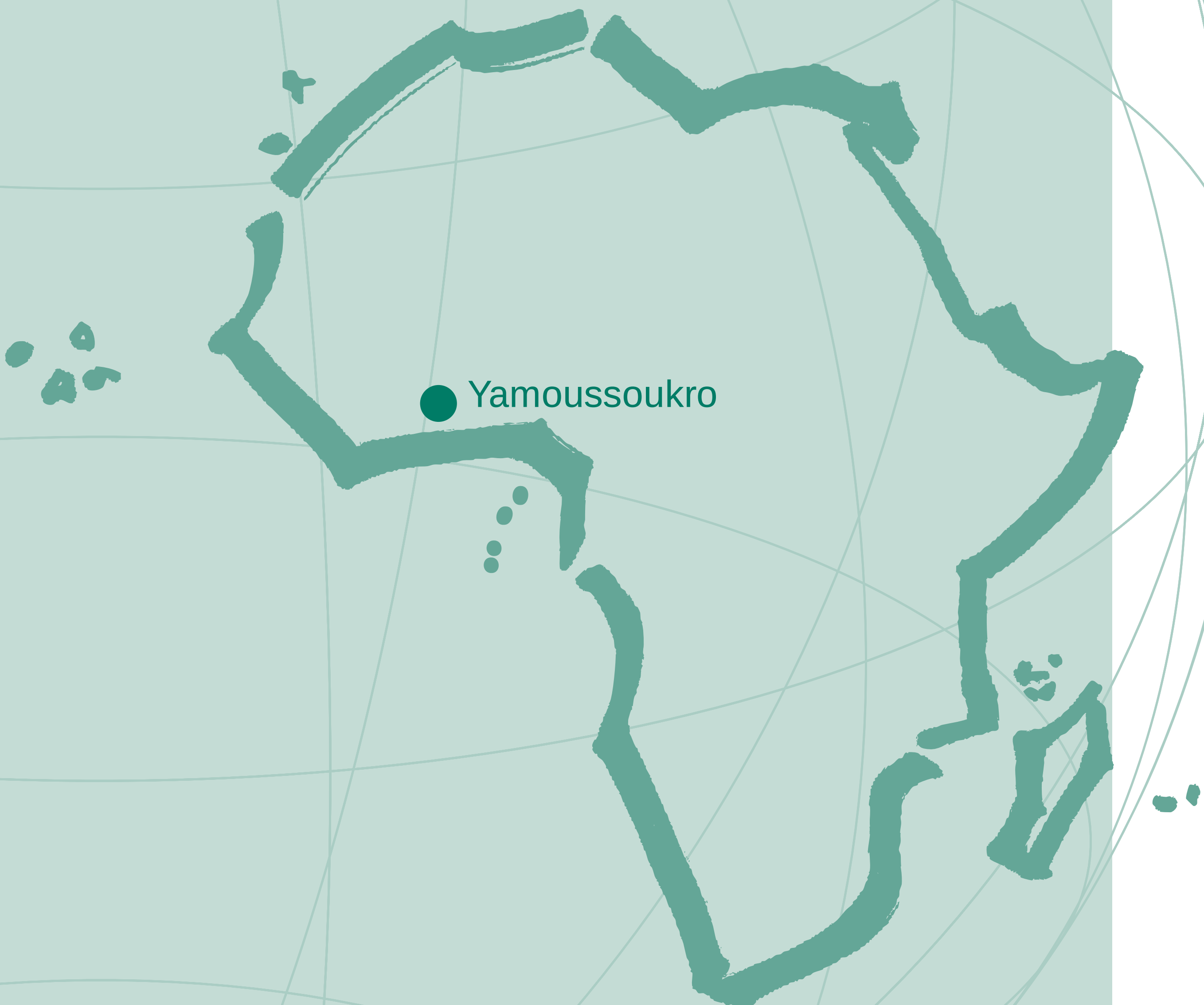
Educational facilities are improving significantly but the situation is still alarming. Gross primary school enrolment is 67 per cent, but a high dropout rate means only 44 per cent of boys and 32 per cent of girls attend for all six years. These scores are among the lowest in Sub-Saharan Africa, which means literacy is very low (44.2 per cent among people over 15).

At secondary level, things are not much better. Usually, of the 22 000 or so candidates for the *bac* high school graduation exam, only 9 000 are allowed to take it and of these only 7 000 pass. To improve the results, the government has drafted a five-year plan to increase primary school attendance to 80 per cent by 2005, along with boosting the quality of education and reducing the disparity between boys and girls. It includes improving teachers' pay and training[8], introducing a bilingual French-Arabic curriculum[9] and increasing the supply of schoolbooks. The overall aim is greater emphasis on primary education and basic literacy.

8. Some classes are given by untrained community teachers who do not take pupils through the official national curriculum

9. A major problem of promoting literacy in Chad is that 173 languages are spoken and some children may be taught in a language not spoken in their homes.

Côte d'Ivoire



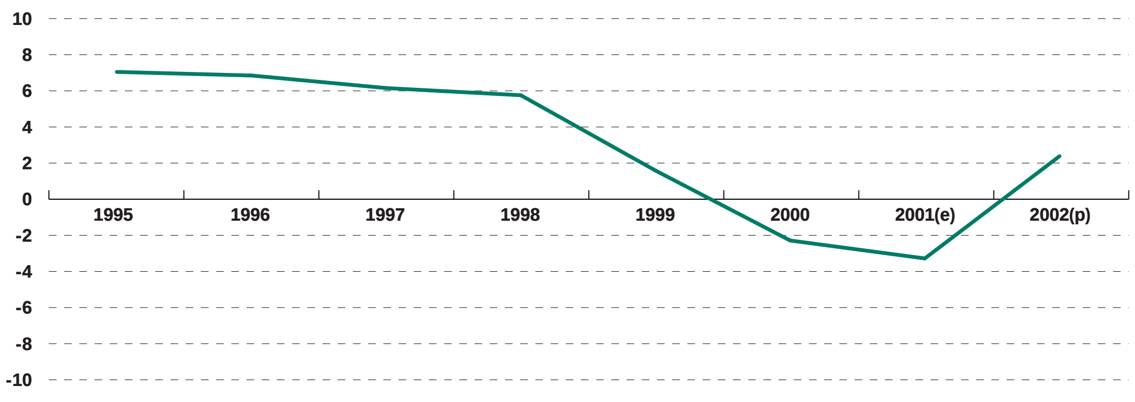
key figures

• Land area, thousands of km²:	318
• Population, thousands (2000):	16 013
• GDP per capita, $ (2000):	585
• Life expectancy (1995-2000):	47.7
• Illiteracy rate (2001):	51.6

CÔTE D'IVOIRE IS WEST AFRICA'S second richest country (after Nigeria) owing to its cocoa and coffee sectors that have been booming since the 1950s. Problems arose from the 1970s, but after the 1994 devaluation of the CFA franc, the economy made a strong recovery. Political and social unrest resulted in a military coup d'état in December 1999 followed by a return to civilian rule in October 2000. Political instability until early 2001 and a drop in world commodity prices produced a recession in 2000. Poor cocoa and coffee harvests and a fall in the price of coffee, along with unsteady progress towards national reconciliation that made economic players put their plans on hold, saw GDP fall by 3.3 per cent in 2001. A better coffee harvest, a slight increase in coffee and cocoa prices and resumption of international aid and co-operation with the IMF are expected to produce GDP growth of 2.4 per cent in 2002. But the country's prospects will depend on improving governance and combating poverty.

Côte d'Ivoire is West Africa's second richest country

Figure 1 - Real GDP Growth



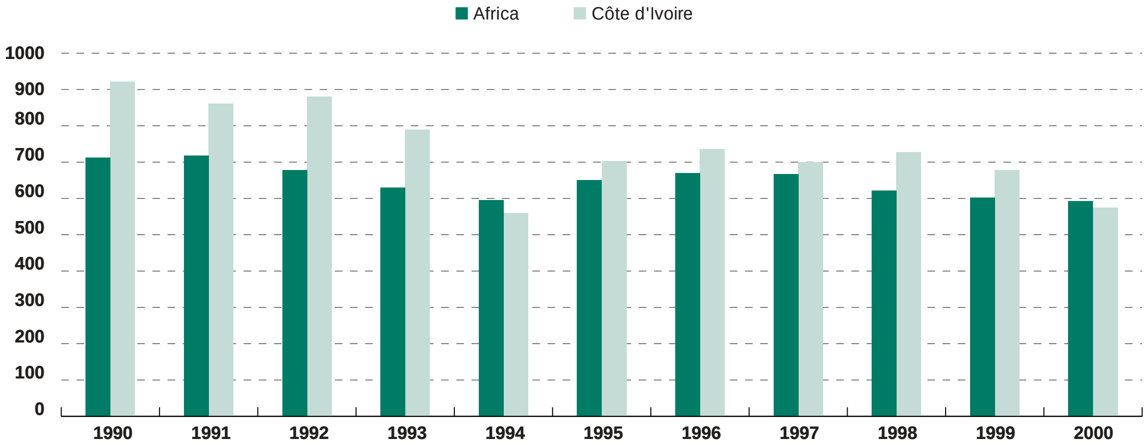
Source: Authors' estimates and predictions based on Ministry of Economy and Finance data.

Recent Economic Developments

Despite some restructuring in the industrial sector after the devaluation, Côte d'Ivoire is still a mainly agricultural country, with food and export crops accounting for more than a quarter of GDP while food processing amounts to 25 per cent of the value-added in industry. This and the importance of exports make the country very dependent on external factors such as the weather, demand and world prices.

Between 1994 and 2000, primary sector production was very erratic on account of the weather. Cocoa, of which Côte d'Ivoire is the world's biggest producer (40 per cent of the total), was hit from 1998 by a decline in terms of trade. This was aggravated by increased production, which nevertheless generated revenue to consolidate the balance of payments. Production of other export crops (palm oil, rubber, pineapples, bananas and cotton) fell sharply in 2000 but the loss of revenue was offset by abundant harvests

Figure 2 - GDP Per Capita in Côte d'Ivoire and in Africa ($ current)



Source: Authors' estimates based on IMF data.

of food crops (plantain, yams, manioc) and a good showing by traditional export crops, with cocoa and coffee growing in volume by 28 per cent.

The secondary and tertiary sector grew strongly between 1996 and 1998 in response to the vigorous economic recovery set off by the 1994 devaluation. But a significant slowdown in 1999 continued into 2000, when industrial production fell by 9 per cent and the tertiary sector shrank by 7.8 per cent. Textiles and construction were hardest hit in manufacturing (drops of 32 and 27 per cent), even though construction was a motor of the preceding period's growth. The tertiary sector was also affected by a considerable decline in household incomes, which caused overall contraction, especially in commerce and services.

The upturn caused by devaluation only lasted until the 1999 recession, which was less painful thanks to good coffee and cocoa crops in 2000 that helped offset poor results in the industrial and tertiary sectors.

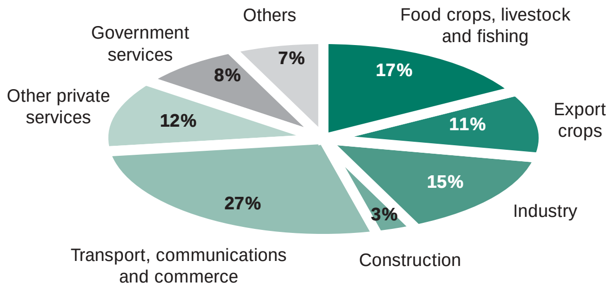
No such volume boost has taken place in 2001 and first export crop predictions were disappointing. The 2000 cocoa crop (recorded in the 2001 GDP) was sharply down (1.15 million tonnes against 1.3 million the year before) and coincided with a new record fall in world prices. Less favourable weather, farmer reaction to low prices, plus the departure of Burkina Faso immigrants because of rising ethnic tensions helped reduce volume. Lower prices for coffee farmers — 200 CFA francs ($0.30) instead of the 350 CFA francs ($0.50) for the previous harvest — account for the drop from 380 000 tonnes in 1999/2000 to 225 000 in 2000/01. The cotton harvest is expected to fall from 340 000 tonnes in 2000 to 290 000 in 2001.

Neither the secondary or tertiary sectors appear to be picking up much, mostly because of the freeze on public investment since late 1999 and generally sluggish investment activity. Firms criticise the tax pressure from the government so as to make external debt repayments at a time when government arrears with the private sector are mounting. The political unrest adds to this climate of uncertainty.

Prospects for 2002 will depend on the outcome of an interim economic programme agreed on with the IMF and results of the reconciliation forum aimed at settling the political crisis. Only then will the private sector stir itself again.

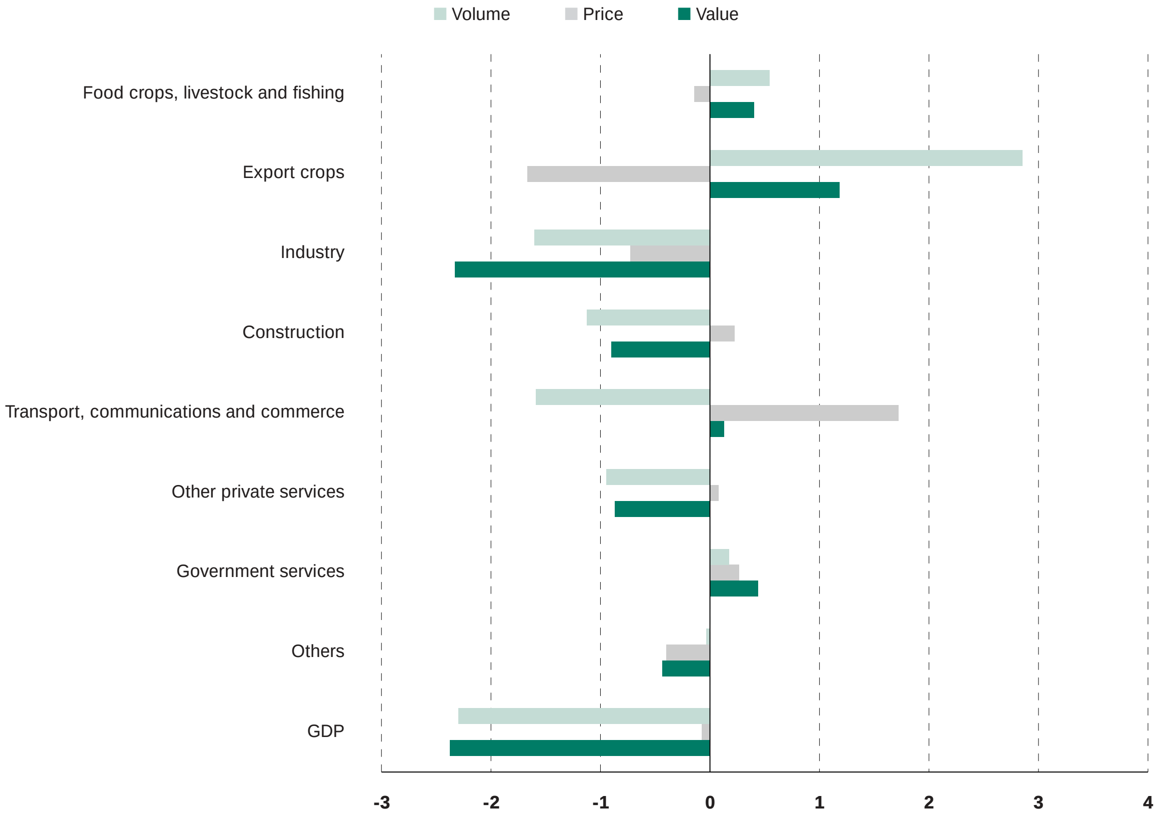
After devaluation, demand components grew substantially. Investment rose from 8 per cent of GDP in 1993 to 16 in 1998, with volume growth as high as 23.4 per cent in 1996. This was due mainly to the return of international aid and increase in gross domestic savings, which reached 25 per cent of GDP in 1998.

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates based on Ministry of Economy and Finance data.

Figure 4 - Sectoral Contribution to GDP Growth in 2000

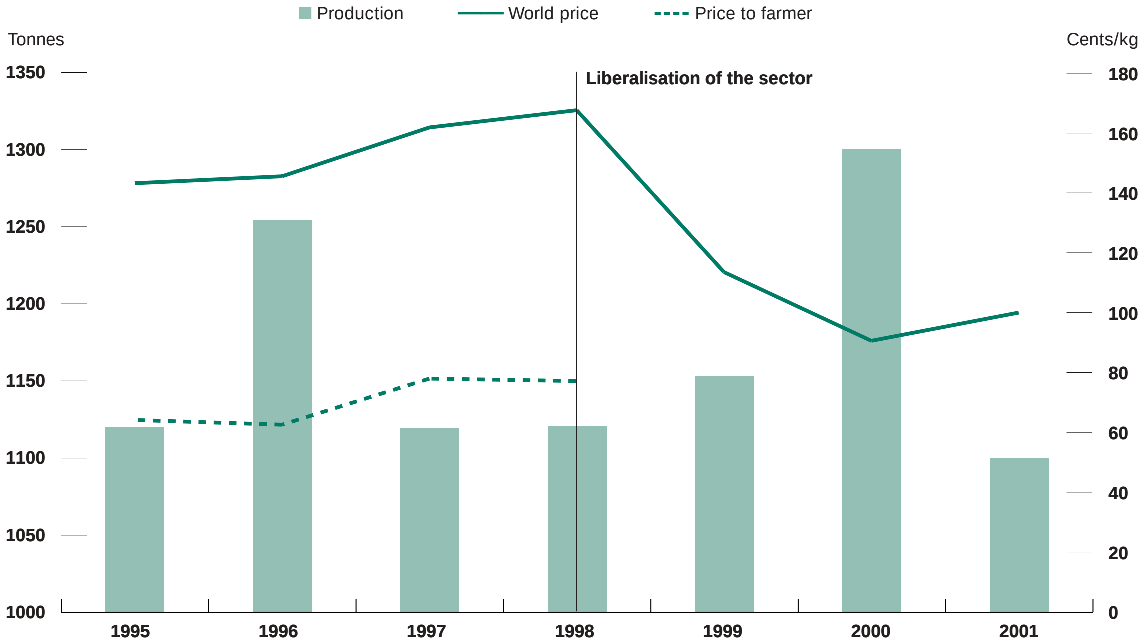


Source: Authors' estimates based on Ministry of Economy and Finance data.

This was not maintained in 1999, when lower farm commodity prices, political instability and less international aid produced a general economic slowdown. Investment volume shrank by 5 per cent that year, especially in the public sector, while growth in household consumption fell from 3.4 to 2 per cent.

The recession continued into 2000 and the volume of investments decreased by 21.5 per cent, this time largely due to the private sector, which cut back by 24.1 per cent. Firms seem to have adopted a wait-and-see attitude, using up their stocks rather than going into debt by investing (hence a 120 per cent reduction in

Figure 5 - Cocoa Production and Prices in Côte d'Ivoire



Source: FAO and World Bank.

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**16.4**	**16.4**	**16.0**	**14.1**	**14.3**	**14.5**
Public	5.6	6.7	4.8	3.6	4.1	4.9
Private	10.8	9.7	11.3	10.5	10.2	9.6
Consumption	**75.5**	**77.3**	**77.2**	**79.1**	**76.4**	**74.3**
Public	11.7	10.0	10.8	10.3	9.8	9.0
Private	63.9	67.2	66.5	68.8	66.6	65.3
External sector	**8.1**	**6.3**	**6.7**	**6.8**	**9.3**	**11.2**
Exports	46.0	42.6	44.2	46.8	45.8	44.6
Imports	-37.9	-36.3	-37.5	-40.0	-36.5	-33.4

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

stocks). The public sector continued the trend begun in 1999 and reduced its volume of investments by 23 per cent.

Private consumption slowed sharply from 2000 because coffee and cocoa farmers as well as wage earners had less money to spend. The external balance improved substantially.

Macroeconomic Policy

Budgetary and Monetary Policy

After devaluation, Côte d'Ivoire signed an Enhanced Structural Adjustment Facility (ESAF) with the IMF that included an adjustment programme, debt rescheduling and sectoral development programmes. The country's

Table 2 - **Public Finances** (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[a]	**22.8**	**21.2**	**19.2**	**19.0**	**18.8**	**17.7**
Taxes	18.0	16.9	16.8	16.2	16.0	14.8
Total expenditure and net lending[a]	**26.9**	**23.6**	**22.4**	**20.5**	**20.2**	
Current expenditure	21.3	16.9	17.4	17.2	16.6	
Excluding interest	*14.4*	*12.7*	*13.0*	*12.6*	*12.6*	*11.3*
Wages and salaries	6.9	6.1	6.2	6.7	6.5	6.1
Interest payments	6.9	4.2	4.4	4.6	4.5	
Capital expenditure	5.6	6.9	4.8	3.1	3.6	4.2
Primary balance	**2.8**	**1.9**	**1.2**	**3.2**	**3.1**	**2.0**
Overall balance	**-4.1**	**-2.4**	**-3.2**	**-1.5**	**-2.0**	**-2.2**

a. Only major items are reported.
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

good economic performances have enabled repayment of a great deal of the external debt and reduction of the public deficit (from 12 per cent of GDP in 1993 to 2.4 in 1998). They also led to another agreement with the IMF in March 1998 involving a poverty reduction and growth facility (PRGF) with a major social chapter. The IMF and World Bank also declared Côte d'Ivoire eligible for relief under the Heavily Indebted Poor Countries (HIPC) Initiative and set March 2001 as completion point.

However the drop in cocoa prices and a sharp fall in international aid, along with bad weather, cut into government revenues from 1998. Tax collection fell, mainly because of fraud but also due to the general economic slowdown which substantially reduced the tax base. Foreign aid shrank and ceased altogether when General Robert Guei seized power in December 1999. Relations with the IMF were broken off and Côte d'Ivoire's accession to the HIPC Initiative suspended.

Budget expenditure was significantly redirected towards public investment between 1994 and 1999, while the government managed to keep the lid on wages and salaries, whose share of GDP fell from 10.7 per cent to 6.3 between 1993 and 1998 (the number of government and public body employees fell from 123 900 to 110 100). Public investment spending rose from 3.1 per cent of GDP to nearly 7 per cent over the period. However, it slowed in 1999, falling to 4.8 per cent of GDP, and social projects took a back seat.

In 2000, despite an austerity budget (which was tightened in March 2000), the government could not meet its targets. Tax revenue was budgeted at 18 per cent of GDP but only managed to reach 16.2 per cent because fewer imports and less consumption meant less revenue from customs duties and VAT value-added tax. Expenditure rose however, notably for wages and salaries, especially for the armed forces.

Public finances seriously deteriorated after the 1999 disturbances and by the end of 2000 substantial arrears had accumulated internally (3.3 per cent of GDP) and externally (10.9 per cent of GDP). So public debt servicing for 2001 reached 624 billion CFA francs — 9 per cent of GDP and about half of all budget revenue. The 2001 budget provides for repaying on time multilateral debts of about 252 billion CFA francs ($354 million). But new arrears will have to be incurred on debts to be rescheduled and negotiations will be needed with the country's partners over the debt that cannot be.

These talks should be helped by resumption of the six-month interim IMF programme in July 2001 as a prelude to a PRGF agreement. The programme centres on restoring public finances and the government has decided to strengthen the taxation and customs departments by tightening checks, reducing exemptions and extending the minimum 5 per cent customs duty to all imports. A single 20 per cent VAT tax was introduced on 2 July 2001. The government hopes these measures will be enough to reach the overall 2001-

collection target of 16.2 per cent of GDP. Spending on wages and salaries is expected to remain high as the government is planning on harmonising the status of teachers and new hiring in security and social sectors. The June 2001 budget aims to increase investment by 20 per cent over the previous year.

Côte d'Ivoire's currency is pegged to the French franc and its monetary policy is conducted by the BCEAO, leaving budgetary policy as the government's main instrument of macroeconomic stabilisation. Inflation is still largely under control. After reaching 32.2 per cent after the 1994 devaluation, it fell back to 3.5 per cent in 1996 and then settled at around 2 per cent. Recent food shortages in Sahel countries led to price pressures in 2001 and despite the recession, inflation should reach 3.9 per cent that year and 4.3 per cent in 2002.

External Position

Côte d'Ivoire's economy is fairly open compared with those of its neighbours and exports and imports are 60 per cent of its GDP. More than half of all exports goes to Europe (15 per cent to France), while a quarter, including some re-exports, goes to the rest of Africa. The geographical pattern is relatively stable, though within Africa more trade is now with the UEMOA countries since they agreed to abolish tariffs between them. The pattern of goods traded shows Côte d'Ivoire's special place in the region as a producer of semi-manufactures while its neighbours export mostly raw materials. Côte d'Ivoire is also a transit point for nearby landlocked countries such as Mali and Burkina Faso. Trade has been diverted through Ghana and Togo as a result of the recent disturbances, but the Ivorian government hopes to recapture it after giving Burkina and Mali seats on the governing board of Abidjan port.

Côte d'Ivoire has more diversified trade than its neighbours, but cocoa is still over 35 per cent of it and coffee 6 per cent. This makes the country very dependent on world prices and on the weather, which determines the size of the harvests. This structural vulnerability has spurred efforts to diversify, such as a 1996 programme to promote and diversify farm exports (PPDEA). By 1999, trade partners had increased and non-traditional exports had doubled in volume, but they remained minor alongside the traditional export crops.

Côte d'Ivoire structurally has a positive trade balance and a heavy balance of payments deficit. Despite the crisis, record cocoa and coffee crops boosted exports in 2000 while the economic slowdown, involving a sizeable drop in consumption, fewer investments and firms' using up their stocks, led to a general decline in imports. The trade surplus should reach record levels in 2001 and 2002.

However, the burden of the national debt and the outflow of capital set off by the halt in foreign aid and suspension of major projects destabilised the current balance and largely offset the improved trade balance. So although the current deficit began to narrow after the 1994 devaluation, the trend slowed from 1999.

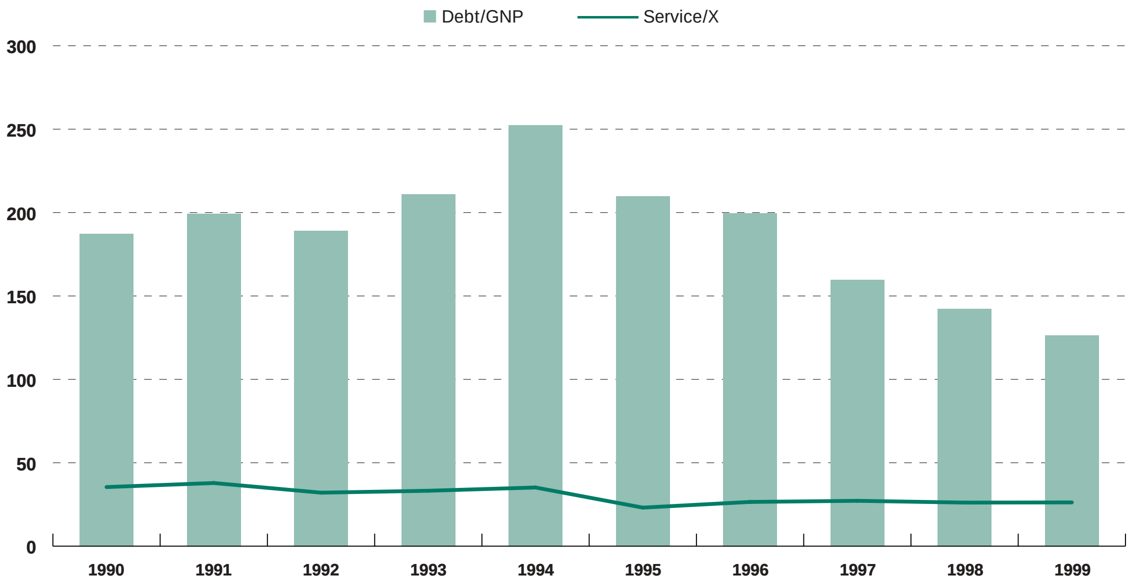
Côte d'Ivoire's public external debt declined between 1995 and 1999 because of relief on the commercial debt granted by the London Club, on the bilateral debt by the Paris Club and because of relief by France. The

Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	13.6	11.8	12.2	12.2	14.2	15.3
Exports of goods	38.2	35.8	37.4	39.1	38.8	37.8
Imports of goods	-24.6	-24.1	-25.3	-26.9	-24.6	-22.5
Services balance	-5.6	-5.5	-5.4	-5.8		
Factor income	-14.7	-6.9	-7.3	-8.0		
Current transfers		-3.5	-3.6	-3.8		
Current account balance	**-6.7**	**-4.1**	**-4.2**	**-5.4**		

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

commercial debt's share in the public external debt fell from 39 per cent in 1994 to 23 in 1999 while the debt to international financial institutions grew from 28 to 36 per cent (including 20 per cent to the World Bank). Despite the relief, bilateral debt remained substantial, with the Paris Club accounting for 41 per cent of the external debt and France providing half of the credits.

After the poor performance of public finances in 2000, the Ivorian government found itself unable to pay either its domestic or foreign creditors, and the French Development Agency suspended disbursements in September 2000, as did the World Bank a month later. Accession to the HIPC Initiative was also suspended, making Côte d'Ivoire one of the few French-speaking West African states not taking part in the IMF and World Bank debt reduction programme. The country has since accumulated substantial internal and external arrears once again.

However France announced on 31 January 2001 that it would resume dialogue over major health, education and agricultural projects to the tune of a modest 7.6 million euros. This was followed in June 2001 by the European Union's decision to gradually resume aid, which led to immediate disbursement of 30 million euros for the social sector, institution building and encouraging the private sector. A new assessment was to be made in September 2001 to see whether aid should be extended to other sectors. The EU also agreed to decide in January 2002 whether to lift the last restrictions. These moves depended on economic, social and political considerations, especially human rights, and on good governance.

Structural Issues

Since 1994, Côte d'Ivoire has carried out a vast programme of structural reforms to open up the economy, including privatisation and state withdrawal from the cocoa-coffee and energy sectors. Recently however, these reforms have slowed down considerably.

Privatisation began in 1992 and speeded up with devaluation and the IMF programmes. About 60 firms were privatised up to 1999, mainly in the commodities sector, including *SOGB* (rubber, 1995), *Palmindustrie* (palm oil, 1996), *Sodesucre* (sugar, 1997), *CIDT* (cotton) — whose two-stage sell-off is not yet complete —

SICF (railways, 1994) and *CI-Télécom* (telecommunications, 1997).

In 1995, the government began liberalising the cocoa and coffee sector with help from the World Bank. The reforms included handing over some of the functions of the price stabilisation fund, *Caistab*, to the private sector, making operations more transparent, reducing customs duties on exports (abolishing them for coffee) and dismantling the system of stabilising prices paid to farmers. Complete liberalisation was achieved for coffee in 1998 and for cocoa in 1999. *Caistab* was disbanded and replaced by a semi-public advisory and regulatory body, which then became a completely private entity in April 2000.

The main aim of *Caistab*'s privatisation was to increase the share of world prices going directly to the farmer, but the fall in prices mostly cancelled this out. And though the government lowered export duties at a time of growth to benefit farmers, the loss of taxes because of the recession has led to some reimposition of duties on coffee and cocoa. The single export duty rose from 125 CFA francs/kg ($0.17) to 200 ($0.28) in January 2001 and then fell to 160 ($0.22) in July the same year, thereby confusing the rules and making customs operations more complicated.

Despite strong public discontent over these reforms, the government has stressed it will continue liberalising. It plans to set up machinery to guarantee farmers a minimum price through bringing them into the decision-making process. A cocoa and coffee exchange was opened in July 2001 whose board is two thirds farmers and one third exporters. The coffee and cocoa regulatory body, ARCC, sees that the rules are enforced.

Liberalisation of oil importing and the refinery company SIR have been delayed. As a consequence of the recession, the government preferred not to change in real time the price of electricity and oil in line with production costs largely dependent on world prices of oil and gas. As a result, the electricity sector had a nearly 57 billion CFA franc ($80 million) deficit at the end of 2000 and SIR had one of 40 billion CFA francs ($56 million). However, the government increased oil prices in February 2001 to start clearing the deficit of SIR and in July that year raised the average price of electricity by 10 per cent. In its letter of intent for the interim programme agreed with the IMF, the government says it is determined to cut structural costs and increase financial transparency in the energy sector, notably by paying off reciprocal debts with the government, and reiterates that the oil sector will be liberalised and SIR privatised.

Many infrastructural projects sprouted after the 1994 devaluation, notably the government's Twelve Projects of the Elephant of Africa programme in 1996 in line with its tradition of undertaking major basic infrastructural work but this time using private capital. Under pressure from the international funding agencies, the government included social goals, such as upgrading health care and education, in its investment projects. However, the 24 December 1999 coup d'état froze virtually all government projects and only those signed before the military take-over, such as the refurbishing of Abidjan airport, were completed in 2000. Road projects, including Abidjan's third bridge, and others in health, education, hotels and supermarkets were suspended.

Privatisation, along with the public investment programmes, were supported between 1995 and 1998 by a large-scale return of foreign funding, as well as by the conversion of the Abidjan stock exchange into a regional one, the BRVM, in September 1998, thus expanding the banking and financial markets. But investment banks hardly feature in Côte d'Ivoire, where intermediation and debt refinancing are rare. On account of the predominance of Ivorian companies in the BRVM[1], it has been hard hit by the country's political and social instability. The opening of the BRVM was greeted enthusiastically and the trading index hit 110 per cent in early 1999 and share capital 1 000 billion CFA francs ($1.4 billion), but the

1. 39 of the 41 companies quoted are Ivorian, one (*Sonatel*) is Senegalese and one *(BOA)* Beninese.

December 1999 coup reduced trading volume by 90 per cent. Also, the banking sector saw negative growth in 2000 because it took the full force of the collapse in commodity prices. By the end of 2000, the two BRVM market indices — the general one and the 10 most active shares — had dropped by 80 per cent, a fall in trading volume of 53.5 billion CFA francs ($75 million) in 1999 and 36.6 billion ($51 million) in 2000 because of investors holding off.

Political and Social Context

After 30 years of one-party rule by President Félix Houphouet-Boigny and his Democratic Party (PDCI), Côte d'Ivoire held its first multiparty elections in 1990. Houphouet-Boigny was re-elected for five years but died in 1993. His successor, former national assembly president Henri Konan Bédié, was confirmed in power at elections in 1995 with 95 per cent of the vote after introducing an electoral law banning any candidate who was not pure Ivorian by birth or who had lived abroad in the five years before the election. Konan Bédié strengthened his position in 1998 by increasing the residence qualification for candidates to ten consecutive years. However he was overthrown on 24 December 1999 by an army mutiny led by General Robert Guei.

Faced with growing international pressure, including suspension of aid, Guei promised elections and these were held on 26 October 2000. Laurent Gbagbo and his Ivorian Popular Front (FPI) won them and Gbagbo became president in the country's first democratic transfer of power, ten years after introduction of a multi-party system. Gbagbo scored 59 per cent of the vote but, because of the Supreme Court's rejection of the candidates of the Republican Rally (RDR) and the PDCI and their call for a boycott, this represented a low voter turnout of 37 per cent. However his legitimacy was strengthened when a popular uprising quashed an attempt by Guei to stay in power.

Political and social disturbances since 1999 have seriously affected Côte d'Ivoire's international credibility and are a burden on the country's economic performance. The 1999 coup was fairly bloodless but the army did seize power and left a heavy legacy to succeeding governments. Many divisions in the army were aggravated and paramilitary groups emerged[2]. The social situation became explosive against a backdrop of ethnic and religious divisions that had been much exploited during Konan Bédié's rule. This produced rioting at the October 2000 presidential elections and the parliamentary elections two months later. The last attempted coup, in January 2001, highlighted Gbagbo's main task, to bring about national reconciliation, which is also required for relations to be normalised with neighbouring Burkina Faso, Ghana and Mali and the international funding agencies. The peaceful local elections in March 2001, helped by the return of the RDR to the electoral process, was a big first step towards this and led to gradual resumption of foreign aid, begun by France in June 2001, and renewed negotiations with the IMF.

Good governance and fighting corruption are major conditions for total resumption of foreign aid. Embezzlement of European Union aid exposed in 1998 led to a break in relations with the EU and may have hastened the 1999 coup. To restore confidence, Gbagbo has said he is determined to carry out reforms. Some steps have already been taken, such as the president having to declare his assets and tax clearance being required by anyone running for office or appointed a minister. The removal of roadblocks has also helped by ending extortion of road-users. Transparency is now the watchword but attitudes may take a while to change.

Political tensions have been exacerbated by poor social performances. Despite the country's prosperity compared with its neighbours, life expectancy and access to health care and education are still very limited. Per capita GDP is around $585, nearly double that of Benin, Burkina Faso and Mali and 20 per cent higher than in Senegal. Despite this, gross school enrolment is only 78 per cent, behind Ghana (83 per cent), Benin

2. The most important of these was the Red Militias led by Boka Yapi, the former head of General Guei's personal security detail.

(84) and Togo (124). Life expectancy is 47.9 years, lower than all the countries at peace in the region, except for Burkina Faso, and incidence of HIV/AIDS is, at 10.8 per cent, the region's highest[3].

Côte d'Ivoire was not at all in good shape when it became independent in 1960 and has very poor or inadequate medical infrastructure, most of it concentrated in Abidjan to the detriment of the country areas and based on expensive facilities rather than neighbourhood clinics.

Current political uncertainties do not help the country's social situation. Doubts about the return of foreign aid, along with the deterioration of public finances, greatly slowed public investment in 2000 and only half the scheduled projects were completed. Aid resumption presupposes switching priorities to the social sector, especially to prepare for the HIPC Initiative. The government plans a survey on education and health care by the end of 2001 and setting up a poverty-monitoring centre. It also wants to continue drawing up a poverty reduction strategy document, a draft of which was expected in October 2001 and a final report by June 2002.

3. These figures must be treated with great caution because higher registration may have exaggerated the situation compared with other countries.

Egypt

key figures

- Land area, thousands of km²: 995
- Population, thousands (2000): 67 884
- GDP per capita, $ (2000): 1 341
- Life expectancy (1995-2000): 66.3
- Illiteracy rate (2001): 43.8

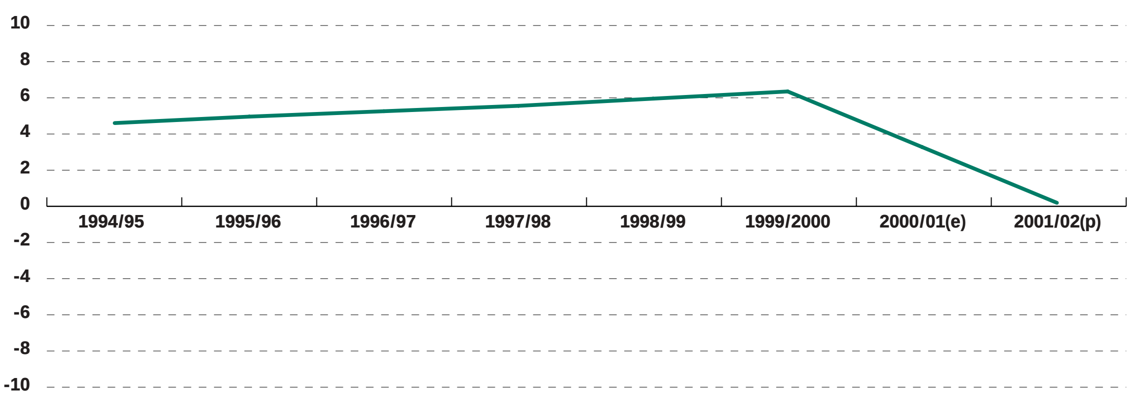
Egypt

EGYPT IS WIDELY RECOGNISED as having achieved macroeconomic stability after diligently and consistently implementing a stabilisation and structural adjustment programme from the start of the 1990s. Fiscal and monetary stability have contributed to the elimination of inflationary pressures; interest rates have remained low; and the foreign exchanges devoid of major fluctuations though frequent shortages of US dollars have implied continuing real appreciation of the pound. The overall external position is basically healthy despite a chronic balance of trade problem. Economic growth has responded positively to the macroeconomic stability. Real GDP growth reached 6.4 per cent in 1999/2000. The outlook on growth, however, is a slowdown to 3.3 per cent in 2000/01 and 0.2 per cent in 2001/02 owing to difficult external conditions.

The outlook is a slowdown to 0.2 per cent in 2001/02 owing to external conditions

Egypt's structural transformation has, however, lagged behind the rest of economic reforms, with slow progress in privatisation and financial sector reforms. Egypt's social democracy has ensured relative political stability. However, the macroeconomic progress and political stability have not translated into social progress as poverty levels have risen, with unemployment a major social problem. Also, in spite of a universal free education policy, universal primary education has still not been achieved.

Figure 1 - Real GDP Growth



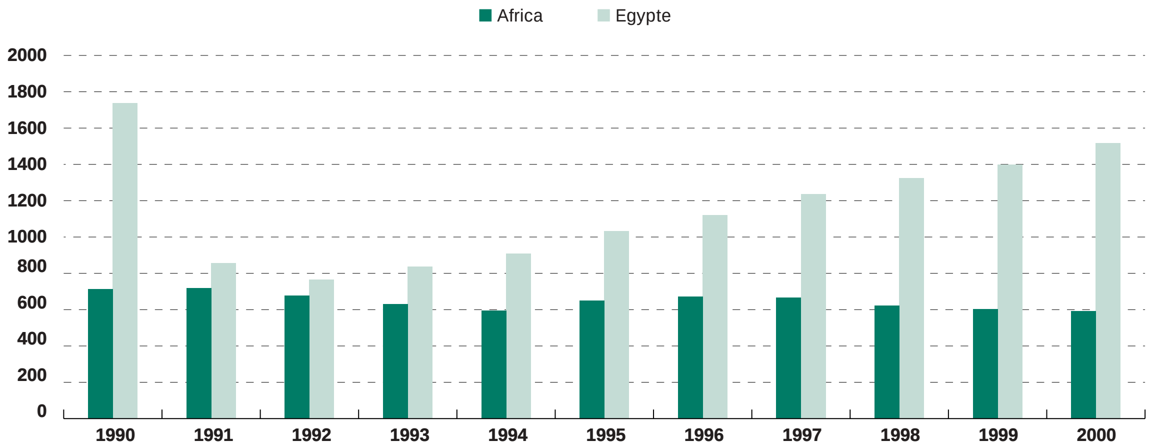
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Recent Economic Developments

The Egyptian economy resumed accelerated growth during the period following the consistent and diligent implementation of a stabilisation and structural adjustment programme, the Economic Reform and Structural Adjustment Programme (ERSAP) from 1991. Real GDP growth reached 6.3 per cent in 1999/2000 from 6.0 per cent in 1998/99. The accelerated growth was boosted by the large investments in infrastructural and strategic projects and was achieved in spite of the negative impact of external constraints including declines in oil revenues, tourism receipts and Suez Canal revenues. Growth is estimated lower at 3.3 per cent in 2000/01 owing to anticipated reductions in global growth and the difficult regional security situation involving the Palestinians and Israel that may continue to affect revenue.

Growth in the major sectors of the economy has been uneven during 1999/2000. Growth in the agricultural sector fell to 3 per cent in 1999/2000 from 3.7 per cent

Figure 2 - GDP Per Capita in Egypt and in Africa (current $)



Source: Authors' estimates based on IMF data.

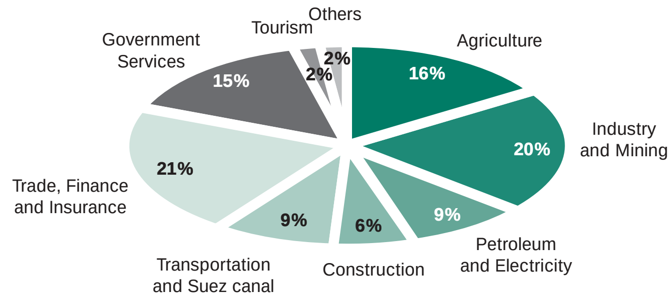
in 1998/99. Changes in land tenure following the new law in 1997 that gave landlords the right to repossess their land from tenants and to charge rents based on market conditions affected agricultural output growth. The annual rent on land, which was about LE 600 per feddan in 1998/99 rose to about LE 1 300 per feddan in 1999/2000. The share of agriculture in total output also declined from about 17.4 per cent in 1998/99 to about 16 per cent in 1999/2000. The share of agriculture in total GDP had followed a steady decline from its highs of about 26 per cent in the 1970s. In spite of the fall in its share in GDP, value added in Egyptian agriculture has been growing steadily, and the sector continued to employ about 29 per cent of the labour force and account for about 11 per cent of export earnings in 1999/2000. Egypt enjoys significant comparative advantage in the production of crops such as long berseem, wheat, barley, broad beans, maize, rice and cotton. The main agricultural areas are the Delta, Middle Egypt, Upper Egypt, Sharkiya Governorate and the New Lands. Egypt also produces high value crops such as horticultural and flower crops. The livestock sub-sector largely serves the domestic market as a source of meat and dairy products.

The industrial and mining sector increased its share in GDP from about 18 per cent in 1998/99 to about 20 per cent in 1999/2000, with a flat growth rate of 6.7 per cent over each of both years. Growth in the sector during 1999/2000 benefited from significant rehabilitation and modernisation processes especially in manufacturing. Although manufacturing, the largest industrial sub-sector, has been among the fastest growing sub-sectors in Egypt, its average growth rate was only 5.4 per cent per annum during 1996-2000. However, Egypt's manufacturing exports have been in decline owing to growing domestic demand and the attractiveness of selling in the domestic market due to the appreciation of the real exchange rate.

Within the energy sector (petroleum and electricity) crude oil production continued a downward trend with production falling to an average 670 000 barrels per day in 1999/2000 compared with 780 000 in 1998/99 and 800 000 in 1997/98. However, significant increases in natural gas production succeeded in offsetting the decline in crude oil production for the sector to maintain its 9 per cent contribution to GDP. Increases in natural gas enabled an expansion in electricity consumption. Significantly, the inter-connection of the power grid to link Egypt to Jordan was completed in July 1999, with Egypt therefore now linked to Syria and Turkey.

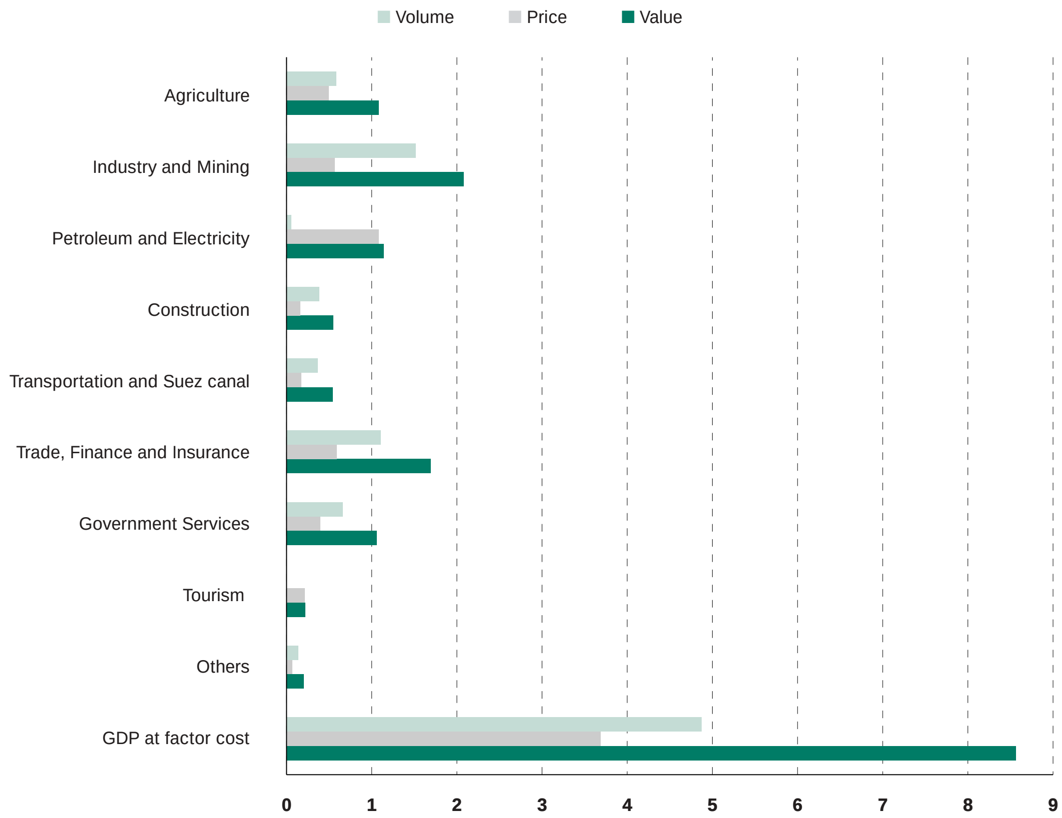
A disturbing feature of the growth performance is that it is characterised by low domestic savings, reflecting the high consumption/GDP ratios. The growth performance thus has a strong reliance on foreign

Figure 3 - GDP by sector in 1999/2000



Source: Authors' estimates based on domestic authorities' data.

Figure 4 - Sectoral Contribution to GDP Growth, 1999/2000



Source: Authors' estimates based on domestic authorities' data.

savings. The situation reflects a banking system in Egypt that does not facilitate savings. Egypt's commercial banking system is dominated by four public sector banks with minimal competition to enhance savings mobilisation. The structure of demand is expected to continue in 2000/01 and 2001/02 with total consumption and domestic investment estimated at similar shares in total GDP.

Table 1 - Demand Composition (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Gross capital formation	**17.6**	**20.7**	**22.8**	**23.8**	**23.7**	**24.5**
Public	6.0	7.6	7.9	4.4	3.7	4
Private	11.6	13.1	14.9	19.4	20.0	20.5
Consumption	**87.4**	**85.8**	**85.6**	**83.0**	**83.1**	**82.8**
Public	11.1	10.2	10.4	9.8	9.4	9.7
Private	76.4	75.6	75.2	73.2	73.6	73.1
External sector	**-5.0**	**-6.5**	**-8.4**	**-6.8**	**-6.8**	**-7.3**
Exports	23.1	17.1	16.4	16.1	18.3	18.4
Imports	-28.1	-23.6	-24.8	-22.9	-25.1	-25.8

Source: Authors' estimates and predictions based on domestic authorities' data.

Macroeconomic Policy

Fiscal and Monetary Policies

Egypt has maintained a disciplined fiscal policy stance, through the rationalisation of expenditures, while exerting efforts at raising the efficiency of the administrative system, upgrading social services and environmental conditions in Egypt. The government has committed itself to not levying new taxes. Instead, it has enhanced its revenues through continuous streamlining of the tax system, giving more incentives to the taxpayer, limiting opportunities for tax evasion, quick settlement of tax disputes and increasing the efficiency of tax and custom duties collection. The effect of this fiscal policy was the strong primary balance and the declining overall budget deficit percentage of GDP in the first half of the 1990s. However, the level of primary surpluses has followed a downward trend. In 1999/2000, even though the primary balance remained in surplus, it was the lowest seen in recent times, and the overall deficit widened to nearly 5 per cent of GDP. The government increasingly financed its deficits through government-sponsored savings vessels including investment certificates and post office savings accounts. The bulk of its bank borrowing was from the Social Insurance Funds deposited at the National Investment Bank with predetermined rates that ensure that state borrowing costs remain low. The primary balance is estimated to improve marginally to a surplus of 1 per cent of GDP in 2000/01 as government expenditure subsides following a slowdown of expenditures on large infrastructural projects. On the other hand, as the government continues in its policy of not levying new taxes, improvements in tax revenue will depend on the government's ability to bring the

Table 2 - Public Finances[a] (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Total revenue and grants[b]	**28.0**	**24.7**	**24.6**	**23.6**	**22.5**	**22.8**
Tax revenue	17.2	16.0	16.1	15.5	14.7	15.1
Total expenditure and net lending[b]	**29.3**	**25.8**	**28.9**	**28.5**		
Current expenditure	23.6	20.1	20.4	20.8		
Excluding interest	*16.2*	*14.7*	*14.9*	*15.3*	*14.9*	*15.2*
Wages and salaries	6.3	6.2	6.6	6.6	6.7	7.0
Interest on public debt	7.4	5.4	5.5	5.5		
Capital expenditure	5.7	5.7	8.5	7.8	6.6	7.2
Primary balance	**6.2**	**4.4**	**1.2**	**0.6**	**1.0**	**0.5**
Overall balance	**-1.3**	**-1.1**	**-4.3**	**-4.9**		

a. Fiscal year begins 1 July.
b. Only major items are reported.
Source: Authors' estimates and predictions based on domestic authorities' data.

informal sector into the tax net and on successful reforms given the significant institutional and cultural barriers to improving the efficiency of the bureaucracy in tax collection in Egypt.

The Central Bank of Egypt has maintained prudent monetary policies leading to the rate of monetary (M2) expansion remaining relatively stable. Over the period 1997-1999 the annual average growth of money supply was about 10 per cent. Monetary policy came under stress in 2000 when it focused on defending the exchange rate of the Egyptian pound. In the event domestic liquidity (M2) expanded by only about 5 per cent during the first nine months of 2000 constraining demand and economic growth. Monetary expansion however came on course at about 11 per cent per annum for the rest of the year and into the first quarter of 2001.

Inflationary pressures in the Egyptian economy have been eliminated since the mid-1990s with the rate of inflation in steady decline from about 9.9 per cent in 1995 to 6.2 per cent in 1998 and further down to 3.8 per cent in 1999 and 2000. The stability in inflation reflects the government's fiscal and monetary policies, especially the exchange rate peg to the US dollar, which has slipped by only small amounts recently.

The outlook on inflation is a reduction to 2.8 per cent in 2000/01 and further down to 0.8 per cent in 2001/02 as the economy slows down.

Interest rates have followed a downward trend as inflation has come down. The discount rate of the CBE remained steady during the two years to July 2000 at 12 per cent compared with 12.5 per cent in the two preceding years; it has continued to fall to 11 per cent in July 2001. Commercial banks' deposit and lending rates have also come down accordingly.

The Egyptian pound is pegged to the dollar at a fixed rate. This policy kept the exchange rate stable at LE3.393:US$1 amid frequent reports of dollar shortages that implied a continuing real appreciation of the pound. The government appeared to abandon the "peg" policy in May 2000 by imposing controls on dollar deposits and withdrawals following increased speculation and pressure on the pound. The controls rather triggered an accelerated depreciation of the pound and were reversed in October 2000. The government adopted a new exchange rate policy of "managed peg" in January 2001 in which the currently prevailing official rate of LE3.85:US$1 was announced. The government also indicated its intention of setting the pound against a basket of currencies rather than the dollar, a move that analysts have expected for a long time. In its efforts to dampen speculative activities on the currency, the government has reduced the number of exchange bureaux – seen as the main currency speculators: by the end of January 2001, 19 of the existing 126 exchange bureaux had been closed down.

External Position

Egypt's external trade has been largely liberalised and the country has enjoyed a healthy balance of payments in spite of a chronic trade deficit. Egypt's exports, predominantly (50 per cent) primary commodity – crude petroleum (40 per cent) and other raw materials (cotton, onions, oranges etc.) (10 per cent), are exposed to severe fluctuations as a result of instability in raw material and petroleum prices in world markets. Imports on the other hand have increasingly replaced local production of several commodities including ready-made clothes and some kinds of electrical appliances and drugs. This has been due to the continuing appreciation of the Egyptian pound that has affected the country's competitiveness. The trade deficit, however, narrowed to 12.6 per cent in 1999/2000 following a 37 per cent increase in exports, buoyed by high global oil prices, against only a minimal increase in imports owing to the tight dollar liquidity situation and restrictive trade rules imposed in 1999 to curb imports. The trade deficit is expected to widen again in 2000/01 to 13.7 per cent of GDP and to 13.6 per cent of GDP in 2001/02, as imports increase while export levels stabilise.

A major factor in the behaviour of the services account is income from tourism. Though the services account remained in surplus, it fell from 6.8 per cent of GDP in 1998/99 to 6.2 per cent of GDP in 1999/2000 as tourism followed the difficult regional security situation. The current account deficit continued a downward trend in 1999/2000 with the narrowing of the trade deficit. Significantly, the level of direct foreign investment to Egypt, which was at around $1 billion in 1999/2000, was lower than the levels in 1998/99 and 1997/98 as investors showed concern for the difficult regional security situation. The government has committed itself to increasing the flow of FDI and announced in January 2001 its objective of increasing FDI flow to Egypt to $4 billion-$6 billion in two years. This aim, though ambitious in relation to historical levels of FDI to Egypt, is achievable.

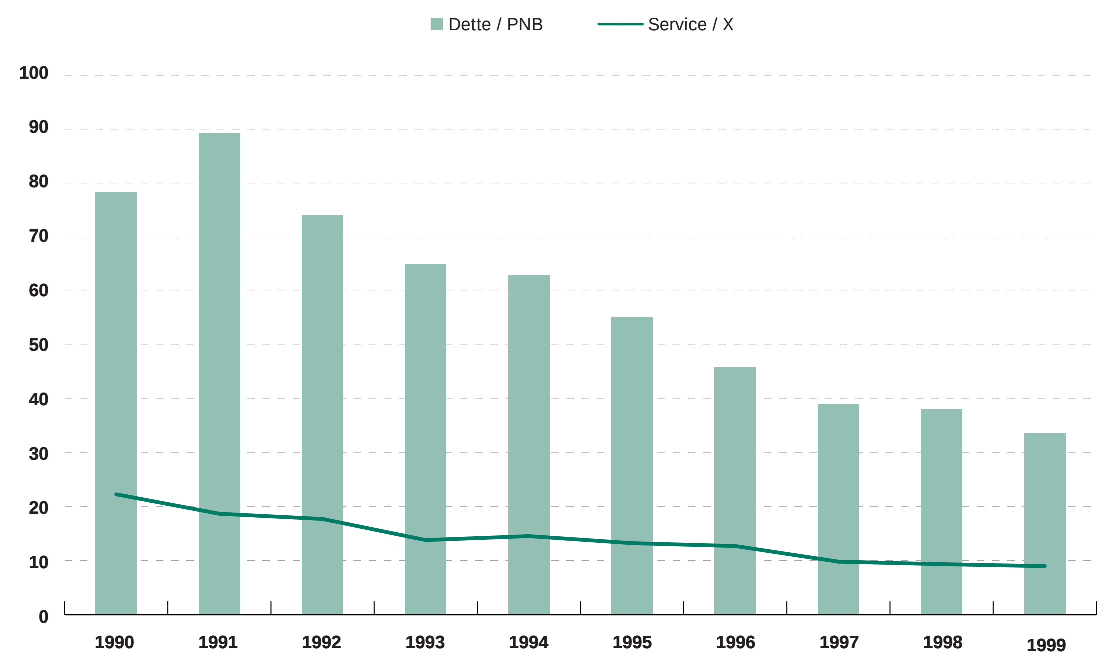
Table 3 - Current Account (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Trade balance	-13.4	-14.5	-14.4	-12.6	-13.7	-13.6
Exports of goods (f.o.b.)	8.4	6.3	5.1	7.0	6.3	6.7
Imports of goods (f.o.b.)	-21.8	-20.8	-19.4	-19.6	-20.0	-20.3
Services	6.6	4.3	5.7	5.2		
Factor income	0.3	1.5	1.1	1.0		
Current transfers	7.2	5.7	5.6	5.1		
Current account balance	**0.7**	**-3.1**	**-2.0**	**-1.3**		

Source: Authors' estimates and predictions based on domestic authorities' data.

Egypt's external debt indicators are at present moderate with the total debt declining since 1995. The total debt stock stood at $30.4 billion at end-1999, representing a decrease of about $3 billion compared with the 1995 level. Consequently, the debt/GNP ratio has fallen from about 55 per cent to 33 per cent over the same period. The debt service ratio has also fallen from 13.3 per cent to 9.0 per cent. Egypt's recent debt relief had come from rescheduling and reduction agreements signed with the Paris Club creditors in May 1999. The reductions were applied to three tranches (15 per cent in July 1991 and September 1993, and 20 per cent in June 1997).

Figure 5 - Stock of Total External Debt (percentage of GNP) **and Debt Service** (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

Structural Issues

Egypt is now widely recognised as having achieved macroeconomic stability. External trade has been largely liberalised and the economy has gradually been transformed into a market-oriented economy. However, the dictates of national interest pose a threat to maintaining trade liberalisation. In November 2000 the government amended customs tariffs on 55 items in a move to protect local industries. Tariffs were raised on imported goods felt to be competing with local manufactures such as shoes, televisions and other domestic electrical appliances. At the same time, though, cuts were made in duties for manufacturing inputs and commodities deemed important for the economy, such as computer parts. Reforms in the telecommunications sector since 1998 including the transfer of the National Communication Authority (NCA) from the direct control of the Ministry of Communications to become a company have produced good results as evidenced by rapid expansion of the sector and improvements in services provided. Since 1998, over 500 000 services have been provided by the mobile phone operators and the number of telephone lines installed by NCA exceeded 6.5 million by 2000, with a projected 1 million additional lines by 2002. Egypt's structural reforms have also seen slippage, especially in the areas of privatisation and financial sector reforms.

Egypt's privatisation programme, which involved the divestiture of 314 state-owned companies, was seen as the starting point for the economic reform programme initiated about a decade ago. At end-December 2000, 156 (49.6 per cent) of state-owned companies were fully or partially privatised. However, only two diversitures took place in 2000 underlining the slow pace at which the process is now going. In the effort to speed up the process, the government earmarked 49 companies, including 19 tourism and restaurant assets, to be sold in 2001, and committed itself to the sale of a further 42 state-owned hotels by 2002. However, the centrepiece of the programme — the privatisation of the four large state-owned commercial banks (the National Bank of Egypt, Banque Misr, Banque du Caire and Bank of Alexandria) — is yet to be accomplished. These banks dominate two-thirds of domestic banking activity, and their privatisation is seen as important to increase transparency in the financial sector, and also clearly separate commercial banking from the government and its monetary policy operations. The privatisation of the remaining 142 public enterprises poses much challenge to the government as many of these are laden with bad debts and are in need of restructuring. Besides, it is estimated that the privatisation of the remaining 142 public enterprises will involve laying-off 300 000 workers. This involves difficult political decisions in a country of severe unemployment.

Egypt is still largely a cash economy with very basic banking services. The financial sector reforms are yet to deliver increased competitiveness of financial markets, increased private sector involvement in commercial banking, securities and insurance. It is quite apparent that intensification of the privatisation programme is an essential prerequisite. The most important achievements of the financial sector reforms include: *i)* liberalisation of interest rates; *ii)* floatation of the Egyptian pound; *iii)* authorisation for foreign banks to deal in local currency; *iv)* deregulation of banking fees; *v)* authorisation of public-sector companies to do business with private-sector banks; and *vi)* authorisation for foreign shareholders to own a majority stake in an Egyptian bank. Several foreign banks have expanded their presence in Egypt in response to the improved environment these reforms have brought.

The Egyptian Stock Exchange as an emerging market has grown fairly fast in recent years. However, it suffers from wide fluctuations underscoring the need to develop its infrastructure, especially market makers, to ensure stability and healthy growth. In 2000 the stock market index fell by over 40 per cent placing Egypt as one of the world's most poorly performing markets. The decline has continued through the first half of 2001 with the index of the most actively traded stocks on the exchange (the Hermes Financial Index, HFI) falling by 45 per cent. Significantly, stocks of large capitalised high-profile companies, which mostly attract foreign and institutional investors, also dropped by about 41 per cent during the first half of 2001. These outcomes reflect the economic slowdown in 2000, which hampered market growth throughout the year, and the deterioration of the regional security situation involving Israel and the Palestinians.

Political and Social Context

Egypt is a social democracy. The President is however not elected through elections. A national referendum in September 1999 granted the President a fourth six-year term. There is no Vice President, but the Constitution provides for a smooth succession whenever the need arises. The present government was formed following elections in November and December 2000. Observers point out that the present cabinet is dominated by reform-minded technocrats. This augurs well for some of the difficult political decisions that may be required to move structural reforms, in particular privatisation, forward. Egypt has maintained a system of accountability for fiscal management involving strict supervision and control that has resulted in reducing the fiscal deficit. Significant reforms of Egypt's legislative and judicial systems have been undertaken recently with the purpose of making the law more homogenous and its application more swift, in line with the needs of an increasingly complex economic, social and political environment. A Supreme Legislative Council has been established to eliminate obsolete legislation and create a simplified judicial system based on revised, developed and unified laws and by-laws.

The wide variety of data on poverty levels in Egypt provide evidence that since the mid-1990s, the number of Egyptians falling below internationally defined poverty lines has risen. The social and economic characteristics of the poor in Egypt have remained unchanged for over a decade. First, poverty is still concentrated in rural areas in general, and Upper Egypt in particular; the incidence of poverty in rural Upper Egypt is almost 1.5 times that in rural Lower Egypt. Second, poverty is high at both ends of the age distribution; it is highest among newly formed households (15-25 years) and among the elderly (65+ years). Third, poverty is highest among the unemployed and self-employed, especially those working alone and not employing others.

The Egyptian government pursues poverty reduction objectives through many channels including direct assistance to the poor through the Ministries of Insurance and Social Affairs; free education and literacy programmes through the Ministry of Education and the General Authority for Literacy and Adult education; free health care through local health units and hospitals of the Ministry of Health. The social safety net in Egypt comprises a system of budget-financed food subsidies covering "baladi" bread and a limited amount of basic goods distributed through ration cards. In addition, there is a set of compensatory measures run by the Ministry of Insurance and Social Welfare, which aim at alleviating the impact of poverty on the most vulnerable groups. While actual expenditures on these are difficult to ascertain, the government's commitment to poverty alleviation is not in doubt as the 2001 budget announced an increase in subsidy allocations to basic commodities and services to LE7.98 billion (US$2.1 billion); the continuation of free education; and the extension of the free health insurance system to cover 7 million citizens and social insurance to cover 1 million families.

Unemployment remains a serious problem for Egypt. The government's estimates for 1999 put unemployment at 8.3 per cent of the labour force with 20.3 per cent for females. The majority of the unemployed are under 20 years of age. The estimate for the unemployed most probably underestimates the problem, which is also partly disguised by under-employment. Egypt creates about 400 000 new jobs annually while the expansion of the labour force is around 500 000 per annum. Against this background, the government's 2001 budget proposals of creating 150 000 new government jobs each year, 600 000 jobs for young people and training for 200 000 others, though in the right direction for social welfare appear ambitious, especially as how the programme would be financed was not clear.

Egypt's health indicators stand much better than the African average, indicating the considerable progress the country has made in its health delivery. Available figures for 1998 indicate that Egyptians have life expectancy of 67.5 years compared with the African average of 52.7 years. Public expenditure on health (1995-97) is also higher at 1.7 per cent of GDP compared with the average for Africa of 1.4 per cent of GDP. Similarly, in all other indicators of health, Egypt's performance is better than the African average. Also, in 1997 Egypt reported no adults (aged 15-49 years) living with HIV/AIDS compared with 6.5 per cent in Africa. Despite the achievements in the health conditions of the Egyptian population, the health sector faces challenges due to demographic, socio-economic and health care factors. As a result of improvements in health indicators, a new population pattern appears to have emerged following a demographic transition characterised by a decline in birth rate, a decline in mortality rate among infants and children and a decline in mortality rate among the oldest segments of the population as well. On the other hand diseases of a chronic nature (including cardio-vascular diseases) have increased in number as have their associated risk factors (including hypertension, smoking and obesity).

Egypt has a universal free education policy. However, contrary to data from the national statistics, some survey data (for example, the UNICEF Egypt Multi-Indicator Cluster Survey (1998) and the Social Spending Household Survey (SSHS) (1997) indicate that universal primary school enrolment has not yet been achieved. The net enrolment ratio for primary school is only 78 per cent nation-wide. Among girls, the percentage is even lower at only 72.0 per cent, compared with 83.0 per cent of boys. The SSHS survey indicates that one in every ten children at age 6-11 years is out of school, especially among the rural poor. The secondary school gross enrolment ratio (1997) is 78.3 per cent with the ratio for females being 70.2 per cent. The dropout rate for basic education is estimated to be high, partly because of child labour. Education is predominantly publicly financed in Egypt. Available figures indicate that public expenditure on education as a proportion of overall social spending has increased from 24.6 per cent in 1982 to 60 per cent in 1995 indicating the growing relative importance of education in the country. As a percentage of GDP, government spending on education increased from 4.8 per cent in 1991 to 6.1 per cent in 1994, declined to 5.0 per cent in 1996 and increased to 5.5 per cent in 1997. Education resources are however biased towards current expenditure with teachers' emoluments as a percentage of total current expenditure on education amounting to 79.1 per cent in 1995. The outcome of such an expenditure pattern is the poor quality of the public education system, which has made spending on private lessons an important feature in household budgets.

Equatorial Guinea

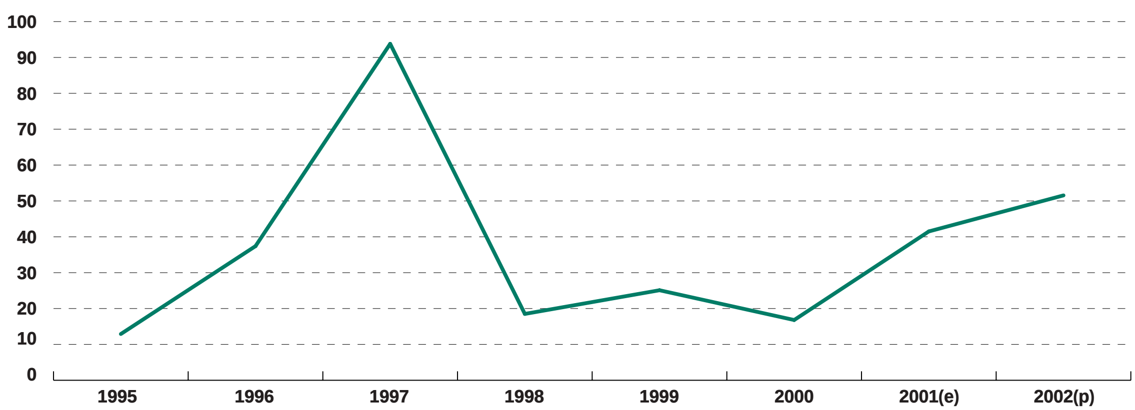
key figures

- Land area, thousands of km²: 28
- Population, thousands (2000): 457
- GDP per capita, \$ (2000): 2 742
- Life expectancy (1995-2000): 50.0
- Illiteracy rate (2001): 15.8

THE ONLY SPANISH SPEAKING COUNTRY in the African continent, Equatorial Guinea has registered the highest growth path in Africa in the last five years. Recent large oil discoveries are structurally changing the economy making Equatorial Guinea one of the most oil-dependent countries in the world. 2001 and 2002 should be another two years of exceptional growth of GDP, owing to the sharp increase of oil production during the period. With a population of 450 000 people and oil production likely to reach one fifth of Nigeria's oil production in a few years, the country's main challenge consists of the management of such a rapid and large wealth inflow. Indeed, the spectacular abundance of oil revenues has strained Equatorial Guinea's undersized administration capacity. Lack of consistent and credible data on macroeconomic and financial flows is a significant example of this lack of capacity. The country needs to upgrade its organisational and human resources to create rapidly a modern managerial class which should be, on the one hand, accountable for its decisions and for the financial resources it supervises and, on the other hand, able to invest in infrastructure and help prepare the economy to deal with the post-oil boom development. Implementing anti-poverty strategies will be also a major challenge.

The spectacular abundance of oil revenues has strained Equatorial Guinea's undersized administration capacity

Figure 1 - Real GDP Growth[a]



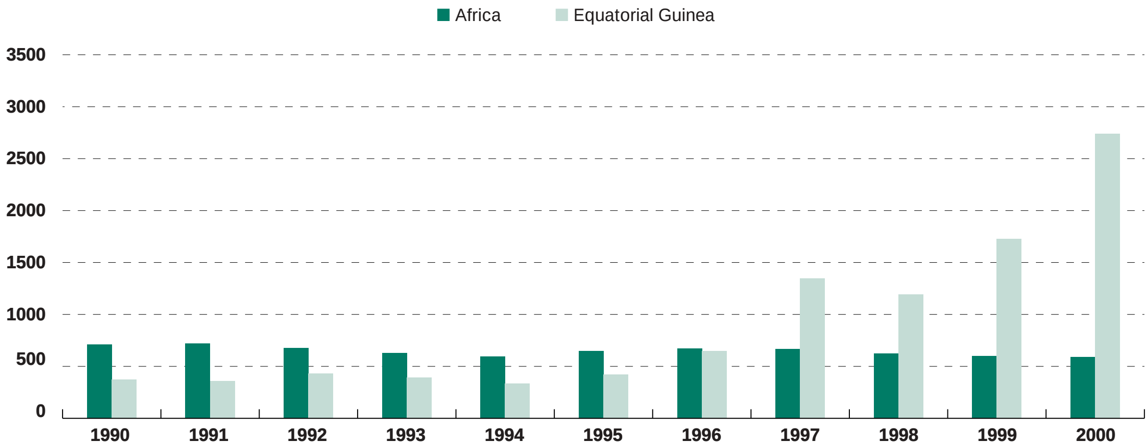
a. The percentage scale is different from the other countries since GDP growth exceeded the level of 10 per cent.
Source: Authors' estimates and predictions based on BEAC and Banque de France data.

Recent Economic Developments

Towards the end of the 1980s, when the first explorations begun, an oil boom of current proportions was not fully expected: large oil revenues did not appear until 1996 when production of an important oil field began, but growth had already been sustained since the beginning of the 1990s.

Then, from an already high average rate of growth of 8.5 per cent over the first part of the 1990s, partly due to the initial oil investments, the country has grown by an average level of 38.3 per cent during the period 1996-2000. This resulted in a deep structural change: the oil sector has gone up from 7 per cent of GDP in 1992 to 83 per cent by the year 2000, and Equatorial Guinea is rapidly becoming a rich oil-exports dependent country.

Figure 2 - GDP Per Capita in Equatorial Guinea and in Africa ($ current)



Source: Authors' estimates based on IMF data.

The general good performance has been further boosted by favourable external conditions, as the large appreciation of the terms of trade of 55.1 per cent clearly shows. Terms of trade improvements are mainly due to a rise of oil and timber prices and to the US dollar appreciation, which positively influenced export prices and helped in buying imports, coming mainly from the Euro area.

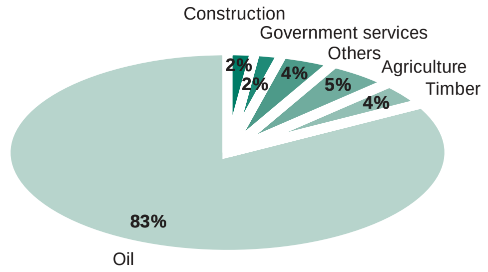
A quick review of the last five years' performance of Equatorial Guinea's economy should include a description of the evolution of its most important sectors: oil, timber and agriculture.

From a level of 6 000 barrel per day (bpd), with the coming on steam of the Zafiro and Alba oil fields in August 1996, oil production has started to become an important and growing resource, and by 2000 the exploitation of oil resources had reached the level of 117 887 bpd. Prospects are even more encouraging since the recent discoveries of other fields and the starting of production in the Jade field in November 2000: total oil production is projected at around 200 000 bpd by 2001 and at nearly 300 000 by 2003. Given its strategic geographic position, the government intends to push forward the ambitious project of making the country a regional centre for oil production services. In particular the implementation of this project includes the construction of the free port of Luba, which should work as a regional hub for the oil service sector of the Gulf of Guinea, and the development of an oil products transformation firm on the island of Bioko. The government strategy is to develop infrastructure and to generate employment that, even if connected with the oil sector, is not strictly dependent on the national extractive activities.

In addition to oil sales, impressive growth rates have been sustained by the rise of investment in the oil sector. Between 1996 and 1999, the oil sector's contribution to GDP growth has been on average 63 per cent and, in 2000, became 72 per cent, as a result of investments in the Zafiro, Alba and Ceiba fields and owing to the intensification of deep-sea explorations.

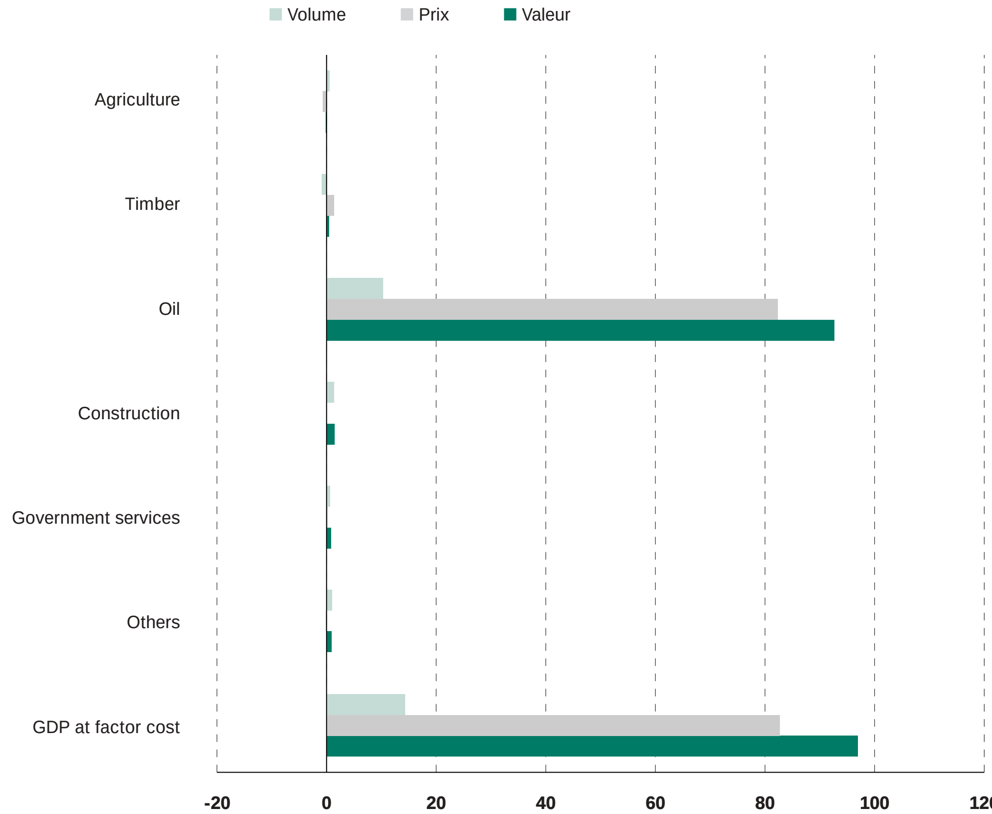
Given the oil sector's direct and indirect incidence in the economy, it is not easy to identify truly oil independent sectors in Equatorial Guinea. Perhaps the traditional timber and tropical agriculture productions, even if they represent a small share of GDP, can be considered the most important non-oil activities. The positive last two years' performance of the timber sector resulted from increased foreign investments (most of the activity is controlled by Chinese and Russian investors) and favourable external environment. Indeed, the positive terms of trade in 1999 and 2000, coupled with an increased external demand following the end of the Asian crisis, have largely influenced the

Figure 3 - GDP by Sector in 2000



Source: Authors'estimates based on domestic authorities' data.

Figure 4 - Sectoral Contribution to GDP Growth in 2000



Source: Authors'estimates based on domestic authorities' data.

developments of this export-oriented sector. Total production has been of 776 000m^3 and 689 000m^3 in 1999 and 2000 respectively after a level of 422 000m^3 in 1998 and around 95 per cent concentrated in logging activities. Processed wood is still in its early stages; however the government is attempting to set up incentives to help its expansion.

Agriculture's growth rate has been stable over the last five years as well as its sectoral composition with around two-thirds of total production in the form of food crops. Cocoa is still the main cash crop that small-scale sharecroppers inherited from Spanish farm owners and foreign labourers who left the country during the mid-1970s. The sector, very sensitive to producer price changes, suffered between 1999 and 2000 a 20 per cent price drop with strong impacts on production levels. These have decreased by 30 per cent in the 1999/2000 season, and by a further 5 per cent in the 2000/2001 season.

In 1999 and 2000, private investment was important for the non-oil economy, too, as investments for the transformation of logs and for the progress of the cocoa regeneration programme (partially supported by the European Union) sustained growth in the timber and cash crop sectors.

Industrial development in Equatorial Guinea is still in its infancy. Most manufactured goods are imported or, when needed as intermediates in other activities, locally produced by foreign ventures. The per capita income, low at least until recently, and the small national market make domestic manufacturing production a non-profitable activity. The oil boom with its increased incomes may somewhat help manufacturing activity if the limitations from insufficient transport infrastructure, the need for skilled human capital, and the risks of Dutch Disease can be eased.

In the last two years, construction gained momentum thanks to the public investment programme on road infrastructure and public building arrangement and to investment in the oil sector. The sector has grown by 19.8 per cent in 1999 and by 62 per cent in 2000 and growth prospects for 2001 are expected around 40 per cent. This evolution is not consistent with demand composition data, insofar as the construction activity principally depends on public capital formation, for which available data report a decline. Given the uncertainty surrounding Equatorial Guinean statistics, this discrepancy can hardly be solved. One possible explanation is that government capital formation, as reported in the government finance statistics, does not include extra-budgetary expenditure, for which recent data are not available, but which represent several percentage points of GDP.

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**54.1**	**69.5**	**64.0**	**56.2**	**43.5**	**33.0**
Public	4.4	9.9	7.4	2.9	2.2	1.7
Private	49.7	59.5	56.7	53.4	41.3	31.3
of which oil sector	44.8	54.8	50.4	43.6		
Consumption	**79.6**	**82.2**	**55.5**	**38.6**	**31.0**	**24.9**
Public	13.1	13.4	6.9	4.6	2.6	2.0
Private	66.5	68.9	48.5	34.0	28.4	22.9
External sector	**-33.7**	**-51.7**	**-19.5**	**5.2**	**25.5**	**42.1**
Exports	56.4	83.8	95.0	102.1	100.1	98.9
Imports	-90.0	-135.5	-114.5	-96.9	-74.6	-56.9

Source: Authors' estimates and predictions based on BEAC and Banque de France data.

Macroeconomic Policy

Fiscal and Monetary Policies

As for the rest of the economy, fiscal policy has been influenced by the development of the oil sector. In recent years the fiscal position has greatly improved: the overall balance has passed from a deficit of 1.3 per cent of GDP in 1998 to a surplus of 15.9 per cent in 2000. Indeed, thanks to a better collection of proceedings from the oil sector, in 2000 total revenues were CFA franc 223.5 billion from a level of CFA franc 87.5 billion of the previous year and CFA franc 15.5 billion in 1995 ($319, $125 and $22 million respectively, at the average exchange rate of 700 CFA franc per dollar). As a result, the government's financial operations are increasingly relying on the oil sector: in 2000 the proportion of oil revenue was 88 per cent of the total value. Non-oil revenues have increased as well owing to the good performance of the timber sector. Overall, revenues in 2000 increased by 155 per cent. Estimates for 2001 are even higher since oil revenues should continue to boost government income. With only modest increases in public expenditures as a percentage of GDP, primary surplus will reach the level of 17.6 and of 18.9 in 2001 and 2002.

On the expenditure side, a four-fold increase of expenses from 1995 to 2000 owing to the extension of pension coverage over the public sector and an expansion of expenditure on wage and salaries — together with a rise in goods and services expenditures — have been responsible for the sharp increase of the total figure. Capital expenditures rose slightly in 1999 (from $42 million — CFA franc 29.4 billion — in 1998 to $53.4 million — CFA franc 37.4 billion — in 1999) for public building arrangements and for the completion of the infrastructure related to the CEMAC — CEEAC summit held in Malabo.

Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[a]	**16.3**	**24.0**	**18.7**	**25.1**	**24.5**	**24.3**
Oil revenue	2.8	17.6	13.6	22.0		
Tax revenue	10.2	4.9	4.1	2.5	2.3	2.0
Total expenditure and net lending[a]	**21.4**	**25.3**	**17.9**	**9.2**		
Current expenditure[b]	17.5	15.3	9.9	6.3		
Excluding interest	*11.6*	*13.8*	*8.8*	*6.0*	*4.7*	*3.7*
Wages and salaries	4.4	2.4	3.2	1.4	1.2	0.9
Interest on public debt	5.9	1.5	1.1	0.4		
Capital expenditure	1.3	9.9	8.0	2.7	2.2	1.7
Primary balance	**0.8**	**0.2**	**1.9**	**16.2**	**17.6**	**18.9**
Overall balance	**-5.1**	**-1.3**	**0.7**	**15.9**		

a. Only major items are reported.
b. 1995 and 1998 figures include extra-budgetary and unidentified expenditure.
Source: Authors' estimates and predictions based on IMF data.

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The central questions about Equatorial Guinea's fiscal policy, i.e. how the fiscal surplus will be used, remain unanswered given the limited disclosure on data regarding oil tax revenues. In fact, even the estimation of their true magnitude is somewhat obscure and the level at which they are recorded in the budget may be undervalued. Unfortunately the uncertainty about the exact amount and destination of oil fiscal revenues is worsened by the lack of transparency surrounding the amounts spent for extra — or exceptional — budgetary expenditures.

In terms of the longer-term economic strategy *(Estrategia Económica de Mediano Plazo* — EEMP), the government defined its public expenditure priorities in an important economic national conference held in Bata in 1997 and then reviewed in 1999 with a mid-term evaluation. This four-year government strategy has targeted four broad areas: infrastructure development, social development, public sector reform, and productive private sector development. Each area has subsequently been articulated into specific goals and actions to be undertaken and the public investment programme *(Programa de Inversión Públic* — PIP) has been conceived to cover transversally the four priorities.

These seem very good intentions but the exercise of controlling whether the actual short-run fiscal policy or long-run economic strategy have followed the programmed ones and whether they have achieved their targets is a difficult one in the context of Equatorial Guinea. Poor statistical collection and the periodic mid-year revisions of the actual policy pose serious concerns over any monitoring activity. A tentative conclusion on the fiscal performance of Equatorial Guinea could be that, although the government submits a budgetary law to Parliament, this document is not strictly binding, and that recurrent revisions on both the receipts and the expenditures sides makes it just a loose institutional arrangement.

At 4.7 per cent, the rate of inflation in 2000 was rather high compared to the previous year's level of 1.1 per cent. The recent acceleration has been caused by the rise of real estate rents and by pressures over the demand for food. However, given the impressive rate of growth of the economy, the current rate of inflation can be considered quite moderate. Favourable external conditions such as the low level of inflation of the major trade partners and an increasing proportion of food imports coming from Cameroon have helped price stabilisation. One has also to consider that Equatorial Guinea partnership in the franc zone has certainly helped in implementing a balanced effective monetary policy. As a result, for 2001 and 2002 inflation is likely to remain within the range of the CEMAC zone.

External Position

Equatorial Guinea is an open, export-oriented economy. Starting in 1994, trade policy has been liberalised and streamlined, with the implementation of the CEMAC custom and tax reform and other changes that have substantially reduced the level and the dispersion of tariffs and eliminated all quantitative restrictions.

Equatorial Guinea's external position — based on a narrow export base concentrated on natural resources and subject to terms of trade shocks — suggests that the country is very vulnerable to international developments. Oil and, to a lesser extent, timber exports dominate total exports with more than 98 per cent of the total share. On the imports side, oil-related imports are also predominant: in 2000, 74 per cent of imports were of petroleum products for local demand or petroleum investment to maintain or expand extractive capacity. The recent deep transformation of the economy has also influenced the geographic composition of Equatorial Guinea's commercial partners: the oil economy essentially trades with the United States, its largest partner both for imports and exports. The smaller non-oil economy still trades with its traditional partners: China for timber and france, Spain and Cameroon for other products.

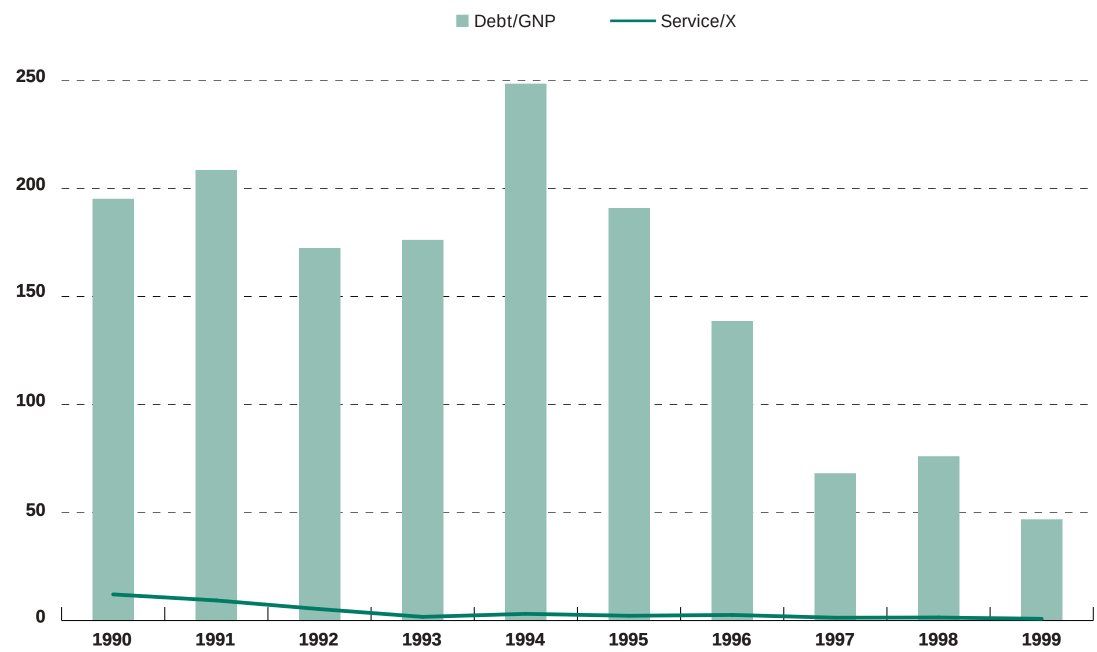
The balance of payments has recently been characterised by a large deficit of the current account compensated by foreign investment concentrated in exploration activities and by the repatriation of profits of the oil sector. Favourable external conditions (increases in timber and oil prices) and the increase of oil exports in volume have reduced the current account deficit from a level of 64.8 per cent of GDP in 1998 to a level of 3.8 per cent of GDP in 2000. With a decrease in oil exploration activities before 2003, the weight of oil-related imports should decrease, strengthening the trade balance surplus.

Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-6.2	11.4	37.7	50.4	59.7	67.7
Exports of goods (f.o.b.)	52.4	82.4	93.4	100.7	98.4	97.2
Imports of goods (f.o.b.)	-58.6	-71.0	-55.7	-50.2	-38.7	-29.5
Services	-42.5	-62.8	-57.1	-45.3		
Factor income	-12.2	-16.0	-14.5	-9.8		
Current transfers	2.9	2.7	1.2	0.8		
Current account balance	**-58.8**	**-64.8**	**-32.7**	**-3.8**		

Source: Authors' estimates and predictions based on BEAC, Banque de France and domestic authorities data.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

Two reasons may explain the apparent oddity between the current account deficit and the government surplus: firstly, the private sector's expenditures may be very high or even exceed its income; secondly, government expenditures do not include certain items and are therefore under evaluated. Unfortunately, owing to the poor statistical record of Equatorial Guinea's national accounts we are not able to discriminate between these two reasons.

Owing to the remarkable rate of growth of the economy, Equatorial Guinea's external debt position has changed dramatically in the recent past. From a level of indebtedness of 248 per cent of GNP in 1994, the ratio of total debt over GNP is at 46.7 per cent in 1999. In absolute terms external public debt decreased from $292 million in 1995 to $271 million in 1999. Long-term debt owed to official bilateral creditors represents 46 per cent of total public debt at year-end 1999, while that to multilateral creditors represents 47 per cent. According to the IMF, arrears in 2000 amounted to $58.3 million, of which $55 million was owed to bilateral creditors. Spain and China are the major creditors of Equatorial Guinea. The unexpected co-existence of arrears and public budget surplus is due to the fact that the current government has been reluctant to inherit certain debts contracted during previous legislatures; apparently these contested sums were lent by foreign countries not directly to the government to finance true investment operations, but rather to officials who presumably were claiming to represent the government and to finance imports sold by the creditors themselves. However, the country is in the process of settling these disputes and it is beginning to repay its arrears; this will soon allow Equatorial Guinea to gain full access to privileged credit and to reorganise its overall debt structure. Because of the recent rise in the GDP per capita, Equatorial Guinea is not eligible for the HIPC initiative.

Structural Issues

As explained above, the management of the oil boom represents Equatorial Guinea's crucial test. Oil revenues are considerable and have deeply transformed the economic structure of the country; however they have not yet greatly benefited the whole of its small population. Additionally, the country's institutional development lags behind and, if not transformed adequately, it may become a major obstacle to a sustainable and more balanced growth and development process over the medium and long term.

The boom of the economy has shown the inadequacy of the institutional environment of Equatorial Guinea. The government, at the 1997 Economic National Conference held in Bata, acknowledged the need for public sector reforms. Besides the already mentioned deficiencies over the macroeconomic conduct, a general modernisation of the state's administrative capacities is needed; larger investments in the formation of skilled managers as well as medical doctors (currently a large proportion of doctors present in the country are on leave from Cuba), teachers, and technical workers are essential and urgent. Reforms of the judiciary are required since the system is incomplete and not working at its best; certain areas do not have sufficient coverage in terms of human and technical resources and the legislation is somewhat obsolete, incomplete or not adequately implemented in the various districts. Other reforms are required in the area of information and monitoring since the lack of a Central Statistical Office (the statistics are currently collected by a division in the Ministry of Planning) and the poor quality, availability and outdated nature of Equatorial Guinea's statistics prevents any form of surveillance and control of the economic and social development of the country.

In the area of economic structural reforms, the record of Equatorial Guinea is somewhat mixed**.** The distribution of petroleum products has been liberalised and the former GE Total has been privatised. The privatisation process started recently and some SOEs — notably in the sectors of petroleum products — have been privatised. The government's general attitude towards public firms is to support their privatisation yet neither a clear regulatory framework nor public authorities exist to supervise the privatisation process or the privatised activities. On the other hand, notwithstanding the government's introduction of a law in December 1997 for improving the supervision and monitoring of forestry activity, aimed at reducing logging activity to a sustainable level, actual timber production largely exceeded the upper limit of 450 000m^3 in 1999 and 2000. Besides, as indicated by the still high share of unprocessed timber over the total sectoral output, it appears that the incentives put in place since 1997 — through the form of fixed quotas and sanctions for logs over total production, and differentiated export taxes for transformed and non-transformed timber — have not produced the expected results.

The banking sector in Equatorial Guinea is controlled by the BEAC and of 30 banks operating in the region, three are licensed to operate in Equatorial Guinea. The system, according to the BEAC supervision activity, can be considered robust and its soundness has not been affected by the boom in the economy of recent years. Following an extended period of growth, banking activity is now more stable and the accumulated balance sheet has been of $92.8 million (CFA franc 65 billion) by the end of 2000. Overall liquidity largely covers the requirements of the economy: credit demand, $38.7 million (CFA franc 27.1 billion) by the end of 2000, is smaller than bank resources, which at that time were equal to $47.6 million (CFA franc 33.3 billion). The share of bad non-performing debt is diminishing and by the end of 2000 was equal to $3.3 million (CFA franc 2.3 billion) for the entire sector. The banking activity comprises *Caisse Commune d'Epargne et d'Investissement* (CCEI), a local branch of CCEI Bank-Cameroon, and the *Société Générale des Banques en Guinée Equatoriale* — SGBGE, a local branch of the French bank *Société Générale*, and a new branch of the Gabonese BGFI, established in June 2001.

Basic infrastructure is one of the major bottlenecks for the development of Equatorial Guinea. Following its independence in 1968, the normal erosion process due to adverse climatic conditions and the lack of adequate maintenance policies resulted in very poor road conditions with less than 350 km tarred roads over a total of 3 952 km. Indeed, surface transport is limited. Nonetheless, a few projects — supported by financial and technical assistance of the ADB and the EU — are restoring or expanding the surface infrastructure. A new road — with technical assistance and partial financing by China — connecting the coast (from Bata) to the eastern border (Mongomo) of the continental part of the country is under construction. Two projects, co-financed by the EU and the ADB with the Equatorial Guinea Government as a national counterpart, aimed at improving the paved roads from Malabo to Luba and Riaba (island of Bioko) and building an inter-state road network linking Equatorial Guinea to Cameroon and Gabon, have started in recent years.

Political and Social Context

After a period characterised by a unique party presidential regime led by the current President Obiang Nguema M'basogo and his *Partido Democrático de Guinea Ecuatorial* (PDGE), the country has embarked since 1991 on a process of democratisation. The present political context has been shaped by the promulgation of the new Constitution approved by referendum in November 1991. The form of the state is a unitary republic with a political system theoretically admitting opposition.

Although in name a multi-party republic, the political scene is still dominated by President Obiang and a circle of advisors who take the most significant decisions. In the various institutional bodies power is still concentrated in the hands of the PDGE, which holds a solid majority in the National Assembly (*Cámara de Representantes del Pueblo* — CRP) with 75 out of 80 parliamentary seats. The latest electoral polls were considered irregular by most international and independent observers. The main opposition parties boycotted and declared fraudulent the official claims over the latest elections for the municipals, which were held in May 2000 and secured by the PDGE with a majority of 96 per cent. Other serious concerns arise from the weak separation of power between judiciary, executive and legislative, as regulated by the *Ley Fundamental*. Indeed, with an imbalance in favour of the executive power, the independence of the civil judicial power, already overshadowed by military tribunals, is seriously compromised. Moreover, the obsolete judiciary system based on Spanish pre-independence legislation is inadequate for the present needs of Equatorial Guinea democracy.

Despite the successful economic growth trajectory, Equatorial Guinea social records still largely illustrate the low level of development of its population. Poverty still affects a large part of the population and, according to UNDP, Equatorial Guinea ranks at the 131st position out of 174 in terms of human development.

The health profile of Equatorial Guinea is quite alarming. Indicators are amongst the worst in the region with life expectancy at birth of 50 years (1999 ADB data), and child mortality and maternal mortality rates at 111 and 352 respectively per 1 000 and 100 000 live births (in 1994). Malaria is the first cause of mortality: 43 per cent of infant (less than five years) mortality rate is related to this pathology. The other major health endemic problems (respiratory infections and diarrhoeic pathologies) are those of a least developed country where the lack of basic needs such as access to safe water and malnutrition determine the country's health profile. HIV/AIDS, even if it is not a principal cause of mortality, is becoming a threat for the development of the country in light of its rapid dissemination: from a prevalence rate of one per cent in 1988, a May UNAIDS report shows an estimated prevalence rate of around 7 per cent in 2001.

In terms of infrastructure, the Equatorial Guinea population is quite well covered with 291 local health centres, 35 larger health units, 18 district hospitals, five provincial hospitals, and two regional ones. Nevertheless, less than half of the health centres are operative and most of them do not possess basic equipment. Another weakness of the health sector is related to the geographical distribution of skilled human resources, as 89.8 per cent of medical personnel are concentrated in Bata and in Malabo. The government has prioritised expenditure for the health sector and, in 2001, the health budget has more than doubled from a level of $5.6 million (CFA franc 3.9 billion) to a level of $14.3 million (CFA franc 10 billion). Nonetheless, the lack of a clear strategy indicated by the non-approval of the five-year national plan elaborated in 1996 has a clear impact over the actual expenditure of the available resources.

Educational attainment is slightly improving, with a level of gross primary and secondary school enrolment ratio of 89.1 per cent and 22 per cent in the last years. Moreover, the number of classes has increased from a level of 1 090 in 1990 to a level of 1 378 in 1999. Nonetheless, a low-skilled teaching body and lack of basic teaching materials hinder further ameliorations of the education system. In recent years, some 73 per cent of teachers had adequate qualifications, and this ratio was on a negative trend. The condition of educational infrastructure is worrying since only 60 per cent of the schools have access to safe water and proper toilets have not been installed in half of them. As for the health sector, the government, through Article 23 of the Ley Fundamental and through the recommendations in the Bata Conference which assigned 15 per cent of total expenditure to education, has emphasised the role of education in its national strategy for development. Despite increasing the total amount of the budget for educational expenditures, the government is not following the planned agenda: in 1998, such expenditure represented only 5.1 per cent of total public spending, compared with 5.9 per cent in 1997.

Ethiopia

key figures

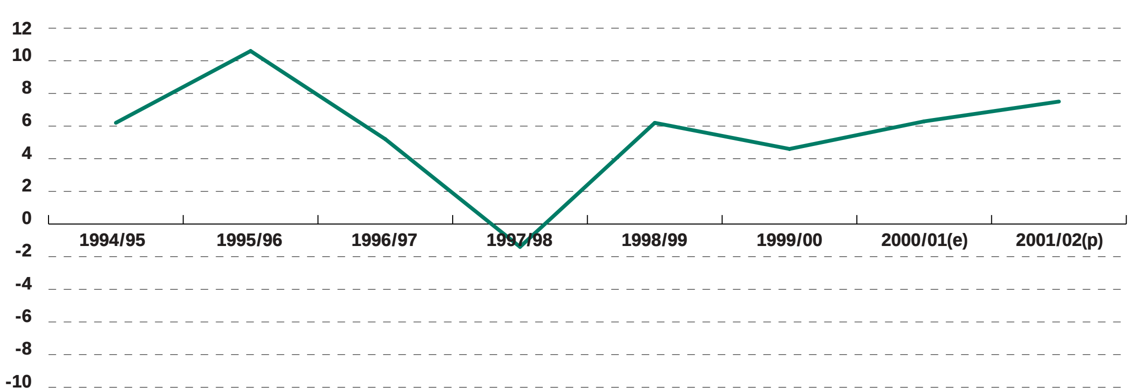
• Land area, thousands of km²:	1 000
• Population, thousands (2000):	62 908
• GDP per capita, $ (2000):	100
• Life expectancy (1995-2000):	44.5
• Illiteracy rate (2001):	60.4

Ethiopia

ETHIOPIA'S RECENT GROWTH PERFORMANCE, which has been highly correlated with agricultural output, has been uneven. In 1999/2000, real GDP growth recorded 4.6 per cent from 6.2 per cent the previous year, reflecting the effects of the border war with Eritrea. The effects of the war were reflected in fiscal instability with widening budget deficits, and a deteriorating external position with increasing current account deficit. The external debt position is also unsustainable and Ethiopia is among eligible countries for assistance under enhanced HIPC. However, inflation remained low owing to the availability of large food aid supplies. Foreign exchange also remained stable with limited liberalisation. Ethiopia signed a peace agreement ending the war in December 2000. Since then, the government has shifted attention to developmental tasks. Donors have also started to release funds hitherto put on hold because of the war. The outlook on post-war growth is improvement with real GDP growth estimated at 6.2 per cent in 2000/01 and projected at 7.6 in 2001/02. Ethiopia continues to pursue reforms to enhance its competitiveness and attract investment. However, progress has been slow in its privatisation and financial reforms. In addition to ending the war with Eritrea, Ethiopia has improved relations with its neighbours. Ethiopia remains one of the poorest countries in the world, with the poverty situation reflected in declining health and education indicators.

Ethiopia signed a peace agreement ending the war with Eritrea in December 2000

Figure 1 - Real GDP Growth[a]



a. The percentage scale is different from the other countries since GDP growth exceeded the level of 10 per cent.

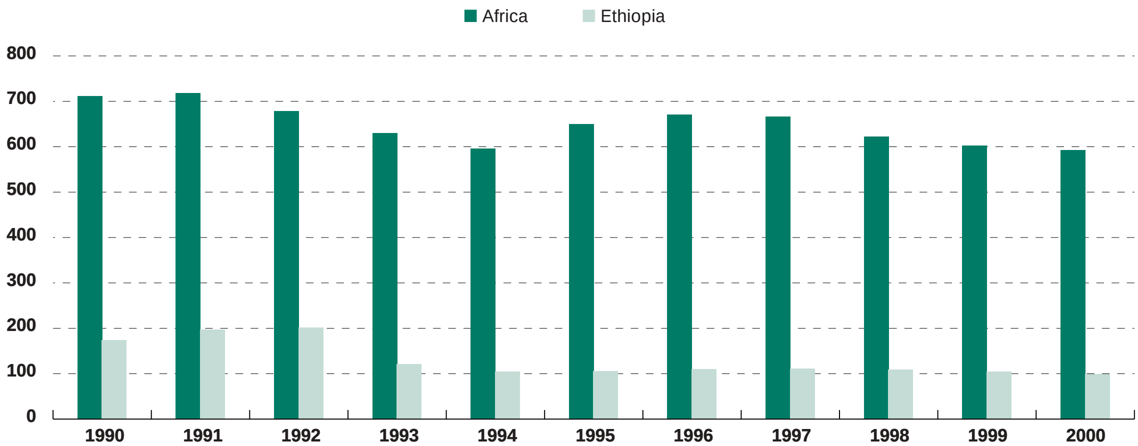
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Recent Economic Developments

The Ethiopian economy has started showing signs of recovery since the end of the border conflict with Eritrea in June 2000. From the severe drought in 1997 that led to negative growth of real GDP of -1.4 per cent in 1997/98, the economy rebounded strongly on a catch-up, to record real GDP growth of 6.2 per cent in 1998/99. Real GDP growth fell to 4.2 per cent in 1999/2000 owing to the negative impacts of the border war with Eritrea. The outlook on growth is a strong rebound with real GDP growth estimated at 6.2 per cent in 2000/01 and also projected at 7.6 per cent in 2001/02 as the government shifts attention from the war effort to developmental tasks.

Ethiopia's recent growth performance has been highly correlated with agricultural output growth.

Figure 2 - GDP Per Capita in Ethiopia and in Africa (current $)



Source: Authors' estimates based on IMF data.

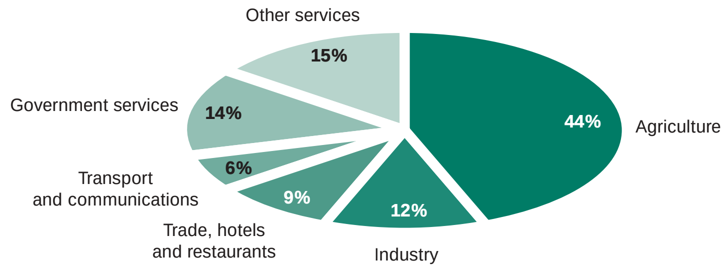
Agriculture is the mainstay of the economy, and in 1999/2000 accounted for about 44 per cent of GDP, 90 per cent of export earnings, 85 per cent of total employment and 70 per cent of raw materials requirements of agro-based industries. In 1999/2000, the agriculture sector grew by just 1.9 per cent as the sector began a slow recovery from the recent drought and the effects of the war. There was improved crop production, especially in grains such as cereals and pulses, which in the *meher* (main) harvest recorded about 50 per cent increase to about 12 million tons. However, coffee, the main cash crop, did not fare well as output fell by about 15 per cent between 1998/1999 and 1999/2000 to 360 000 tons owing to poor growing conditions. Total coffee production is, however, impossible to quantify accurately in Ethiopia given the fact that about 50 per cent of output is consumed locally. Livestock also improved in 1999/2000 with the improvement in weather conditions. Livestock holdings in 1999/2000 were estimated to have recovered to about 50 per cent of normal levels following the near dissipation of herds with the recent drought. The industrial sector accounted for about 12 per cent of GDP and achieved a growth rate of 4.8 per cent in 1999/2000. The growth was derived from manufacturing of agro-based industries as domestic availability of raw materials improved with the slight increase in agricultural output. The mining sub-sector remained largely unexploited thus contributing less than 0.5 per cent of GDP. The services sector accounted for about 44 per cent of GDP in 1999/2000 and continued its impressive growth performance, recording 7.4 per cent growth in 1999/2000. The largest part of the services sector in Ethiopia is distributive trade.

Table 1 - Demand Composition (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Gross capital formation	**16.4**	**18.2**	**18.9**	**16.0**	**20.5**	**22.1**
Public	7.5	7.6	7.4	6.5	8.6	9.5
Private	9.0	10.6	11.4	9.5	11.8	12.5
Total consumption	**92.0**	**93.7**	**96.4**	**100.8**	**104.4**	**102.7**
Public	11.8	14.3	19.3	20.0	14.8	15.8
Private	80.2	79.4	77.2	80.8	89.6	86.9
External demand	**-8.5**	**-11.9**	**-15.3**	**-16.8**	**-24.8**	**-24.8**
Exports	13.6	15.8	15.3	16.7	13.6	12.0
Imports	-22.1	-27.7	-30.6	-33.5	-38.4	-36.7

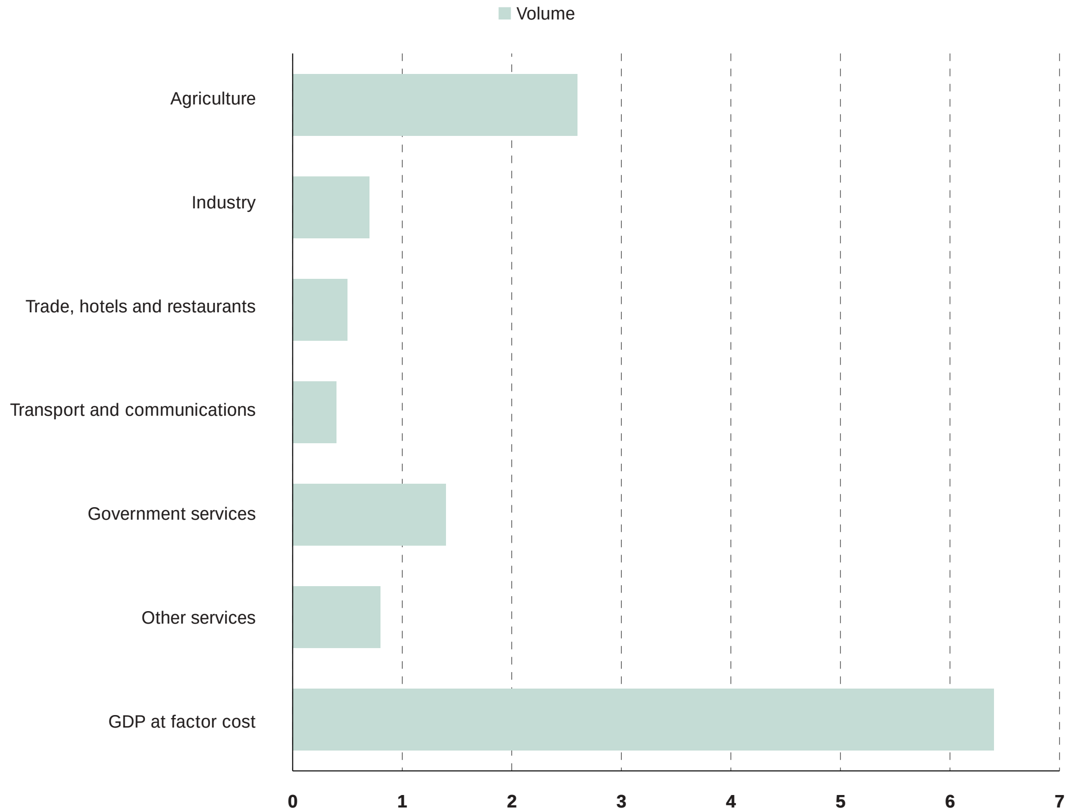
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Figure 3 - GDP by Sector in 1999/2000



Source: Authors' estimates based on IMF and domestic authorities' data.

Figure 4 - Sectoral Contribution to GDP Growth, 1999/2000



Source: Authors' estimates based on IMF and domestic authorities' data.

However, growth in services in 1999/2000 was due mainly to the transport and communications sub-sectors. The rehabilitation and reconstruction of railways and roads (especially feeder and link roads) boosted the transport sub-sector. In the telecommunications sub-sector, the number of telephones increased to 150 000 in 2000 compared with 120 000 in 1998.

The growth performance has been powered by substantial growth in consumption, especially of the private sector. However, in 1998/99 and 1999/2000, public consumption increased sharply owing to the war effort. The rise in total consumption was accompanied by a decline in domestic investment, which reached its recent lowest level in 1999/2000, and a deterioration of the external sector. The demand structure is expected to changein 2000/01 and 2001/02, as investment (public and private) rises, supported by increasing imports.

Macroeconomic Policy

Fiscal and Monetary Policies

The effects of the border conflict have dominated Ethiopia's recent fiscal developments. Ethiopia had made major strides in fiscal management before the outbreak of war. However, all the gains vanished with the war as the primary deficit on the government's budget rose sharply from 2.6 per cent of GDP in 1997/98 to 6.8 per cent of GDP in 1998/99 and further to 9.4 per cent of GDP in 1999/2000. The overall budget deficit widened accordingly. The main factor behind the sharp deterioration was the rise in defence spending from about 4.9 per cent of GDP in 1997/98 to 13.3 per cent of GDP in 1998/99. The government's finances are expected to improve with the cessation of the war, as defence expenditures come down and the government turns its attention to revenue enhancing measures. Since the end of the war, the government has begun to address some of the fundamental problems that underlie the fiscal system: the limited revenue base, low revenue/GDP ratio and declining capital expenditure. Reforms that have been initiated in income tax include new legislation on presumptive taxation and a 5 per cent withholding tax on imports that became effective in February 2001. Also, a new income tax code and legislation regarding standard assessment is to be effective in 2002. Regarding indirect taxation, the government publicly announced in November 2000 that a VAT is to become effective in 2003; meantime, in January 2001 the government eliminated the 10 per cent import surcharge on imports and increased the top sales tax rate to 15 per cent. Tax administration has been strengthened with legislation passed in March 2001 to introduce a Taxpayer Identification Number (TIN). The primary deficit is estimated to narrow to 3.3 per cent of GDP in 2000/01 but to widen again to 6 per cent of GDP in 2001/02.

Table 2 - Public Finances[a] (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Total revenue and grants[b]	**20.8**	**20.7**	**21.3**	**21.8**	**23.9**	**23.1**
Taxes	11.5	11.6	11.4	12.6	13.5	13.3
Grants	3.3	2.8	3.6	3.3	5.5	4.7
Total expenditure and net lending[b]	**24.8**	**25.2**	**30.0**	**33.5**		
Current expenditure	15.5	15.8	20.9	26.8		
Excluding interest	*12.9*	*13.9*	*18.9*	*24.5*	*18.3*	*19.3*
Wages and salaries	5.6	5.9	8.3(e)	9.9(e)	8.6	7.8
Interest on public debt	2.6	1.9	2.0	2.3		
Capital expenditure	9.3	9.2	9.1	6.7	8.9	9.8
Primary balance	**-1.4**	**-2.6**	**-6.8**	**-9.4**	**-3.3**	**-6.0**
Overall balance	**-4.0**	**-4.5**	**-8.7**	**-11.7**		

a. Fiscal year begins 1 July.
b. Only major items are reported.
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Since the end of the war the government has started to sterilise the excess liquidity in the economy and is taking steps to modernise monetary management. The growth of broad money fell from 14 per cent in 1999/2000 to 11.3 per cent in 2000/01, mainly because of a reduction in Net Domestic Assets (NDA) from 22.1 per cent of total money supply in 1999/2000 to 4.6 per cent in 2000/01. The NDA fell as a result of a fall in net claims on government from 27.9 per cent of NDA in 1999/2000 to -0.9 per cent in 2000/01, as the government was reimbursing the banking system. The average annual rate of inflation had risen to 5.3 per cent in 1999/2000.

Ethiopia's inflation rate has been relatively low because upward pressure on food prices has been dampened by the availability of large food aid supplies. The rate of inflation is expected to remain in single-digit figures. The annual average rate is estimated at 3.7 per cent in 2000/01 and projected at 4.2 per cent in 2001/02, slightly above historical levels as economic growth picks up. Interest rates have also been on a downward trend since the end of the war. The benchmark rate on the 91-day Treasury bill fell from its high level of 4.4 per cent in 1998/99 to 3.1 per cent in 1999/2000.

The Ethiopian government aims at a flexible foreign exchange market. The exchange rate premium between the official and the parallel market rates has decreased to less than 3 per cent in 2000/01. In 2000 the birr dropped by 8 per cent in nominal terms to follow a similar depreciation in 1999.

External Position

Ethiopia has endeavoured to liberalise its external trade by progressively lowering its maximum import tariffs from 230 per cent to the current 40 per cent, thereby also lowering the average tariffs from 21.5 per cent to 19.5 per cent. The government also committed itself to define by July 2001 a time-bound plan for reducing the number and level of import duty rates so that the unweighted average tariff would decline from the current 19.5 per cent to 17.5 per cent by January 2003. Also, export taxes, export subsidies and import levies have been eliminated. However, the external payments situation remained precarious owing to poor export performance and high imports in 1998/99 and 1999/2000. In 1998/99 high imports to finance the war effort combined with poor export performance led to a sharp widening of the trade deficit. Current transfers also fell because of the war. In effect, the current account deficit increased to about 10.4 per cent of GDP in 1998/99. In 1999/2000, coffee exports fell by about 30 per cent and an improvement in non-coffee exports by 13 per cent was not sufficient to improve the trade account. The current account deficit remained around 10.5 per cent of GDP as the trade deficit widened. The outlook on the external position is a continuing deterioration in the trade deficit as export levels fall and imports rise with the renewed growth. The trade deficit is estimated to rise to 23.7 per cent of GDP in 2000/01 and stabilise around that level in 2001/02.

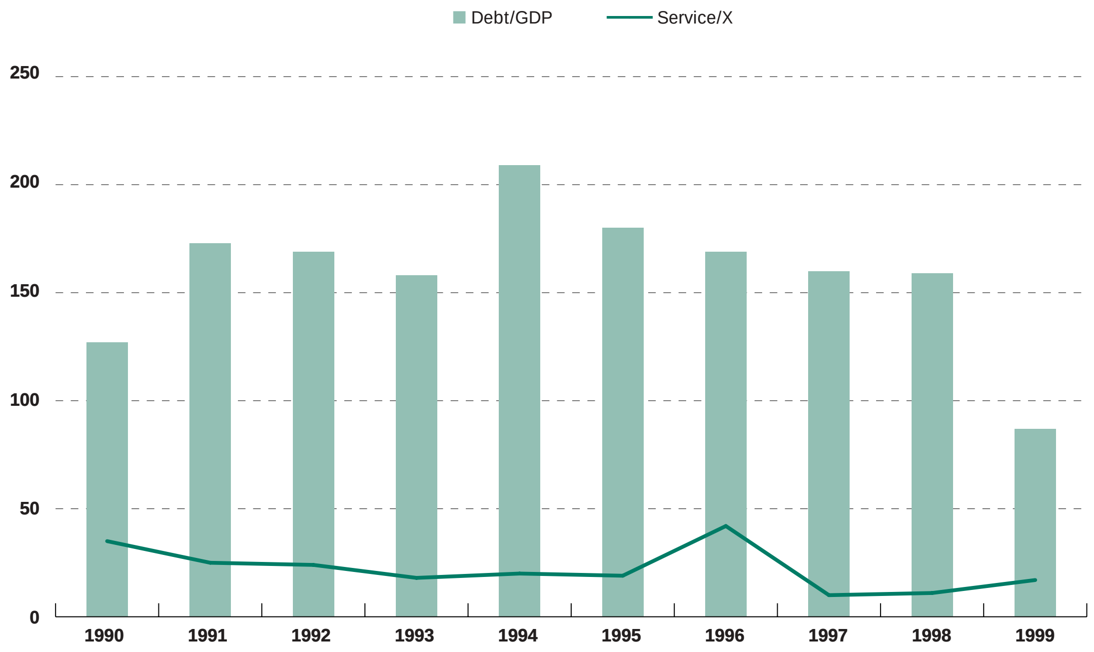
Table 3 - Current Account (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Trade balance	-10.4	-11.5	-16.7	-19.8	-23.7	-23.2
Exports of goods (f.o.b)	7.9	9.2	7.5	7.8	6.7	5.9
Imports of goods (f.o.b)	-18.3	-20.7	-24.2	-27.5	-30.4	-29.0
Services	2.1	2.2	1.7	2.9		
Factor income	-1.0	-1.1	-0.8	-1.1		
Current transfers	10.8	6.2	5.3	7.5		
Current account balance	**1.5**	**-4.3**	**-10.4**	**-10.5**		

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Ethiopia's external debt stock was estimated at about $5.55 billion at end-1999. Multilateral debt constituted 51 per cent; official bilateral debt constituted 46 per cent, of which debt to Paris Club members was 30.3 per cent; while commercial debt made up the remaining 2 per cent. Significantly, the debt stock at end-1999 was nearly 50 per cent of the outstanding debt at end-1998. The sharp reduction was the result of about $4 billion debt write-off from Russia in late 1999. Ethiopia's current external debt remains unsustainable even after the application of traditional debt relief mechanisms. According to the updated preliminary document on the HIPC issued by the IMF and World Bank in February 2001, the NPV of debt-to-export ratio was 243 per cent in 1999 and would remain above 150 per cent until 2012; while debt service ratio, before debt relief, was estimated at 55.4 per cent in 1999. Ethiopia has benefited from traditional debt relief from the Paris Club three times, in December 1992 on enhanced Toronto terms with 50 per cent NPV reduction; in January 1997 on Naples terms (67 per cent NPV reduction), and in March 2001 on similar terms. As a result of the latest Paris Club concessions, Ethiopia's debt relief was estimated at $849 million. Ethiopia is listed among the eligible countries for assistance under the enhanced HIPC initiative, and is expected to reach the decision point under the programme at the end of 2001. The total estimated amount of HIPC assistance required to bring Ethiopia's ratio of the NPV of debt to exports to 150 per cent is estimated at $1 028 million in NPV terms, based on the projected NPV of debt outstanding on 7 July 2001.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

Structural Issues

Ethiopia has implemented a broad spectrum of reforms aimed at improving the functioning as well as liberalising the economy. Although Ethiopia started its privatisation programme in 1997, a large proportion of national productive assets still remains within the public sector. The pace of the privatisation exercise improved somewhat in 1999 when several large enterprises and state farms were brought to the point of sale, and preparations began for the privatisation of the Construction and Business Bank. At the same time the revision of the Investment Code increased private sector (including foreign) participation in infrastructure provision by opening up key areas formerly under state control, such as domestic civil aviation, power and telecommunications, to private investment. Also, in 1999 in an attempt to increase foreign direct investment in the economy, the government removed the minimum capital limit ($20 million) applying to foreign investment in joint ventures and the upper limit ($20 million) applying to sole ventures in engineering, metallurgical, pharmaceutical, chemical and fertiliser industries. Yet, the response to the privatisation programme has been weak with Ethiopia receiving no offers for most of the enterprises on offer. Of those for which offers had been received, including state farms, the cement factory, and the Kahub Gas Share Company, the offers had been considered inappropriate. In 2001, the government put the CBE under a management contract with a foreign institution. The slow response of the domestic private sector to the privatisation programme reflects the smallness of the sector. On the other hand, the apparent lack of foreign interest underscores the structural and infrastructural bottlenecks in the economy. Charges of corruption with the privatisation process have also hindered its progress further. However, in July and August 2001, some key figures in the process arrested on corruption charges, are now under investigation.

Ethiopia's financial sector remains weak and non-competitive, with a narrow scope of the financial services that are provided. The sector is dominated by state-owned institutions with the Commercial Bank of Ethiopia alone accounting for about 80 per cent of total deposits. However, private financial institutions are now permitted to operate. In this regard, six private domestic banks have already been established but foreign participation is still not permitted in the financial sector. However, on the basis of a study undertaken with joint technical assistance from the IMF and the World Bank, Ethiopia has reviewed its medium-term financial sector reform strategy to structure the financial sector and increase its competitiveness, with a view to promote growth.

Political and Social Context

Ethiopia is a functioning democracy. Broad participation in the political process is considered limited as some opposition groups charge the government with practising political marginalisation of sections of the population. However, within the context of its regionalisation policy, the Government of Ethiopia has broadened stakeholder participation of the development process by decentralising power to regions and lower-tier government (zones and woredas).

Moreover, Ethiopia now appears to have improved relationships with its neighbours. In addition to the recent peace agreement that ended the war with Eritrea, relations with Sudan, which had deteriorated from 1995, have steadily improved. In March 2000, Ethiopia signed ten agreements with Sudan to improve cross-border security. Ethiopia also signed a security agreement with Yemen in October 1999, and has at the same time consolidated relations with Djibouti since the election of Ethiopian-born Ismail Omar Gelleh as Djibouti's new President in May 1999.

The extent of corruption in the country began to cause concern in 1996, as the country's Deputy Prime Minister was dismissed and detained, and finally given a jail term in February 2000. Several other public officials have been removed, though most have not been brought before the courts, leading to opposition charges that the dismissals had been political rather than ethical. Human rights have also emerged as a contentious issue, with several editors, owners and journalists often arrested on the basis of criticism or questioning of government policy. Ethiopia is believed to have detained more journalists than any other African country in recent times.

The incidence of poverty in Ethiopia is one of the highest in the world. According to the UNDP (2000) Human Development Report (based on 1998 data), Ethiopia ranked as 171st out of 174 countries in terms of Human Development Index (HDI) and 83rd out of 85 countries in terms of Human Poverty Index (HPI). About 55 per cent of the population is believed to live below the poverty line of one dollar a day; in some regions of the country, this incidence of poverty is as high as 70 per cent and close to 85 per cent in the worst cases. For most of the poor in Ethiopia, food security even in times of good weather is a source of anxiety as Ethiopia has a persistence of structural food insecurity that affects 2 to 3 million mostly poor people every year. This is frequently exacerbated by severe drought conditions. Other features of poverty in Ethiopia are the existence of many families headed by widows; a large proportion of orphans and street children; children suffering from malnutrition and beggars in urban areas. Recent estimates put women-headed households at about 35 per cent of urban households, while 48 per cent of children less than five years of age suffer from malnutrition. The government's traditional poverty reduction measures have been embodied in sectoral programmes, notably in health and education, and have been integrated into the national budget, subject to regular public expenditure reviews. Such programmes suffered from capacity constraints coupled with the conflict-related reallocation of resources of the last two years. To address the serious poverty problem, Ethiopia has prepared an Interim Poverty Reduction Strategy Paper (I-PRSP). The reform agenda outlined in the I-PRSP is being supported by the IMF PRGF, amounting to $112 million approved on March 2001, and the World Bank ERSC amounting to $150 million, approved in June 2001. The EU has also provided additional parallel financing.

Ethiopia's socio-economic indicators also reflect the widespread poverty and are in most cases worse for women, reflecting gender inequality. In the health sector, coverage is limited to about 46 per cent of the population. There are about four physicians per 100 000 people; access to safe water is limited to 24 per cent of the population, while access to sanitation is limited to 15 per cent of the population. These figures are well below the continental average. The figures also reflect the fact that only about 1.6 per cent of GNP is spent on the health sector in Ethiopia, compared with 2.5 per cent in sub-Saharan Africa. There are also the problems of inadequate facilities and equipment, those available are often in a state of disrepair, and there is a shortage of essential drugs. The HIV/AIDS pandemic has added a new dimension to the health problem with about 10.6 per cent of the adult population being HIV positive.

In the education sector, UNESCO estimates that the combined primary, secondary and tertiary gross enrolment ratio was 19 per cent for females and 34 per cent for males in 1999. On a positive note, there has been a significant improvement in primary school enrolment over the past four years. The recent review of the Education Sector Development Programme in February 2001 revealed that gross primary school enrolment improved to 51 per cent of the relevant school age in 2000 compared with 42.9 per cent in 1996; net primary school enrolment ratio for girls increased from 21.5 per cent in 1996 to 36.6 per cent in 1999, while for boys the increase was from 32.3 per cent to 51.2 per cent. Thus, despite the general improvement for both sexes, the gender gap worsened from 10.8 percentage points in 1996 to 14.6 percentage points in 1999. Also, both quantitative and qualitative limitations persist in the educational system including shortage of classrooms, teachers, essential textbooks and other learning materials, poor curriculum, and high repetition and drop out rates, especially among girls. In general only half of all pupils who enrol in primary schools successfully complete the full cycle.

Gabon

key figures

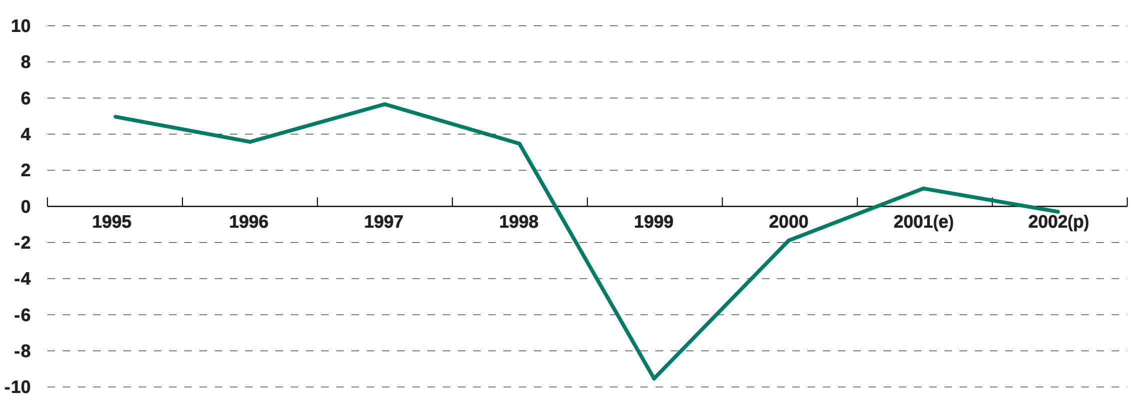
- Land area, thousands of km2 : 258
- Population, thousands (2000): 1 230
- GDP per capita, $ (2000): 4 085
- Life expectancy (1995-2000): 52.4

Gabon

WITH AN ANNUAL PER CAPITA income of more than $4 000 in 2000, Gabon is one of Africa's richest countries. But in 1999, it went through a serious economic crisis after a bad trade year in 1998 and substantial budgetary indiscipline. The sharp fall in oil prices plus the Asian crisis dealt a heavy blow to export earnings, mostly from oil and timber. A partial recovery from mid-2000 was based on increased timber exports and higher oil prices. Renewed investment obtained by easing financial constraints saw a timid resumption of growth in 2001 (about 1 per cent). In 2002, the new drop in the price of oil and lower production is expected to bring GDP growth down to -0.3. The economy's great dependence on oil as extraction declines preoccupies the government, especially as Gabon has poor social indicators despite its high per capita income as well as a heavy external debt for which it cannot claim relief under the Heavily Indebted Poor Countries (HIPC) Initiative.

Due to its oil resources, Gabon is one of Africa's richest countries

Figure 1 - Real GDP Growth



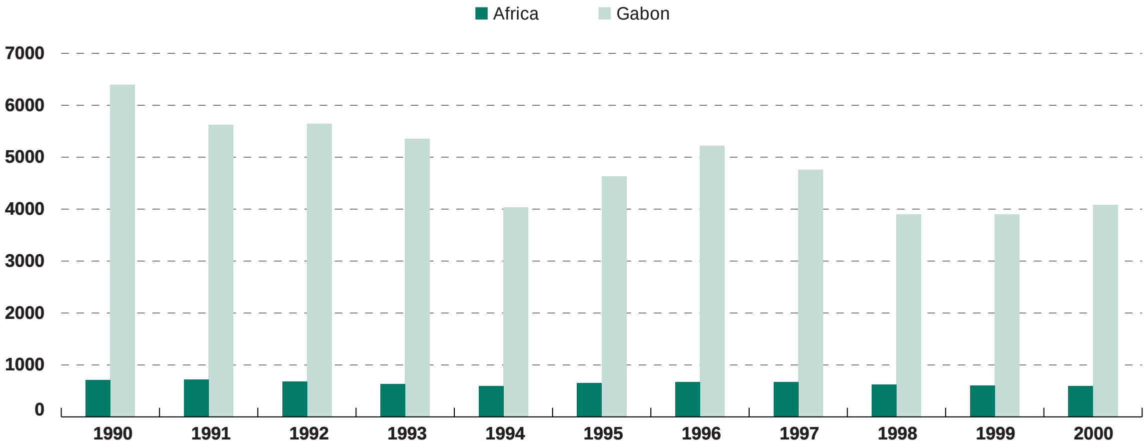
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Recent Economic Developments

Gabon has a wealth of raw materials, including oil, minerals and timber, but is especially dependent on oil, which provides more than three-quarters of all export earnings, 60 per cent of government revenue and about 40 per cent of current GDP. In 2000, it rose to 49 per cent of GDP because of high prices. The country is increasingly concerned about falling production. The oil companies operating in the country (including Shell and Elf, which account for 95 per cent of production) estimate that extraction will have shrunk by half in 2005 (falling from more than 120 million barrels a year to about 65 million). This drop in production, foreseen in 2000, has been postponed by the opening-up of smaller deposits that high prices have made feasible to extract. To stimulate the sector and attract new investors, the government has revised the contracts with the oil companies and granted more production licences. The companies have also begun to think about deep-water offshore exploration, though this is not yet feasible in view of current world prices.

The country's second biggest resource, timber**,** was once the mainstay of the economy. The sector was badly affected by the Asian crisis in 1998, but quickly

Figure 2 - GDP Per Capita in Gabon and in Africa ($ current)



Source: Authors' estimates based on IMF data.

recovered in 2000 (growing by about 8 per cent) after a thorough reorganisation of the national timber company SNBG, which included paying off debts to producers. New forestry regulations were announced to make the industry more efficient and encourage mechanisation. From August 2001, the sector was partly privatised and the producers no longer had to go through the SNBG to sell their timber abroad[1]. They were allowed to export a quota of unprocessed logs, though not more than the volume of processed timber they sold.

Gabon has a rich mining sector based mostly on manganese since the end of uranium extraction in June 1999. The vigour of the sector is shown by the opening of an iron alloy plant in Moanda in January 2001 that will allow it to reach full capacity during that year. Mining is regulated by a new mining code.

After oil was discovered in the late 1950s, agriculture was neglected. Farming was doing quite well in the 1960s but now accounts for less than 4 per cent of GDP. Many peasants moved to towns (where 75 per cent of the population now lives), leaving a labour shortage in the countryside. The government wants to diversify export crops (encouraging coffee, cocoa, rubber, palm oil and sugar) as a way of preparing for the effect of shrinking oil resources and to persuade people to stay in rural areas. But a short-term obstacle is the general disorganisation of agro-industry after the state's withdrawal from it, with palm oil and rubber production completely halted. Agricultural growth is also badly impeded by the poor communications network, low world prices and lack of support structures.

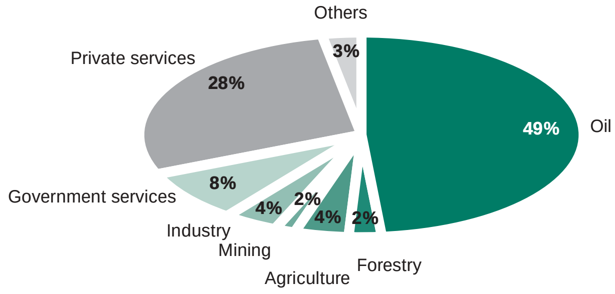
Another sector the government would like to encourage is fishing. But it is hard to make an inventory here because most fishing is done by foreign fleets.

The industrial sector is very small. Processing of oil and timber is limited to a small refinery (750 000 tonnes annual capacity) at Port Gentil and a few wood-processing plants. Only 7 per cent of timber exported in 1999 was processed, though several planned sawmills should boost this figure. Apart from a few agro-industrial factories, the processing element in the secondary sector has been neglected in favour of handling raw materials.

Construction is a major part of the sector, however, though it was badly hit in the 1999 crisis by big cuts in public investment and the reluctance of the private sector due to the government's failure to pay its bills. Clearing the government's domestic debts should help restore confidence, though budgetary demands will not allow a major resumption of public investment.

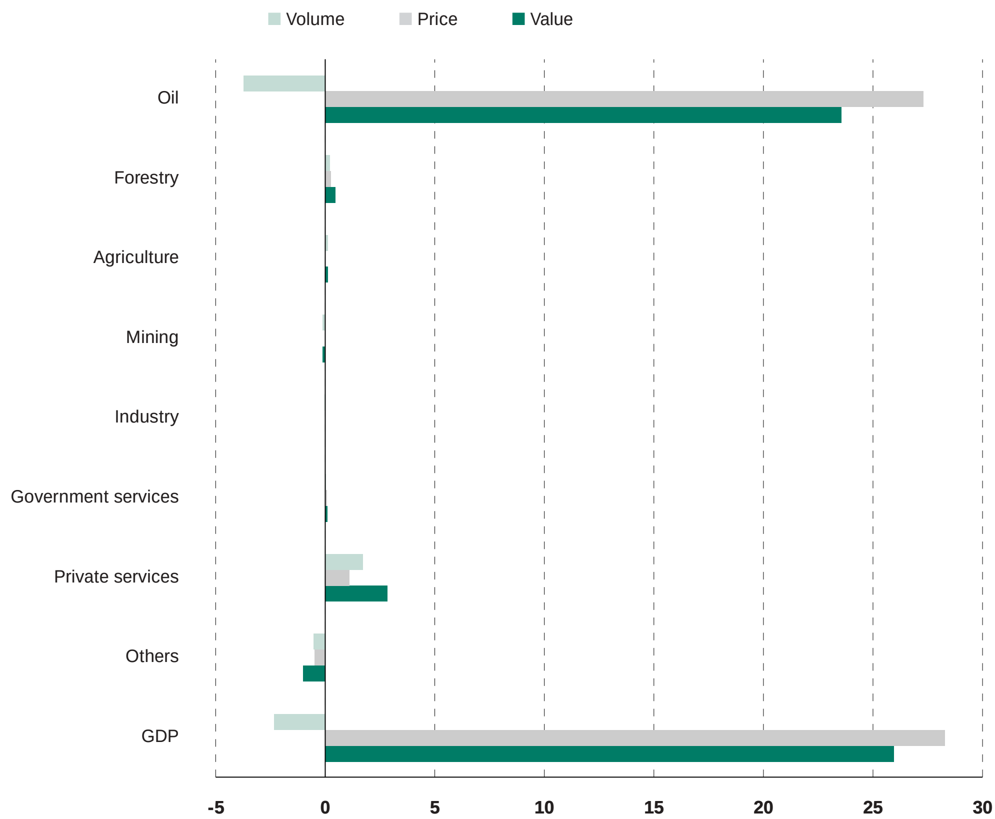
1. Except in European and Mediterranean markets.

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates based on data from *Direction Générale de l'Économie.*

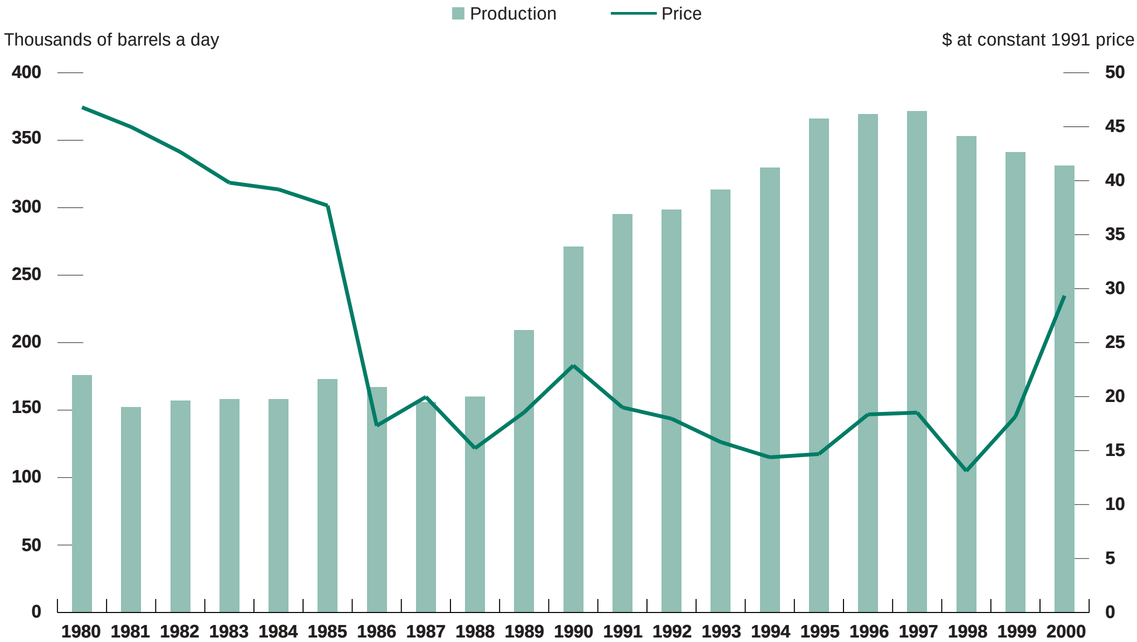
Figure 4 - Sectoral Contribution to GDP Growth in 2000



Source: Authors' estimates based on data from *Direction Générale de l'Économie.*

The tertiary sector accounts for about 40 per cent of GDP, mainly services, and, after a decade of stagnation, expanding telecommunications. The vibrancy of this sector makes it a motor of the economy that the government is concentrating on as it prepares for life after oil. One plan is to develop the coastal area for tourism, but climate and the cost of air transport makes mass tourism an unlikely prospect. Gabon could be a regional service centre, however, developing oil-related activity and becoming a recreational base.

Figure 5 - Oil Production and Prices in Gabon



Source: Energy Information Administration.

The share of non-traded services is also very large, with much of the population working for the government. Gabon has 40 000 civil servants in a population of 1.2 million, twice as many as in other African countries. But since devaluation in 1994, the informal sector has grown faster in response to the fall in real wages and to fewer public sector job opportunities.

Unlike other African countries, investment is a substantial part of Gabon's GDP. Budgetary indiscipline in 1997 and 1998 led to a surge in public investment. This has since been curbed and there are no major public projects underway at present. Since 2000, greater government revenue from higher oil prices has somewhat boosted investment. The predicted drop in oil production is expected to erode the external balance as from 2002.

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Oil production	39.2	27.0	36.7	47.6		
GDP excluding oil	60.8	73.0	63.3	52.4		
Gross capital formation	**23.7**	**36.4**	**24.2**	**22.3**	**26.7**	**30.2**
Public	5.5	11.2	4.2	3.1	4.1	4.8
Private	18.2	25.2	20.0	19.2	22.5	25.4
Consumption	**52.7**	**64.1**	**54.8**	**45.6**	**52.6**	**58.2**
Public	14.1	20.4	14.7	11.9	13.1	13.8
Private	38.6	43.7	40.1	33.8	39.5	44.4
External sector	**23.6**	**-0.6**	**21.0**	**32.1**	**20.7**	**11.6**
Exports	57.5	46.1	56.1	64.7	64.1	57.5
Imports	-33.9	-46.7	-35.1	-32.6	-43.4	-45.8

Source: Authors' estimates and predictions based on data from the *Direction Générale de l'Économie.*

Macroeconomic Policy

Budgetary and Monetary Policy

In 1998, the fall in oil prices and timber export problems linked to the Asian crisis led the government to stimulate the economy with higher public spending. This laxness, encouraged by the election campaign in December 1998, led to serious fiscal indiscipline and the overall deficit rose to 14 per cent of GDP, the primary deficit to 6.3 per cent. The bigger deficit caused the government to suspend payments and relations with the IMF were broken off. Since then, however, the government has made a great effort to reduce spending to pre-1998 levels. Drastic cuts were made in public investment and wages and civil service hiring were frozen except in the social sector, which is weak in Gabon. As a result, a new arrangement was signed with the IMF in October 2000 in the form of an 18-month stand-by credit of $119 million.

With better prices, oil revenue exceeded estimates in 2000 and amounted to two-thirds of total state revenues. Non-oil tax revenue also held up well, especially from the VAT. This recovery produced a primary surplus of 17.7 per cent of GDP. The government also continued to pay off its domestic arrears, including pay rises and the wages of new staff unpaid because of bureaucratic delays.

Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[a]	**29.5**	**34.5**	**28.7**	**33.8**	**33.8**	**31.4**
Taxes	10.8	15	11.1	10.5	11.7	12.4
Oil	17.9	18.8	13.0	22.8	21.7	18.6
Total expenditure and net lending[a]	**26.7**	**48.5**	**27.5**	**22.0**	**25.0**	
Current expenditure	21.2	34.7	23.3	19.0	21.1	
Excluding interest	*12.7*	*27.1*	*16.4*	*13.1*	*14.5*	*15.4*
Wages and salaries	7.2	7.7	7.5	6.1	6.7	7.2
Interest payments	8.5	7.6	6.9	5.9	6.6	
Capital expenditure	5.5	13.7	4.2	2.9	3.9	4.5
Primary balance	**11.3**	**-6.3**	**8.1**	**17.7**	**15.3**	**11.6**
Overall balance	**2.8**	**-14.0**	**1.2**	**11.8**	**8.8**	

a. Only major items are reported.
Source: Authors' estimates and predictions based on data from the *Direction Générale de l'Économie.*

The government was in trouble again in 2001. The restructuring of Air Gabon required a huge unexpected cash injection, external debt servicing was very large (615 billion CFA francs — more than $860 million), internal arrears had to be paid and parliamentary elections in December loomed. Halfway through the financial year oil and non-oil revenue were below expectations, but relatively steady current expenditure should help maintain a strong primary surplus in both 2001 and 2002.

Like other CEMAC countries, Gabon's exchange rate is pegged to the French franc and its monetary policy is in the hands of the BEAC, leaving budget policy as the country's main economic instrument. Since the 1994 devaluation, inflation has been well under control and should be around 0.4 per cent in 2001 and 2002.

External Position

Abundant natural resources and thus greater purchasing power compared to other African countries make Gabon a major exporter and importer. It exports mostly oil (75 per cent of exports in 1999), timber (16 per cent) and manganese (6 per cent) and more half of all exports go to the United States. Imports are mostly food products (20 per cent in 1999 and the country is far from being self-sufficient in food), chemicals and transport equipment and more than half of all imports come from France.

Gabon has an overall trade surplus that fell sharply in 1998 as unfavourable international conditions and increased public spending led to a substantial drop in exports and a sizeable increase in imports. In 2000, better oil prices produced a record trade surplus. Resumption of private investment, which had been strongly discouraged by budgetary problems and the Asian crisis, and the revival of household spending increased imports from OECD countries by 31 per cent (according to OECD data). However, the sharp rise in the value of oil exports more than made up for this. The trend continues in 2001 and 2002, although the smaller quantity of oil exported and declining international prices will reduce the trade surplus.

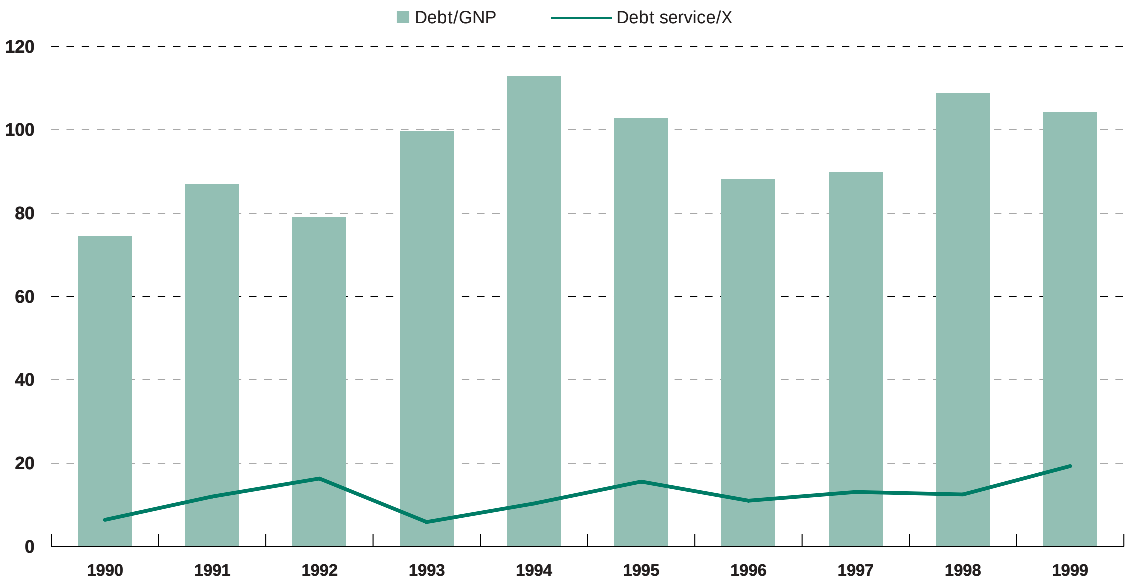
Tableau 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	35.2	17.9	36.4	43.4	39.8	32.1
Exports of goods	53.3	42.5	54.6	63.5	62.4	55.9
Imports of goods	-18.1	-24.6	-18.2	-20.1	-22.5	-23.8
Services balance	-13.7	-18.5	-15.2	-13.1		
Factor income	-14.3	-13.6	-15.4	-17.9		
Current transfers	-4.0	-4.5	-3.9	-3.4		
Current account balance	**3.1**	**-18.7**	**1.9**	**9.0**		

Source: Authors' estimates and predictions based on IMF and domestic authorities data.

Gabon has accumulated a large external debt, much of it during the period of major construction in the late 1980s, notably the building of the Trans-Gabon railway. Devaluation automatically increased the CFA francs part of the debt. The government guaranteeing the liabilities of some semi state-owned firms, such as the water and electricity company SEEG and the post and telecommunications authority OPT, increased it further.

Figure 6 - Stock of Total External Debt (percentage of GNP) **and Debt Service** (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

The debt burden is especially heavy because it is not made up of soft loans, so interest payments are high (more than half of all tax revenue between 1995 and 2000). Also, because of the country's relatively high per capita income, it cannot benefit from the HIPC Initiative.

From 1998, because of the fall in oil prices, the government began running up arrears which led it to suspend debt payments. Since then, it has been trying to correct both the external and internal debt situation. In December 2000, Gabon negotiated the rescheduling of the debt with the Paris Club. But since the eligible debt (before cut-off date) is only a tiny part of the total, the rescheduling will not be much help. It concerns arrears of 400 billion CFA francs ($562 million) that have been rolled over to after 2004, but interest payments due in 2001 amount to 615 billion CFA francs ($864 million).

The internal debt is more under control. An audit in 2000 enabled some of it that concerned duplications, over-billing or fraud to be wiped out. An eight-year repayment schedule was drawn up and the government began making repayments in 2000.

Structural Issues

Despite delays, the government is keeping to the timetable for structural reform, focusing on the public sector.

The institutional climate has been strengthened by implementation of a new labour law in October 2000. Civil service reform is going ahead, with a census of employees completed in October 2000 and a new organisational chart in March 2001. A law reorganising the structure of government is also planned, with a chart for each ministry, and the system of government contracts has been made much more transparent. But despite setting up an institutional framework to encourage private initiative, the reforms are not all being followed through. Parliament approved an investment charter and rules of competition in 1998, but these have not yet been put into effect. Business people continue to deplore the amount of government red tape and point to the many illegal special taxes they say are hindering the growth of the private sector. The government intends to stamp out these practices and special taxes are specifically banned in the 2001 budget, but some ministries and local authorities are still imposing them to compensate for late payments from the central government.

The public sector is very extensive in Gabon and a 1973 law automatically gives the state 10 per cent of the shares of any new private company. A privatisation programme was finally begun in 1997 with the handover of 51 per cent of the water and electricity company *SEEG* to the *Vivendi* group. This was not a cash deal but an agreement by the new owners to greatly reduce the cost of the services provided and invest 300 billion CFA francs ($421.5 million), including extension of the network. This was followed in 1998 by privatisation of the sugar enterprise and the Trans-Gabon railway and in 2000 by the state cement company. A legal dispute has arisen over the railway, with the manganese firm Comilog refusing to agree to higher freight charges. The dispute is being examined by the International Union of Railways. The privatisation is not being challenged, only the policy of the new owners.

Recently however, privatisation has run into problems that argue for slowing it down. Some firms, including the agro-industrial firms *Agrogabon* (palm oil) and *Hevegab* (rubber), have drawn no buyers after calls for tenders by the government. Others need to be thoroughly reformed before they can be put on the market. The post and telecommunications authority was split into *Gabon Poste* and *Gabon Telecom* before the latter was privatised and the former restructured. The ports and harbours authority has greatly reduced its workforce and promised to rebuild the dockside at Libreville. A consultancy firm was to draft a plan in late 2001 for its privatisation, due to be completed by the end of 2002.

The tricky case at the moment is privatisation of *Air Gabon*, whose importance is shown by the fact that it is in the hands of the minister of finance himself rather than the privatisation committee. Because it is a national symbol, bearing the national flag, the government is reluctant to sell it off. The company is to be completely restructured before a number of shares are offered to the public. It has already been audited and its fleet greatly reduced. Lufthansa Consulting has been chosen to draw up an operating plan for the airline.

Unlike other franc zone countries, Gabon's banking sector has not undergone any big crisis and so has avoided substantial restructuring. This is because very early on it adopted rules similar to those in Europe which carefully controlled credit policy. There are five commercial banks (apart from two others being wound up), the largest of them the BICIG, with 50 per cent of the market, whose small size does not allow for much competition. Despite a tense situation in 1998 and 1999 because of government arrears with the banks, the system is considered sound and the banks have healthy liquidity and solvency. But still only 3 per cent of the population have a bank account. Banks such as BICIG and UGB attract some of the civil servant customers, who are valued because salaries are paid on time in Gabon. However, a lot of savings are not channelled into the system for want of proper structures or because they are recycled into the informal sector, which involves substantial cost and risks of over-indebtedness. The lack of funding mechanisms hampers the private sector. Long-term finance and medium-term loans (required by small and medium-sized firms) are needed. A debate is underway about using the post office, currently being restructured, to provide loans to small entrepreneurs through its solid and extensive network in the countryside.

Gabon's transport infrastructure is weak and a major block to development. It was built during the oil boom years and is mostly in the towns, where 75 per cent of people live, but there are serious problems of maintenance. The port is too small and in poor condition.

Within the region, Gabon's large GDP makes it a leading member of CEMAC, and with its population of only 1.2 million, belonging to a bigger regional grouping should allow it to get advantages of scale. But regional transnational companies are few for want of infrastructure and because of nationalist sentiments. So throughout the sub-region, identical structures are found, such as sugar and oil refineries, whose profitability is negligible in a small market like Gabon.

Political and Social Context

Gabon became a multi-party democracy in March 1991 with promulgation of a new constitution and parliament's approval of a political parties charter. President Omar Bongo, in power since 1967, was the first head of state elected under the new system in 1993 and was re-elected in December 1998 for a seven-year term.

Gabon is politically fairly stable. Riots have occurred, notably in 1993 after the death of an opposition figure during the elections, but economic development is not hindered by instability, which comes mainly from outside, especially due to the proximity of the Democratic Republic of the Congo, in which Gabon is involved because of President Bongo's political mediation there.

Gabon's per capita GDP, in terms of purchasing power parity, makes it a middle-income country, in fourth place among sub-Saharan states, after South Africa, the Seychelles and Mauritius. But despite its wealthy economy, there is much poverty in rural areas and growing pressure on urban infrastructure because of an exodus from the countryside. Along with this poverty goes very unequal income distribution, with 80 per cent of the total salaries in the private sector being shared by 20 per cent of its workers but by only 2 per cent in the public sector.

The social situation deteriorated during the 1990s because of considerable cuts in public investment due to the growing external debt burden. The trend accelerated in 1999 with extensive layoffs in the mining and oil sectors (Shell left Port Gentil), while the public sector kept its 40 000 or so employees (or even went the other way, with non-permanent staff rising from 8 005 in 1997 to 10 646 in 1998 because of elections before falling to 6 760 in 1999). The UNDP puts total unemployment at 20 per cent with large regional disparities and with Port Gentil especially affected.

Despite not belonging to the HIPC Initiative, Gabon has just begun drafting an anti-poverty strategy, but the lack of any civil society impedes collection of data as well as government communication with the people targeted.

Gabon's health indicators are comparable to those of other African countries. Infant mortality is 80 per 1 000, about the same as Cameroon (79.3) and Côte d'Ivoire (80.8). Life expectancy, at 52.4 years, is a little higher than elsewhere in Central Africa (50 in Cameroon and 45.2 in Chad). These poor social indicators when set against the country's wealth are not due to low investment in health[2], but to poor organisation and a shortage of medical personnel. The government's official policy has always been to favour the main urban areas to the detriment of basic infrastructure. Many rural clinics have closed for lack of trained staff willing to be posted to the countryside. To remedy the problem, the government has set up a nursing school, the ENAS. Gabon also has to cope with two major diseases, malaria and HIV/AIDS. The HIV/AIDS situation has worsened since the early 1990s, but the authorities have realised the seriousness of the problem and launched a big awareness campaign. They have also signed an agreement with the pharmaceutical companies to cut the price of drugs by 90 per cent.

Gabon introduced universal education in the 1960s, so primary school enrolment is high compared with elsewhere in Africa. In 1993, the gross enrolment rate was about 140 per cent (the sub-Saharan average is about 80 per cent). The figure comes out at a net rate of 90 per cent, which indicates a high level of repeated years. Despite lack of reliable data, full-time attendance by school-age children has clearly fallen since the early 1990s. Only 40 of every 100 children complete primary school (from the age of 6 until 10) in the normal time. Because there is no limit to how many years can be repeated, the age range of pupils is very wide, with some as old as 20 before they finish.

This poor educational performance is linked to meagre resources both personally and in the school system itself. Since the mid-1990s, the government has had trouble recruiting teachers because of low pay and people's reluctance to work in the countryside. This produces an ageing corps of teachers and classroom overcrowding, with some in Libreville having as many as 100 children. The high dropout rate comes at very heavy cost to the government, which reckons one child costs six times more than normal throughout the five years of primary school, making Gabon one of the countries where spending on education is least effective.

Enrolment in secondary and higher education is much lower than at primary level, but there is just as much inefficiency, with the secondary gross enrolment rate of 53 per cent falling to 20 per cent net. At university level, the success rate is about 10 per cent.

On top of these performance problems, several recent school years have been partly or completely lost because of strikes. The prospect of this decline in skills is made worse by the country's already poor training for the labour market (science has been generally neglected). The government wants to remedy this by providing specialist training, particularly in agriculture and tourism, which will also boost the plans to diversify the economy.

2. The World Health Organisation's 2000 World Health Report puts Gabon among the 100 countries in the world that spend the most per capita on health.

Ghana

key figures

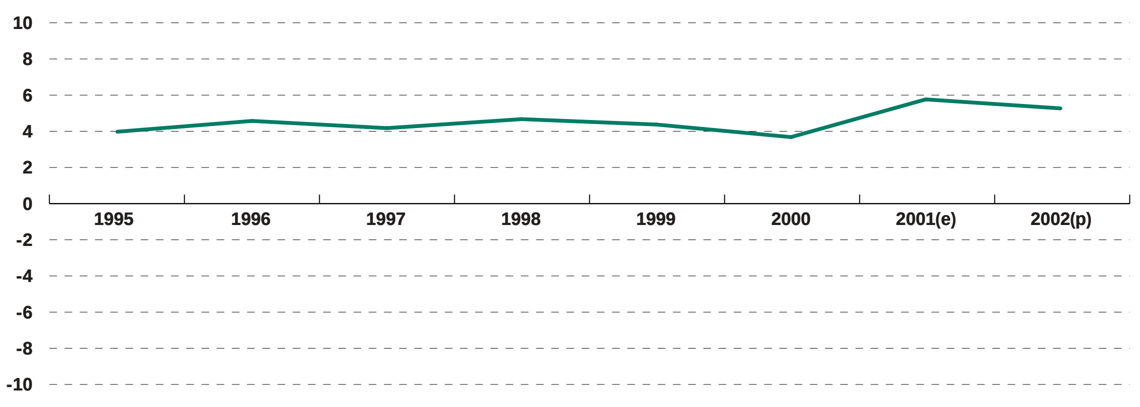
- Land area, thousands of km²: 228
- Population, thousands (2000): 19 306
- GDP per capita, $ (2000): 264
- Life expectancy (1995-2000): 56.3
- Illiteracy rate (2001): 27.4

Ghana

AFTER TWO DECADES OF ECONOMIC recovery and structural reforms starting in 1984 that made Ghana one of Africa's "success" stories in economic growth during the late 1980s and early 1990s, the macroeconomic fundamentals of the country have weakened. The fiscal and monetary positions deteriorated in response to poor domestic policies and external constraints. The rate of inflation rose sharply, the cost of borrowing rocketed and the foreign exchange of the local cedi depreciated massively. The deterioration in the economic fundamentals was reflected in real GDP growth, which slumped to 3.7 per cent in 2000, the lowest level in about a decade. However, the macroeconomic situation is expected to improve especially in fiscal performance. This will lead growth to rebound to 5.8 per cent in 2001, and be maintained at 5.3 per cent in 2002. Ghana's successful democratic transition that occurred in 2000 gives a positive sign on the possibility of the country's reform process deepening. The country needs to revamp its adjustment policies in privatisation and maintain a grip on reforms already made in the financial and other sectors in the effort to enhance growth to alleviate the widespread poverty of the country.

Ghana's successful democratic transition that occurred in 2000 gives a positive sign on the possibility of the country's reform process deepening

Figure 1 - Real GDP Growth

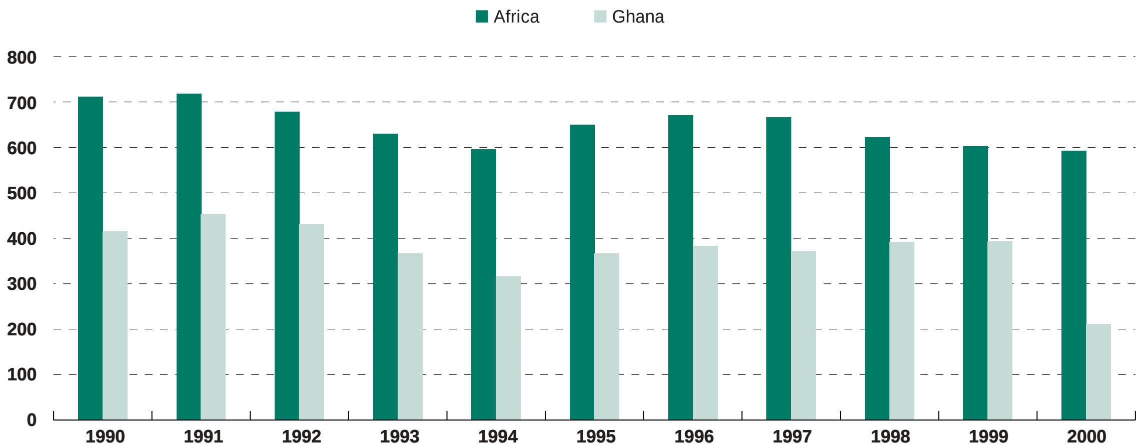


Source: Authors' estimates and predictions based on IMF data.

Recent Economic Developments

The Ghanaian economy suffered its worst growth performance for about a decade in 2000 when real GDP growth slumped to 3.7 per cent. The 2000 performance continued four successive years of economic decline. The poor performance in 2000 was attributed to terms of trade deterioration as the prices of the country's main export earners — gold and cocoa — fell, while the price of crude oil — the nation's main import commodity — rose rapidly. These developments led to a severe drop in foreign exchange earnings. Poor domestic economic performance that created fiscal imbalances and excessive monetary growth compounded the external problems to lead to substantial reductions in production and consumption. Real GDP growth is projected at 5.8 per cent in 2001 and 5.3 per cent in 2002 as the impact of the external shock is lessened with improvements in export performance, and political changes bring about some positive changes in economic policy.

Figure 2 - GDP Per Capita in Ghana and in Africa (current $)

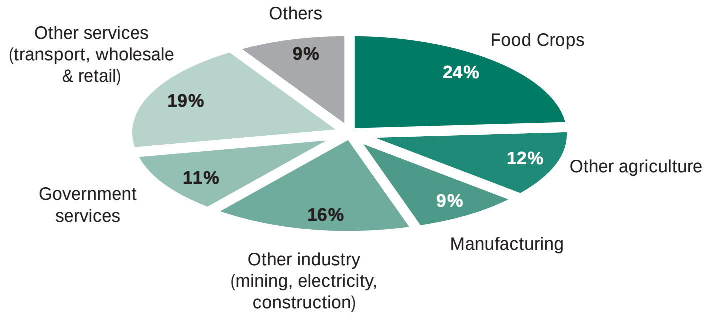


Source: Authors' estimates based on IMF data.

The recent growth performance has been led by the services sector, while the growth performance of the dominant sector — agriculture — has stagnated with telling effect on total income growth. The agricultural sector contributed about 36 per cent of total GDP and grew at a lower rate of 2.1 per cent in 2000 compared with 3.9 per cent in 1999 and 5.1 per cent in 1998. The growth performance in 2000 was the lowest since 1995. The poor performance of agriculture in 2000 was caused by the crops and livestock sub-sectors, which grew at only 1.1 per cent compared with 4.7 per cent in the previous year. The performance of all the other sub-sectors — forestry, logging and fisheries — was better in 2000 than in the previous year. Significantly, the cocoa sub-sector grew at 6.2 per cent in 2000 compared with a decline of 0.5 per cent in 1999 in response to an increase in the administered cocoa producer price of 7.9 per cent over the level that had remained the same in 1998 and 1999. The outlook for agricultural production appears brighter barring any significant deterioration in weather conditions. The 2001 budget statement announced additional measures to reduce post-harvest losses. New initiatives put up in the budget statement include measures to reduce the importation of rice, and a special relationship between the Ministries of Finance, Agriculture, and Trade and Industries to minimise the problem of inadequate finance for agriculture. Above all, the new administration is more inclined to support agriculture, as the main farming areas also happen to be the political strongholds of the ruling party.

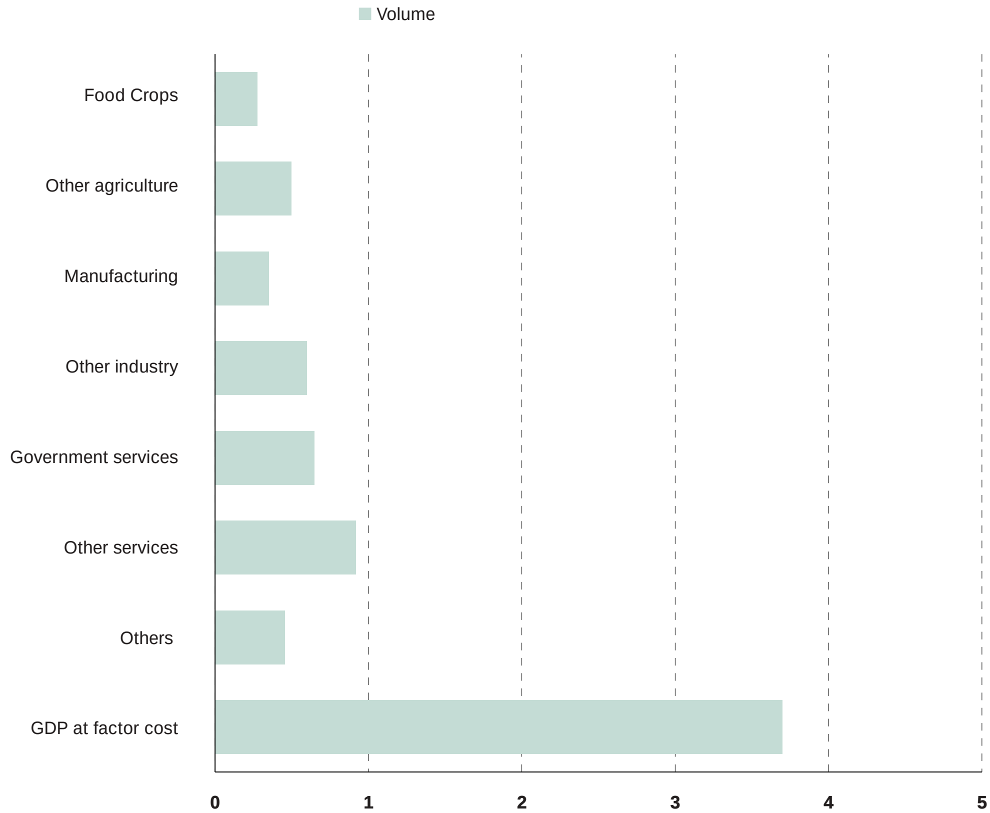
The industrial sector suffered setbacks in 2000 though its share in GDP remained at 25.2 per cent. The sector recorded an unimpressive growth rate of 3.8 per cent in 2000 as compared with 4.9 per cent in 1999 and 3.2 per cent in 1998 when Ghana experienced severe energy shortages. The poor showing in 2000 was largely attributed to the poor performance of the manufacturing sub-sector, which accounts for over 50 per cent of industrial output. With the generally high import dependency of Ghanaian manufacturing, the shortfall in foreign exchange during 2000 severely affected production. The manufacturing sector also suffered from the high rate of inflation that translated into high cost of production and low demand. Growth in manufacturing was 3.8 per cent in 2000 compared with 4.8 per cent in 1999. The performance of the industrial sector, especially that of the manufacturing sub-sector in the context of the Vision 2020, is disturbing. The Vision envisages an 8 per cent annual growth rate for the manufacturing sector to enable the Vision objectives to be achieved. Rather disappointingly the sector has so far managed an average growth rate of only 3.1 per cent since 1995. The other sub-sectors fared better but performed below their 1999 levels. Favourable rainfall patterns ensured adequate water levels in the Akosombo reservoir, and with additional

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates based on domestic authorities' data.

Figure 4 - Sectoral Contribution to GDP Growth in 2000



Source: Authors' estimates based on domestic authorities' data.

resources from the Aboadze Thermal Power Plant and imports from Côte d'Ivoire, the electricity and water sub-sector expanded by 4.5 per cent in 2000 compared with 7.6 per cent in 1999. The construction sub-sector continued its positive growth with a growth rate of 5.1 per cent in 2000 compared with 5.4 per cent in 1999. Growth in construction was aided by major works such as the Accra Flood Control Programme, the Keta Sea Defence Project, and the Korle-Lagoon Ecological Restoration Project, all of which continued in 2000.

Growth in the mining and quarrying sub-sector at 1.5 per cent in 2000 was dismal compared with 2.9 per

Figure 5 - Gold Output and International Price

Source : Ghana Chamber of Commerce and World Bank.

cent in 1999. The poor performance was attributed to declines in gold production of about 9 per cent in 2000 compared with a 9 per cent gain in 1999. The production shortfall reflected the labour and financial troubles at Ashanti Goldfield that were played out from 1999. The industry sources at home indicated also that the legal and investment framework with respect to mineral rights was a limiting factor to increased production. In addition the failure of the gold price on the international market to recover translated into shrinking profitability.

The services sector continued its impressive growth performance of the last four years, recording a growth rate of 5.4 per cent in 2000 compared with 5.0 per cent in 1999. Developments in tourism and telecommunications led the growth in services. The year 2000 saw a steady increase in both mobile and fixed telephones in Ghana; fixed telephone subscribers increased from 158 398 in 1999 to 191 380 while the three cellular phone operators increased their subscriber base to about 45 000. The tourism sub-sector saw an expansion in the number of tourists from 372 000 in 1999 to 399 000

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**20.0**	**31.5**	**35.4**	**31.2**	**29.3**	**27.8**
Public	14.0	11.3	9.8	9.8	9.2	8.7
Private	6.0	20.2	25.6	21.4	20.1	19.1
Consumption	**88.4**	**81.4**	**80.9**	**88.6**	**94.4**	**98.5**
Public	12.1	10.3	10.8	9.6	8.9	9.0
Private	76.3	71.1	70.0	79.0	85.6	89.5
External sector	**-8.4**	**-12.9**	**-16.2**	**-19.8**	**-23.7**	**-26.2**
Exports	24.5	33.9	33.7	60.9	58.5	57.1
Imports	-32.9	-46.7	-50.0	-80.7	-82.2	-83.3

Source: Authors' estimates and predictions based on domestic authorities' and IMF data.

in 2000 and a 26 per cent increase in tourism receipts between 1999 and 2000.

The growth performance since 1995 has been characterised by high consumption. The level of total consumption that appeared to fall after 1997 surged in 2000 in the private sector. The situation inevitably implied lower domestic savings and a high reliance on foreign savings. Total consumption is expected to remain high in both 2001 and 2002, with the increase in consumption coming from the private sector. The resurgence of private consumption and the consequent low private investment would be worrying in an economy where the private sector is expected to lead in directly productive activities.

Macroeconomic Policies

Fiscal and Monetary Policies

Ghana's fiscal performance in 2000 continued its poor performance of the recent past. The overall budget deficit remained large at 7.9 per cent of GDP in 2000, although the primary deficit as a share of GDP fell from 3.8 per cent in 1999 to 0.4 per cent in 2000, reflecting the external effect on the budget in 2000. The poor fiscal performance in 2000 continued the norm that government budget balances and other fiscal indicators deteriorate tremendously each year that general elections are held. During the 1992 elections the budget balance deteriorated massively from a surplus of 1.6 per cent of GDP in 1991 to an overall deficit of 5.2 per cent of GDP in 1992. Similarly, there was a deterioration of the overall balance in 1996 from the 1995 levels. Such election-induced budget deficits make it appear as if democratic general elections have a negative impact on the macroeconomic stability of the country, especially as the dividing line between operational costs and "vote-buying" expenditures is unclear. Ghana might have to consider other forms of funding elections such as an "election fund" with funding spread over the four years preceding an election. This would avoid the situation where all the high election expenses are financed from the election year's budget.

Relative to GDP government total revenue increased to 19.8 per cent of GDP in 2000 compared with 16.8 per cent in 1999. Tax revenue, which accounted for over 80 per cent of total revenue, increased to 16.3 per cent of GDP in 2000 compared with 13.6 per cent of GDP in 1999 indicating the improvement in the domestic effort at raising revenue. The increase in tax revenue was the result of the increase in the VAT rate by 25 per cent to bring the level to 12.5 per cent. Tax revenues also benefited from two other taxes introduced in 2000 — Ghana introduced ECOWAS community levy of 0.5 per cent of the cif value of imports originating from non-member states of ECOWAS in April 2000; and a special tax of 20 per cent was imposed on so-called non-essential imports including poultry, milk, potatoes, grapes, apples, wheat, flour, chocolates, perfumes, beauty and make-up preparations etc. Non-tax revenue also grew by about 27 per cent in 2000. Diversiture receipts grew tremendously by as much as 509 per cent in 2000, owing to an extensive campaign during the year to recover outstanding payments. On the expenditure side, in 2000 total government expenditure relative to GDP increased to 27.7 per cent compared with 26.2 per cent in 1999. However, in absolute terms there was a 47.6 per cent increase in total expenditure in 2000. This represented the highest single increase in government expenditure since 1996, and stood in contrast to the declining trend in increases in government expenditure of the recent past, which had signalled some sort of improvement in government expenditure management with the introduction of the Medium Term Expenditure Framework (MTEF) in 1998. The major item in government expenditure during 2000 that increased significantly to mark a departure from the recent past was interest payments on external and domestic debt. These items of expenditure rose in nominal terms by 110.8 per cent and 70 per cent respectively in 2000. These increases were explained by the exchange rate crisis, which forced a massive increase in the cedi equivalent of external interest payments, while domestic monetary developments forced increases in interest rate on the Treasury bill. In 2000, wages and salaries as a percentage of GDP fell compared with 1999 as government was hiring no new employees while retrenching others. Although the government granted a 20 per cent increase in the minimum wage in November 2000, its impact on the budget was not immediate as the implementation date was in 2001. Amid the rising recurrent spending, capital expenditure fell from 9.8 per cent of GDP in 1999 to 9.2 per cent in 2000, continuing the declining trend of public investment expenditure of the recent past. The situation reflected the public sector that was gradually withdrawing from directly productive activities. However, the private sector was at the same time investing less, pointing to problems ahead in refurbishing the capital stock of the economy.

The government's expenditure arrangements in 2000 presented some worrying developments. During 2000 the government spent the equivalent of about 5 per cent of total expenditure to settle arrears owed to road contractors and other creditors. These expenditures were, however, non-budgeted government outlays and represented about 273 per cent increase in arrears payments compared with 1999. The omission of such large outlays from the budget raises issues about the degree to which policy decisions embodied in the budget could be said to reflect a rational choice among available alternatives in accordance with priorities.

The 2001 budget appeared to accept that the restoration of fiscal stability was crucial to jump-start the stalled economy. The budget proposed to reduce the overall deficit from the observed 7.9 per cent of GDP in 2000 to 5.2 per cent of GDP in 2001. The outlook on this proposal appears bright given the array of measures already taken and the new taxes introduced to meet anticipated expenditure increases. In February 2001, petroleum prices were doubled in order to staunch operating losses at the state-owned refinery, and similar increases in electricity and water tariffs took effect in May 2001 to curtail losses in these utilities. The budget passed in March 2001 raised taxes and curtailed expenditure appropriations, and a further package of fiscal measures was devised for implementation from mid-2001. New taxes raised in the budget include the development levy, profit tax on mining firms and increased airport tax. The government was successful in dialoguing with business to accept the taxes to avoid constraining production. These measures are expected to yield dividend as the domestic tax effort is expected to improve to 16.8 per cent of GDP in 2001 and projected to increase further to 17.4 per cent of GDP in 2002. These improvements will contribute to improving the budget outturn to an expected primary surplus of 0.9 per cent of GDP in 2001, with further expansion in the surplus to 1.5 per cent of GDP in 2002.

The year 2000 was a particularly difficult one in terms of monetary developments. The government's aim was primarily to "bring down inflation and also to stabilise the cedi," for which the monetary policy objective was to sustain the moderate growth in money supply that was achieved in 1999. For the year 2000, broad money supply (M2+), planned to reach an end-of-year growth of 16 per cent, rather grew by 39.8 per

Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[a]	**22.0**	**18.2**	**16.8**	**19.8**	**19.7**	**20.0**
Taxes	12.7	13.5	13.6	16.3	16.8	17.4
Grants	3.6	2.2	1.7	2.1	1.5	1.2
Total expenditure and net lending[a]	**30.4**	**28.6**	**26.2**	**27.7**		
Current expenditure	16.4	17.3	16.4	18.5		
Excluding interest	*12.2*	*10.3*	*10.8*	*11.0*	*10.3*	*10.4*
Wages and salaries	5.6	5.5	5.6	5.2	4.9	4.9
Interest payments	4.2	7.0	5.6	7.5		
Capital expenditure	14.0	11.3	9.8	9.2	8.6	8.2
Primary balance	**-4.2**	**-3.4**	**-3.8**	**-0.4**	**0.9**	**1.5**
Overall balance	**-8.4**	**-10.4**	**-9.4**	**-7.9**		

a. Only major items are reported.
Source: Authors' estimates and predictions based on domestic authorities' and IMF data.

cent by the end of the year. The Net Domestic Asset (NDA) of the banking system drove the increase in broad money in 2000. Claims on the central government and on the rest of the economy grew by 112.1 per cent and 78.5 per cent respectively during 2000. The high growth in claims on the government reflected the intensive government borrowing from the banking system to finance the fiscal deficit of the year as well.

Inflation went up strongly in 2000 exacerbated by pressures from both the fiscal and external sectors. While it has been the norm for Ghana to register double-digit rates of inflation in the last decade, the major improvement that was achieved in 1999 with the annual average inflation rate of 13.8 per cent was quickly obliterated in 2000 as the end of the year rate reached 40.5 per cent. The fiscal measures — the increase in VAT in June, the 20 per cent special tax on "non-essential" imported items and the increase in fuel prices — combined with the depreciation of the cedi to propel increases in prices of goods in 2000. Even at the high rate, it is safe to say that the rate of inflation in 2000 was cushioned by some mitigating factors; for instance, the government did not allow the full pass-through of changes in the price of petroleum products on account of the increase in crude prices on the world's market and the depreciation of the exchange rate. This was a difficult policy decision in an election year. Inflation is indicated to have fallen to 32 per cent in August 2001. The fall in inflation is giving some credence to the government's claim of restoring stability, albeit slowly, to the economic fundamentals. The decline in the rate of inflation is expected to be maintained in 2001 to result in a yearly average of 30.6 per cent, and then decline to 22.1 per cent in 2002.

Interest rates generally edged upwards in 2000 along with the inflationary trend. The prime market rate on the 91-day Treasury Bill rose from a level of 36.7 in June to a peak of 40.6 per cent before declining to 38.1 per cent by end-2000. Commercial banks increased their base rates accordingly, but in the end the spread between the borrowing and lending rates in commercial banks remained very high at around 30 per cent with adverse consequences for financial inter-mediation.

Ghana operates a fully flexible foreign exchange rate system under which the foreign exchange of the cedi is market-determined and foreign currency readily obtained either through commercial banks or licensed foreign exchange bureaux. The inter-bank rate and the *bureaux de change* rate came closer nearing equity by end-1999, reflecting a market free of restrictions. The terms of trade shock in 2000, coupled with the reduced inflows of external aid, negatively affected the foreign exchange market. The cedi depreciated in nominal terms by 57 per cent against the US dollar in 2000 to follow a 49 per cent depreciation in 1999, compared with a 4.1 per cent depreciation recorded over 1998. With the reported inflation rates, the real exchange rate also depreciated sharply. As market operations shifted to the *forex bureaux*, the difference in the rates between the inter-bank and *forex bureaux* widened; the spread increased to about 5 per cent by end-2000.

External Position

Ghana's long history of reforms has delivered a most liberal trade regime. External trade tariffs have progressively been lowered to the current top rate of 22 per cent and simplified to four lines. The country's balance-of-payments performance remained poor in 2000 largely owing to the terms of trade movements. The trade deficit widened as the surge in imports was not matched by improvements in exports. Total export receipts in 2000 were $2.09 billion compared with $2.12 billion in 1999. The decline was explained by lower prices of cocoa and gold on the world market. Total receipts from cocoa in 2000 were $436.8 million compared with $552.3 million in 1999 even though export of cocoa beans was stable at around 347 000 metric tons in both years. Gold exports, however, declined from 2 551 000 fine ounces in 1999 to 2 504 000 fine ounces in 2000 attributed largely to production problems at Ashanti Goldfields. Imports were estimated at $2.87 billion in 2000 showing a fall of 11 per cent on the 1999 level. Non-oil imports declined by about 20 per cent in 2000 owing to the sharp depreciation of the cedi. The value of oil imports rose by 56 per cent owing entirely to the increase in crude prices. There was a rise in private transfers in 2000 by about 5 per cent on their 1999 level to $495 million, the highest level in over a decade. These transfers were remittances of Ghanaians living abroad, especially in Europe and the United States, and kept the current account balance from worsening in spite of the widening trade deficit. The trade deficit is expected to widen further in 2001 and 2002. Exports are expected to fall marginally in 2001 on account of the continual depression in commodity prices. These will combine with higher levels of imports as the economy rebounds in 2001 and 2002 to result in the worsening trade balance.

Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-3.9	-10.8	-14.5	-18.4	-21.4	-23.5
Exports of goods (f.o.b.)	22.2	28.0	27.6	49.3	47.9	46.8
Imports of goods (f.o.b.)	-26.1	-38.8	-42.1	-67.7	-69.3	-70.3
Services	-4.5	-2.1	-1.7	-1.4		
Factor income	-2.0	-1.9	-1.7	-3.1		
Current transfers	8.0	9.9	8.1	16.3		
Current account balance	**-2.3**	**-4.8**	**-9.8**	**-6.6**		

Source: Authors' estimates and predictions based on domestic authorities' and IMF data.

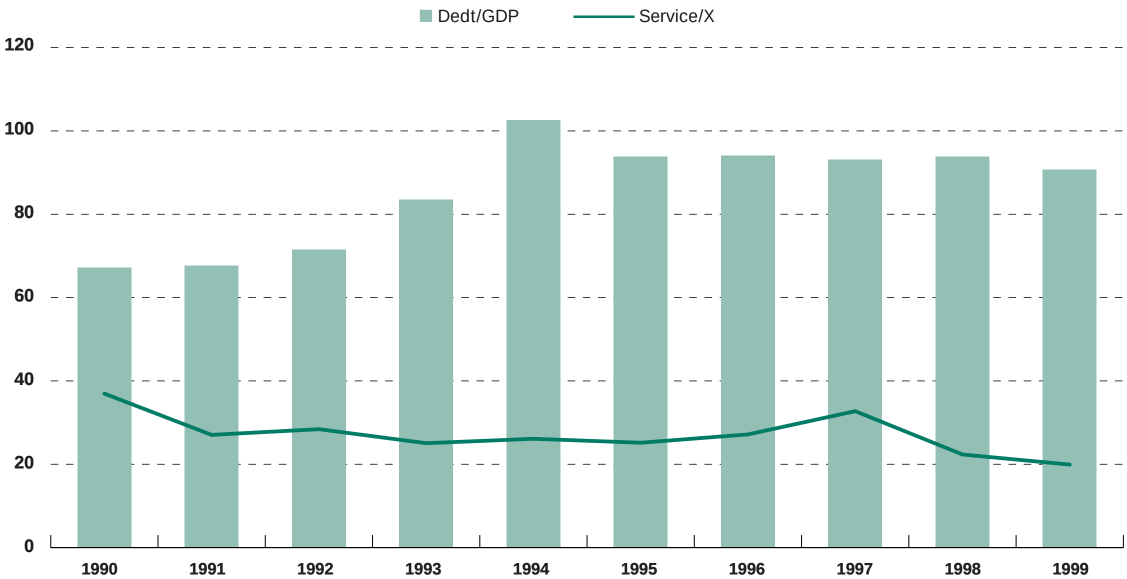
The total stock of Ghana's external debt stood at $6.93 billion at end-1999. In terms of creditor base, 62 per cent was owed to multilateral institutions, 25 per cent to bilateral creditors, and 13 per cent to commercial banks. The total debt represented about 90 per cent of total GNP for the year. Ghana's debt burden qualified it for the Enhanced HIPC debt relief initiative. The NPV of external debt to fiscal revenue and the NPV of external debt to export criteria would have been 557 per cent and 152 per cent respectively at end-2000 after the application of traditional debt relief mechanisms, both above the enhanced HIPC thresholds of 250 per cent and 150 per cent respectively. The Kufour Administration duly indicated in the 2001 budget statement its intention of seeking relief under the Initiative.

The past administration had taken the opposite position when it announced to international donors in May 1999 that Ghana would not resort to the HIPC initiative for debt relief because it wished to protect access by Ghana's private sector to capital markets and maintain its long record as a responsible debtor. In addition, the previous government perceived that the volume of concessional loans from Japan (Ghana's largest bilateral donor), and possibly other donors, would be reduced if Ghana decided to benefit from the HIPC initiative. However, Ghana's current position of dwindling external reserves and flagging international creditworthiness made recourse to HIPC an easier choice for the government. Based on IMF calculations Ghana's debt burden will reduce significantly under enhanced HIPC. The ratio of debt service to exports would decline from 17 per cent in 2001 to 11 per cent by 2003, and remain stable at 11 per cent thereafter. The IMF estimated that assistance under enhanced HIPC could translate into an average annual debt service reduction of about $170 million over the 2002-2020 period. The debt to revenue ratio would decline from 558 per cent in 2001 to 160 per cent in 2003 and to an average of about 140 per cent over the 2001-2020 period. Ghana is expected to reach the decision point in December 2001.

Structural Issues

Ghana continues in its long history of structural and macroeconomic reforms dating from 1984, to increase private sector activity and increase investment in its areas of comparative advantage as well as in other areas. The country's comparative advantages include resource availability in gold, bauxite, cocoa and timber which currently drives the economy; and in the peace

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

tradition of the country with an absence of personal security problems.

Ghana started a privatisation programme in 1995, which initially attracted international attention with major sales such as the Ashanti Goldfields Corporation, Ghana Telecom, Social Security Bank, and the Ghana Ports and Harbours Authority. However, out of the 139 enterprises earmarked for divestiture in 1995, only 60 had been sold by end-2000. The main obstacles to investor interest include delays in outsourcing companies for divestiture, and problems relating to land titles. The new government decided in early 2001 to continue with the divestiture programme. However, it also decided as a first step to carry out financial and managerial audit of the Divestiture Implementation Committee (DIC) — the body responsible for the programme — and to audit and review some divested companies for fraud and corruption. In effect, any major drives to get the enterprises sold have been put on the back seat for now. Not surprisingly, out of about 15 enterprises the government expected to sell in 2001 only one, Mim Timber Company Limited, had been sold by August 2001.

Ghana continues to carry out reforms in the financial sector. Earlier reforms included the authority for private banks to operate; removal of credit controls and liberalisation of interest rates and charges; the enactment of modern prudential regulations. Also, the capacity and efficiency of the central bank were improved through reorganisation of its structure, the strengthening of its procedures and capabilities. In addition, there were the implementation of management, institutional and financial restructuring packages for the commercial banking sector. Currently, while much of the banking system is functioning reasonably well, some banks continue to experience problems. In 1999 and 2000, the BOG closed down 21 rural banks and three commercial banks were also liquidated. The banking system is currently made up of 17 commercial and 113 rural/community banks. The major financial institutions are currently undertaking extensive modernisation including installation of ATMs.

The Ghana Stock Exchange, was adjudged the best performing market in Africa by the International Federation of Stock Exchanges and Africa's best performing market by the Standard New York Securities

Inc. respectively in 1998. Since then, the performance of the market has been unimpressive. Following its worst year ever in 1999 when there was 8.7 per cent decline in the GSE all-share index, the market managed a 16.5 per cent rise in 2000. However, the rise in the index was due to the performance of only two companies as there was general decline in share prices of most companies. Money market instruments attracted invisible funds away from the capital market owing to the high nominal interest earned especially on the secured Treasury bills, as compared to the risk attributed to the capital market instruments. The stock market has seen a very slow recovery in 2001, with the all-share index rising by only 5 per cent during the first half of the year. Investors appear still cautious awaiting definite outcomes to the new government's economic measures.

In the area of investment policies Ghana has pursued aggressive initiatives to market the country as a destination of choice for foreign investment. Earlier initiatives included the enactment of the new investment code and free zone programmes. The Ghana Gateway Project under the free zone programme registered 32 projects during the first quarter of 2001 with investors from such diverse areas as the United Kingdom, India, China, the United States, Germany, Lebanon, Nigeria, South Africa and Malaysia. The government has also been involved in some specific actions to attract investment including the 1998 high profile visit to Ghana by US ex-President Clinton and the annual African/African-American Conference. In response to these initiatives, in 1999 Ghana welcomed 16 major delegations of prospective investors. In 2000, these visits increased to 23. Ghana is currently pursuing regional integration through the sub-regional body of the Economic Community of West African States (ECOWAS). Already, a deepening of integration is observed as Ghana offers neighbouring Burkina Faso port and harbour facilities. Ghana and Nigeria, with the blessings of other ECOWAS countries, in 1999 formed the fast- track approach towards sub-regional economic integration, with the ultimate goal of a single monetary zone with a common central bank issuing a single currency. In line with its commitment to the regional body, the new administration has established a ministry responsible for regional co-operation.

Political and Social Context

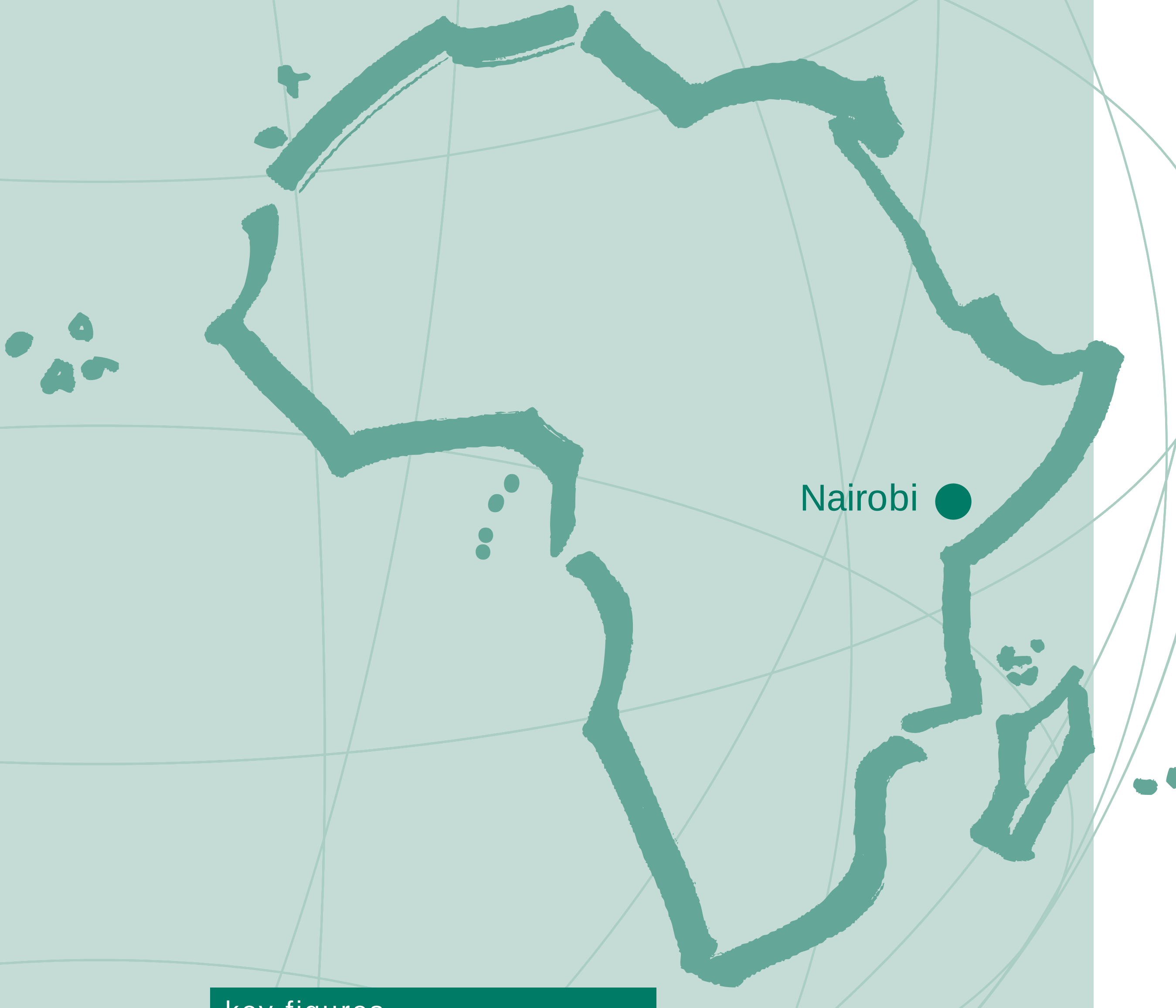
Ghana is currently a politically stable country, and has been since 1992 when democratic elections were held after a decade of military dictatorship. The country's political stability adds to its growing track record of stability in a region of political upheaval. The 2000 presidential and parliamentary elections marked a major milestone as there was smooth transition of power from a ruling government to the opposition through the ballot box; a situation uncommon in Africa. The government is stable, and democracy appears to be working well in the country. A number of constitutional bodies have recently been set up in the country to promote democracy, and enhance probity and accountability. These include the Commission on Human Rights and Administrative Justice (CHRAJ) and the Serious Fraud Office (SFO). These are in addition to the Economic Crime Unit of the Ghana Police Service. Also, Ghana is among seven African countries that are piloting the new integrated strategy to fighting corruption sponsored by the World Bank and other developmental partners.

Poverty still remains a problem in Ghana even though the Ghana Living Standards Survey (1999) indicates that the level of poverty has declined since 1992. Estimates of the government and the World Bank establish that 29.4 per cent of Ghanaian households lived below the poverty line of $1 a day in 2000. The GLSS (1999) indicated that poverty in Ghana remains a rural problem, with about 80 per cent of the poor living in rural areas. In terms of localities, significant poverty reduction has been reported in Accra and rural forest areas, while modest reductions were recorded in other urban areas in coastal districts. In terms of socio-economic groups, reductions in poverty were large among employees of public sector, private formal sector, export crop farmers as well as non-farm self-employed. While poverty decreased modestly for food crop farmers, it increased for the non-working population. The government currently utilises direct intervention measures to help the poor. In 2000, the government allocated the equivalent of about 17.4 per cent of total government expenditure for the provision of basic services for the poor, including free medical attention for pregnant women, infants and the aged.

Ghana's successes in health care delivery are in the areas of physical access to health care delivery facilities and improved quality of health care. According to Ministry of Health data, life expectancy had risen to 59 years in 1998. While maternal mortality reduced from 740 per 100 000 in 1990 to 214 per 100 000 by 1998, the infant mortality rate declined to 60 per 1 000 live births over the same period. Infant vaccination for the six killer diseases has risen from 51 per cent in 1998 to 70 per cent in 2000. Also, immunisation of DPT3 improved from 73 per cent in 1999 to 80 per cent in 2000. Severe malnutrition among children had also reduced from 29.7 per cent in 1997 to 26 per cent in 1998. Nonetheless, there are still serious health problems. About 60-70 per cent of the country's health problems relate to communicable and preventable diseases including epidemics. In 2000 there was an upsurge of measles. At end-June 2000 more than 18 000 cases of measles were reported compared with 9 000 for 1999. On the positive side, the incidence of guinea worm — a water-borne disease that is prevalent in the poverty-stricken rural areas — assumed a downward trend: the number of cases reported in 2000 of 7 402 was down by 18 per cent on the number in 1999. Another source of worry is the increasing trend in HIV/AIDS. Although no official figures are given on prevalence rates some estimates put the infection rate at 4.6 per cent of the adult population. By end-September 2000 a cumulative total of 41 229 cases had been reported. Surveillance revealed 3 931 new cases between January and September 2000. In 2000, there was the successful introduction of the female condom and the inauguration of the National AIDS Commission as efforts to combat the spread of the disease.

The government's education policy continues to emphasise universal basic education and the reduction of adult illiteracy. The education indicators for Ghana indicate that by 1999 the adult illiteracy rate stood at 50 per cent, with a higher rate for females (63 per cent) than males (36 per cent). These figures put Ghana behind the rest of Africa where the average illiteracy figure is 43.5 per cent, with female and male ratios of 51.6 and 33 per cent respectively. On the other hand, in terms of enrolment the Ghana figures are better with total primary school enrolment (1999) of 82.8 per cent compared with 71.2 per cent for Africa. In 2001 the Ghana Ministry of Education estimates that while enrolment was 84.8 per cent for boys in primary school, that of girls was 74.4 per cent, suggesting that the significant gender gap in primary school enrolment was narrowing. However, there is a significant gap in the primary school enrolment figures between the urban and rural areas in Ghana. While the rate in urban areas increased from 74.8 per cent in 1992 to 89.5 per cent in 1999, the increase in the rural areas was from 51.6 per cent to 65.1 per cent during the same period.

Kenya



key figures

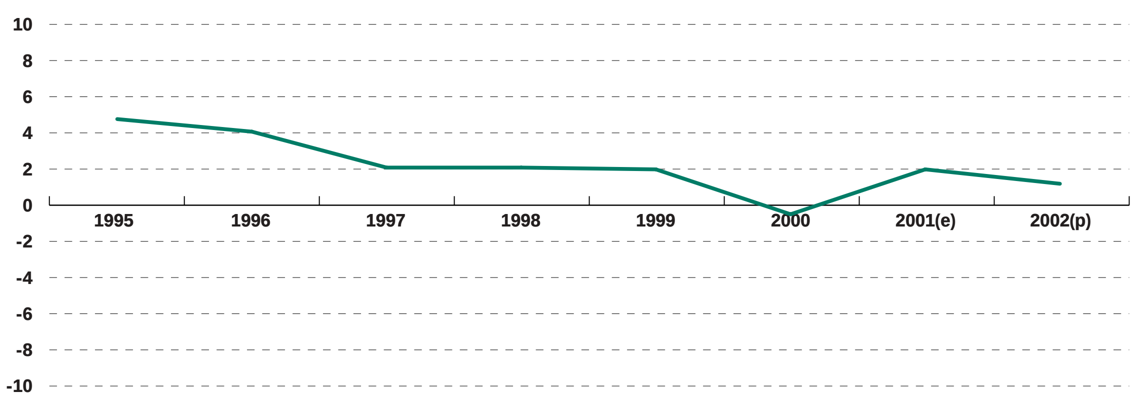
- Land area, thousands of km2 : 569
- Population, thousands (2000): 30 669
- GDP per capita, $ (2000): 338
- Life expectancy (1995-2000): 52.2
- Illiteracy rate (2001): 16.6

Kenya

THE KENYAN ECONOMY CONTINUES to register dismal performances with declining economic growth rates in the past four years. In 2000, real GDP growth slumped to –0.5 per cent following weak macroeconomic performance and governance-related problems that continue to pitch Kenya against the major international donors, thereby depriving the country of much needed external inflows. The deteriorating economic performance is reflected in poor fiscal performance, rising inflation and a depreciating local currency. The external position of the country also continues to deteriorate as a widening trade deficit, resulting from poor export performance, reflects in a widening current account deficit. Real GDP growth is estimated to remain weak at 2.0 per cent in 2001 and is projected at 1.2 per cent in 2002 as the government makes renewed growth-enhancing efforts, including renewed efforts to meet donor conditions in order to maintain the flow of international assistance. Although Kenya has a relatively long history of economic reforms to liberalise the economy, and has made some progress, the country's commitment in the area of privatisation has been called into question. Also, poor economic governance characterised by corruption at all levels of public life is a major contributor to the poor economic performance as well as a matter of contention between Kenya and international donors. In addition, the democratic dispensation of the country is now under stress with bitter struggles for the succession of President Daniel arap Moi. Kenya's declining economic performance, coupled with poor economic governance, is reflected in the widespread poverty situation of the country, with declining health indicators compounded by a rising HIV/AIDS prevalence rate.

Poor Governance is a major contributor to the poor economic performance in Kenya as well as a matter of contention with donors

Figure 1 - Real GDP Growth

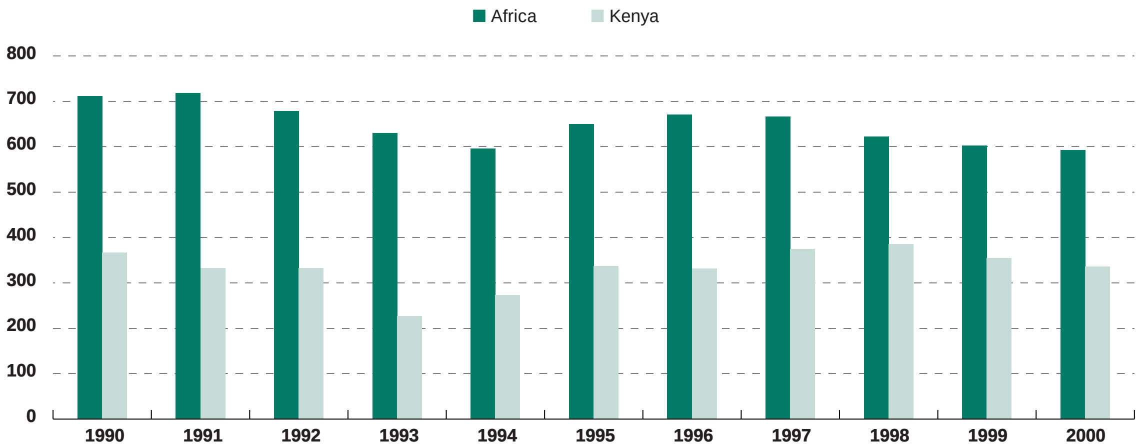


Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Recent Economic Developments

The Kenyan economy's growth rate has continued to decline since 1997, with real GDP growth rate slumping to -0.5 per cent in 2000 compared with 1.9 per cent in 1999. Several factors have accounted for the continuous decline. In 2000 these factors included poor economic management; inefficiency in the public sector, the impact of withdrawal of donor support from 1997 and adverse weather conditions. Real GDP growth is estimated to remain weak at 2.0 per cent in 2001 and is projected at 1.2 per cent in 2002

Figure 2 - GDP Per Capita in Kenya and in Africa (current $)



Source: Authors' estimates based on IMF data.

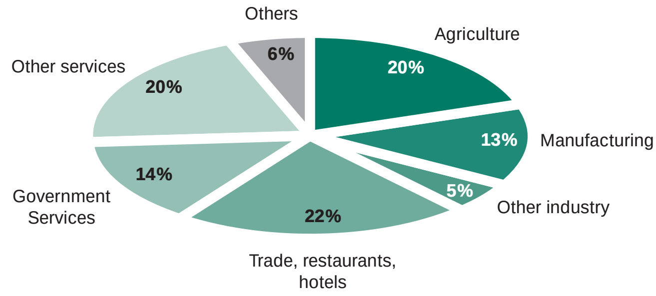
as the government makes renewed growth-enhancing efforts, including renewed efforts to meet donor conditions in order to maintain the flow of international assistance.

The decline in economic activity in 2000 was reflected in all the major sectors of the economy. The agricultural sector growth rate decelerated from 1.2 per cent in 1999 to -2.4 per cent in 2000. Bad weather conditions, poor international prices of agricultural commodities and poor infrastructure contributed to the decline. In the crops sector, for the second consecutive year, maize production declined by 14 per cent from 233 500 tons in 1999 to 201 200 tons in 2000, resulting in the importation of about 409 000 tons of maize for relief and commercial purposes. Drought, inadequate supply of quality seeds, poor crop husbandry and high cost of farm inputs were among the factors that contributed to the decline in maize output. Similarly, wheat production was low in 1999 and 2000 registering 55 400 tons and 73 800 tons respectively compared with 177 100 tons produced in 1998; Kenya imported 636 000 additional tons of wheat in 2000. In the cash crop sector, coffee production increased by 47.9 per cent from 68 100 tons in 1999 to 100 700 in 2000. However, the effect of low prices due to the glut in international markets is expected to reverse the trend in increased production in 2001. Tea production declined by 5 per cent from 248 700 tons in 1999 to 236 300 tons in 2000. The decline was attributed to the drought and frost in some tea- growing areas.

The industrial sector as a whole declined by 1.5 per cent in 2000 compared with the marginal growth of 1.2 per cent in 1999. The manufacturing sub-sector was affected by the decline in agricultural performance due to the reduction in the supply of raw materials for agro-based industries. Output in the grain-milling, sugar, tobacco, and bakery products industries declined by big margins of 21.5 per cent, 16.9 per cent, 14.4 per cent and 12.9 per cent respectively in 2000. Other industries such as textiles, chemicals and transport continued with their downward trend as the foreign exchange squeeze affected production. However, output of plastic and petroleum products, beverages and leather and footwear industries that have a strong export market continued to record upward trends. Industrial production activity was generally affected by inadequate public utilities, especially water and energy. Metered power supply to the commercial and industrial sector declined by 5.4 per cent, leading to increased use of generators as an alternative source of power. Consequently, there was reduced plant capacity utilisation leading to less output.

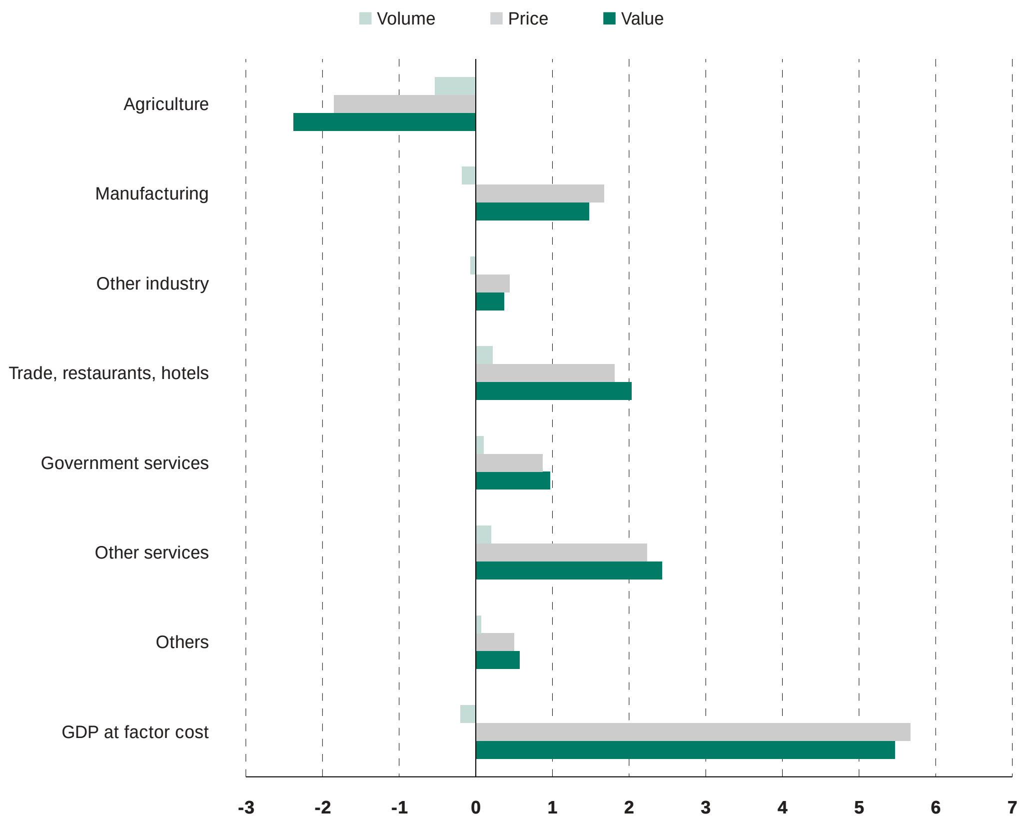
In the services sector, the performance of tourism continued to pick up in 2000 albeit at a slower pace than in 1999. The number of visitor arrivals, which had

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates based on IMF and domestic authorities' data.

Figure 4 - Sectoral Contribution to GDP Growth, 1999/2000



Source: Authors' estimates based on IMF and domestic authorities' data.

grown by 8.4 per cent in 1999, grew further by 6.9 per cent in 2000. The slower growth in the number of visitors in 2000 was due to the political unrest and insecurity in the country, coming at a time when other tourist destinations such as Uganda and South Africa were offering more competitive environments than Kenya. The transport and communications sub-sector recorded improved performance in 2000. The sector grew by 14.2 per cent in the year, compared with 11.3 per cent in 1999. The higher growth was derived from the volume of imports handled, which rose by 11.9 per cent.

Table 1 - Demand Composition (percentage of GDP)	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**22.5**	**17.2**	**15.6**	**16.4**	**15.8**	**15.0**
Public	8.1	6.4	5.8	6.1	6.1	5.8
Private	14.4	10.8	9.7	10.2	9.8	9.3
Consumption	**84.1**	**90.7**	**90.4**	**95.7**	**97.9**	**98.2**
Public	14.8	16.1	16.5	18.5	19.1	18.6
Private	69.3	74.6	73.9	77.2	78.8	79.7
External sector	**-6.6**	**-7.8**	**-5.9**	**-12.1**	**-13.7**	**-13.3**
Exports	32.6	25.2	24.4	26.5	23.5	22.0
Imports	-39.1	-33.0	-30.3	-38.5	-37.2	-35.3

Source: Authors' estimates and predictions based on domestic authorities' data.

Kenya's growth performance has been underlined by a consistently high level of domestic consumption (public and private). Consequently, domestic investment as a share of GDP had continued to fall. Total consumption is expected to continue the upward trend and is estimated at 98 per cent of GDP in 2001 and 2002 while domestic investment falls from 16.4 per cent of GDP in 2000 to a projected 15.0 per cent of GDP in 2002.

Macroeconomic Policy

Fiscal and Monetary Policies

The Kenyan government's revenue position deteriorated sharply in 1998/99 and it remained precarious in 1999/2000; the ratio of revenue to GDP fell to 24 per cent as the government undertook no domestic revenue-enhancing measures in 1999/2000. However, external grants increased slightly, rising from 0.7 per cent of GDP in 1998/99 to 1.2 per cent of GDP in 1999/2000. This followed the resumption of aid after Kenya signed the three-year poverty reduction and growth facility (PRGF) at the start of 2000 to mark what appeared to be the easing of Kenya's frosty relations with international donors. However, the easing of the frosty relation came unstuck at end-2000 leading to the suspension of the second of three IMF/World Bank tranches under the PRGF that was due to be released in December 2000, with adverse implication for the budget of the 2000/01 fiscal year.

In 1998/99, the government made major efforts to reduce the level of government expenditure. Measures taken included stricter monitoring of ministerial budgets; rationalisation of expenditure through the review of

Table 2 - Public Finances[a] (percentage of GDP)	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Total revenue and grants[b]	**30.2**	**28.0**	**27.2**	**24.0**	**24.1**	**24.1**
Tax revenue	25.1	n.a.	23.3	19.9	20.0	20.0
Total expenditure and net lending[b]	**31.2**	**29.7**	**27.3**	**24.0**		
Current expenditure	24.4	n.a.	22.3	20.6		
Excluding interest	*17.0*	*n.a.*	*16.8*	*16.6*	*17.1*	*16.5*
Wages and salaries	9.9	n.a.	8.8	8.8	8.9	8.8
Interest on public debt	7.3	5.8	5.5	4.0		
Capital expenditure	6.9	n.a.	5.0	3.4	3.3	3.2
Primary balance	**6.3**	**4.1**	**5.4**	**4.0**	**3.7**	**4.4**
Overall balance	**-1.0**	**-1.7**	**-0.1**	**0.0**		

a. Fiscal year begins 1 July.
b. Only major items are reported.
Source: Authors' estimates and predictions based on domestic authorities' data.

government functions in the ministries; and shedding of non-essential government services and redundancies in the civil service. In addition, the number of ministries was reduced from 27 to 15. These measures succeeded in reducing total expenditure to 27.3 per cent of GDP in 1998/99 compared to 29.7 per cent in 1997/98. In 1999/2000, total expenditure came down to 24 per cent of GDP. Notwithstanding the fall in total expenditure, the government was not successful in all its expenditure control measures. Salaries and wages remained at the 1998/99 level of 8.8 per cent of GDP in 1999/2000 because the government failed in its expenditure control effort by not completing planned retrenchment of established civil service posts. This failure was damaging as civil service salaries alone accounted for about 40 per cent of ordinary revenues and constituted about 30 per cent of total expenditure. At the same time, poor remuneration in the civil service was behind the decline in discipline and low morale, which in turn has led to increasing levels of corruption in the country. Another item of current expenditure that increased in 1999/2000 was the government's purchases of goods and services, which went up from 8.8 per cent of GDP in 1998/99 to 9.5 per cent of GDP in 1999/2000. The increase was necessary as the government had to undertake a number of projects in the areas of drought response, emergency power supply and road rehabilitation under the El-Niño Emergency Project. In the event, the primary balance fell from 5.4 per cent of GDP in 1998/99 to 4 per cent of GDP in 1999/2000.

The outlook on the government's finances is a slight reduction in the primary balance estimated at 3.7 per cent of GDP in 2000/01 and projected at 4.4 per cent of GDP in 2001/02. On the revenue side, the improvement is expected to come from enhanced revenue measures including the increase in the VAT rate from 15 per cent to 18 per cent in 2000, the tightening of policies and procedures for tax exemption. Moreover, the Kenya Revenue Authority is continuing its efforts on education and sensitisation on tax compliance.

The Kenyan government has been successful over the past three years at maintaining a tight monetary policy of keeping money supply within the targeted growth rate of less than 8 per cent per annum. This success was continued in 2000. Broad money supply, M3, expanded by 1.6 per cent in 2000 compared with 2.8 per cent in 1999. The deceleration in money supply growth was in line with the economic slowdown during 2000 and was mainly attributed to slackened demand for bank credit. Credit to the private sector (including other public sector) increased by 4.5 per cent in 2000, down from 9.3 per cent in 1999. Credit to the central government declined by 3.6 per cent in 2000 following a drop of 3.8 per cent in 1999. Actually, the Central Bank of Kenya Amendment Bill (1998) placed a limitation on the new borrowing requirements of the government to 5 per cent of expected annual revenues. The government essentially operated within this limit in 1999 and 2000. On the other hand, Net Foreign Assets (NFA) increased significantly by 57.1 per cent in 2000, reflecting a shift to asset portfolio in favour of deposits denominated in foreign currency holdings as a hedge against the depreciation of the Kenyan shilling.

The overall inflation rate increased from 3.5 per cent in 1999 to 6.2 per cent in 2000. The rise in inflation was explained by the increase in prices of basic foodstuffs. Other factors including the increase in the VAT rate, depreciation of the shilling against the US dollar and the rise in petroleum products contributed to the inflationary pressures. The rate of inflation is expected to be maintained at single-digit figures and is estimated at 5.3 per cent in 2001 as the first quarter of 2001 has witnessed decreases in the prices of food items such as fruits and vegetables owing to unexpected rains in January 2001. The rate of inflation is projected at 5.4 per cent in 2002.

In an attempt to maintain real interest rates, Parliament approved in 2000 the Central Bank Amendment Bill which obliged commercial banks to fix the lending and deposit rates at respectively 4 percentage points and 8 percentage points above the 91-day Treasury bill rate. The government's intention was to control the hike in interest rates, which was experienced in the two preceding years. However, this was seen as a step backwards in the market liberalisation which was completed in 1995. The passing of this Bill by Parliament and its subsequent approval by the cabinet were one of the reasons for the withholding of the second tranche of IMF PRGF. However, as the economy slowed down in 2000, the principal interest rates declined. The average interest rate for the 91-day Treasury bill eased to 9.52 per cent in July 2000, but subsequently edged upwards to settle at 13.47 per cent in December 2000.

Kenya has maintained a flexible exchange rate system since 1995. The Kenya shilling weakened against the US dollar by about 6.5 per cent in 2000 as the economic fundamentals weakened. However, the shilling strengthened against other currencies including the pound Sterling, the euro and the Japanese yen by 1.4 per cent, 1.3 per cent, and 4.8 per cent respectively. The strength of the shilling against these currencies however reflected the substantial weakening of these currencies against the US dollar in the international markets in 2000.

External Position

Kenya has maintained a liberalised external trade system since 1993 and has progressively reviewed its trade tariffs downwards to the current top rate of 22 per cent. The current trade regime is operated within the framework of the COMESA free trade area launched in October 2000. The government intends to adopt by end-2001 a 100 per cent tariff reduction on goods from the COMESA member states. The importance of regional groupings to Kenya has been reflected in its direction of trade. Export to COMESA rose by about 6 per cent in 2000 to account for 42 per cent of total exports. Remaining exports went to the EU (29 per cent), Middle East (5 per cent) and Far East (11 per cent). The value of imports from COMESA countries rose by 45 per cent in 2000 to account for 9 per cent of total imports. The EU continued to be the main source of imports with 31-percentage share of total imports followed by Middle East (30 per cent) and Far East (20 per cent).

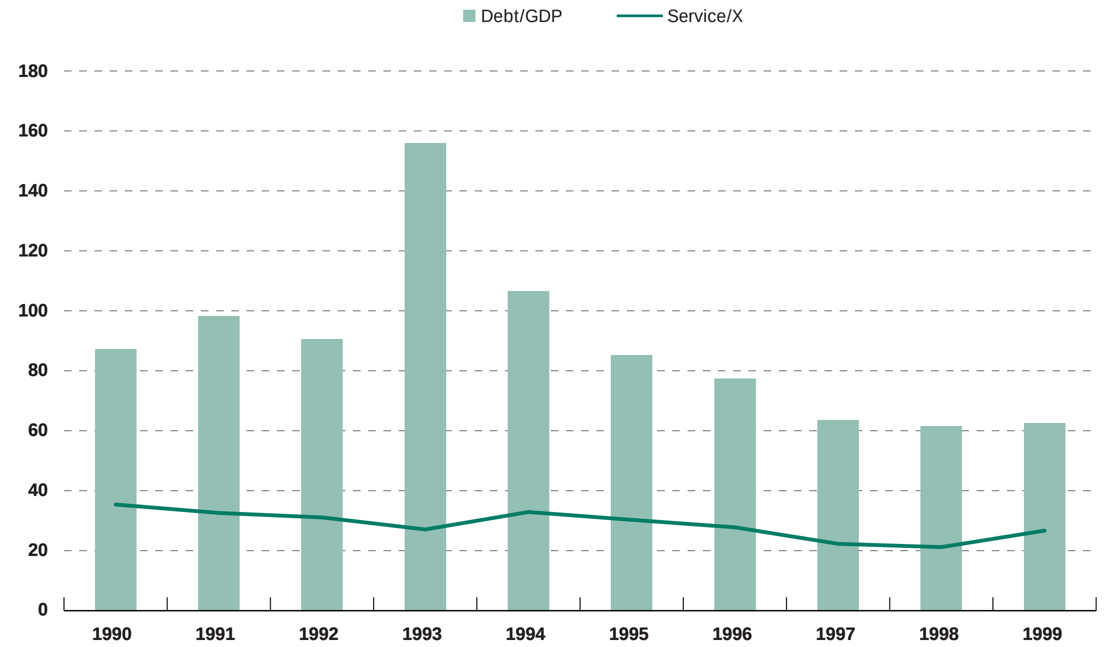
Kenya's poor external performance continued in 2000 with the trade deficit widening from 8.4 per cent of GDP in 1999 to 14.4 per cent in 2000 as a result of unmatched growth in imports and exports. The widening trade deficit was reflected in the deterioration in the current account deficit, which increased from 2.3 per cent of GDP in 1999 to 5.4 per cent of GDP in 2000. Domestic exports of goods performed poorly with the value of goods exported increasing by less than 1 per cent in 2000. The sluggish performance of export earnings was mainly due to the fact that over three-quarters of the principal export commodities recorded a decline in quantities and/or reduction in price. The principal export commodities were tea, horticulture, coffee and petroleum products, which jointly contributed 64.7 per cent of the domestic export earnings in 2000. The export quantities of horticulture decreased by 3.3 per cent in 2000, while the volume of tea exported declined by 16.5 per cent. Export quantities of coffee increased by 21.5 per cent but its value suffered from international price decline. The total value of imports of goods increased by 11.6 per cent in 2000. Imports of industrial machinery went up to 15.9 per cent of the total import bill in 2000 compared with 14.9 per cent in 1999. The increase was largely a result of importation of electrical generators to cater for the shortfall in power supply as a consequence of the drought. The import value of crude petroleum rose by 87.5 per cent owing to increases in the international price of the commodity.

Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-8.2	-9.0	-8.4	-14.4	-14.9	-14.2
Exports of goods (f.o.b.)	21.3	17.8	16.0	17.0	15.5	14.5
Imports of goods (f.o.b.)	-29.5	-26.8	-24.5	-31.4	-30.3	-28.8
Services	1.7	1.1	2.6	2.1		
Factor income	-3.5	-1.1	-1.7	-1.2		
Current transfers	4.4	4.2	5.3	8.0		
Current account balance	**-5.6**	**-5.0**	**-2.3**	**-5.4**		

Source: Authors' estimates and predictions based on domestic authorities' data.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

The outlook on the external position remains bleak as the trade deficit is estimated to rise to 14.9 per cent of GDP in 2001 and projected to fall only marginally to 14.2 per cent of GDP in 2002. The continual poor trade performance is a reflection of the inability of exports to improve significantly even as the level of imports stabilises.

At end-1999, the total outstanding external debt of Kenya was estimated at $6.56 billion. Of the total outstanding debt 51 per cent was owed to multilateral institutions. The International Development Association (IDA) accounted for 76 per cent of the multilateral debt and 44 per cent of total debt. Bilateral donors accounted for 35 per cent of the total debt. Japan was the main bilateral creditor accounting for 51 per cent of the bilateral debt and 22 per cent of the total debt. In 1998 Kenya reached an agreement with its Paris Club creditors to reschedule about $49 million of its debt and cancel $21 million in commercial debts. Also, as part of its debt management strategy, the government has adopted a policy to limit its external borrowing to only concessionary loans. The larger share of IDA debt underscores the concessionary nature of the debt. Consequently, Kenya is regarded by the IMF/World Bank as a sustainable case, requiring no debt relief under enhanced HIPC.

Structural Issues

Kenya has a relatively long history of structural reforms to liberalise its economy. Earlier reforms included the removal of quantitative import and price controls, the abolition of foreign exchange controls and the revision of labour laws to make them more flexible and in line with private sector requirements.

To streamline investment procedures, an Investment Promotion Centre was established as a one-stop shop. The Foreign Investment Protection Act was enacted to guarantee repatriation of capital, remittance of dividends and interests on investments. Reforms to attract investment, especially in manufacturing, included the in-bond programme open to both domestic and foreign investors, under which investors are offered incentives including duty and VAT exemptions on imported plant, machinery and equipment, raw materials and other inputs. Kenya has also established two export-processing zones (EPZ) since 1990 to encourage production for export. Enterprises operating in the zones enjoy additional benefits, including tax holidays and exemptions, and freedom from restrictions on management or technical arrangements. Key performance indicators of the EPZ show better performance in 2000 compared with 1999. The number of gazetted zones now stands at 19, of which 17 are privately owned and operated while two are public. In 2000, 24 enterprises were operating compared with 18 enterprises and 22 enterprises in 1998 and 1999 respectively. However, four enterprises folded in 2000 for various reasons including the effect of the adverse political situation; on the other hand, one new enterprise also started in 2000. In 2000, about 14 per cent of the total investment was wholly Kenyan while 33 per cent were joint ventures and 53 per cent were wholly foreign. Investments in the EPZ have diversified from the initial interest in garments to include electronics, pharmaceuticals, agro-processing and software development.

In 1990 the Kenyan Government held equity in over 240 commercially oriented enterprises. Under the public enterprises reform programme the government was to retain 33 of the enterprises considered “strategic”, while the remaining 207 would be privatised. By end-1999, 167 enterprises had been partially or completely privatised. The strategic enterprises such as Kenya Ports Authority, Kenya Railways, and Kenya Posts and Telecommunications Corporation had also been restructured. The commitment of the government to the privatisation exercise was called into question following the cabinet decision to reject the privatisation of 49 per cent of Telcom Kenya on the grounds that the offers made by prospective investors were too low. This decision was another bone of contention between the government and the IMF and behind the suspension of the second tranche PRGF.

The Kenya public reform programme lapsed in 1997 when the government failed to take actions that would have facilitated the release of the second tranche under the ESAF Arrangement that was supporting the reforms. The government failed to *i)* pass the legislation to initiate reforms in the energy sector; *ii)* establish an anti-corruption authority to investigate all suspected cases of financial mismanagement, specifically the ruling by the Constitutional Court declaring the Kenya Anti-Corruption Authority (KACA) unconstitutional; *iii)* enact the bill separating the Kenya Posts and Telecommunications Corporation, in preparation for privatisation of communications; and *iv)* conclude legal proceedings relating to the Goldenburg case, involving $400 million fraud. Similarly, as already indicated, the implementation of Kenya’s three-year PRGF has stalled following the government’s failure to revamp the privatisation process and take steps on governance and economic management issues. In addition to those already enumerated, issues at stake here included the rejection by Parliament of the Code of Conduct and Ethics Bill; and Parliament’s postponement of the debate on the Anti-corruption and Economic Crimes Bill.

In Kenya’s financial sector reforms have taken place over a period up to 1998. About 30 financial institutions were liquidated, 17 placed under the Deposit Protection Board, seven placed under Consolidated Bank Limited, four under receivership, one under voluntary liquidation, one wound up by the courts, and five banks placed under statutory management. These actions were largely in response to the poor management and non-performing and unrecoverable loan portfolios of the institutions that created considerable instability in the financial system. Other measures taken to stabilise the banking sector include: *i)* an increase in the minimum paid-up capital requirement in order to increase capitalisation; *ii)* divestiture from the banking sector by the government; and *iii)* tightening of the banking regulations, particularly with respect to management of the institutions. The functioning of the Nairobi Stock Exchange has also been revamped with the government revising the operating regulations of the market to allow foreign investment. However, the deterioration in the economy has negatively affected the business climate and led to diminishing confidence among investors. The loss of confidence in the country’s economy is reflected in the depressed activities of the stock market whose capitalisation declined from $2.1 billion in 1998 to $1.4 billion in 1999. Activity at the stock market remained depressed in 2000. The cumulative volume of shares traded decreased by 10 per cent in 2000, as the all-share index also fell by 17 per cent. In 2000, the Capital Markets Authority segmented the capital market into four independent segments, namely: Main Investment Market; Alternative Investments Market; Fixed Incomes Securities Market; and Futures and Options Market. The first three market segments are already operational while the last one will be implemented at a later stage.

Political and Social Context

Kenya is a functioning democracy. However, the democratic dispensation in Kenya is currently under considerable stress as bitter struggles ensue for the succession to the Presidency after President Daniel arap Moi. Accusations and counter-accusations of corruption among the leading contenders and the public at large threaten not only the ruling party but national unity. Meanwhile the Constitution of Kenya Review Commission is also battling with controversial issues including electoral reform, the nature of presidential power and the country's regional administration.

Currently, poor economic governance, characterised by corruption at all levels of public service, is believed to be a major contributor to the weak performance of the Kenyan economy. This has manifested itself in inefficient allocation of resources and the resultant deterioration in investor confidence in Kenya. The resolve of the government for quick action on corruption has also been questioned by certain developments. The Kenya Anti-Corruption Authority (KACA), established in December 1997 to track down and prosecute all cases of corruption, did not become operational until 1999, only for Parliament to reject in August 2001 the Constitutional (Amendment) Bill that would have given KACA the much-needed police powers to investigate and prosecute suspected cases of corruption. Also, the Central Tender Board, which in 2000 the government opened to private sector participation to enhance openness and accountability, has been abolished and replaced by Ministerial Tender Boards. The government has however established a procurement appeals board, which consists of membership from the private sector.

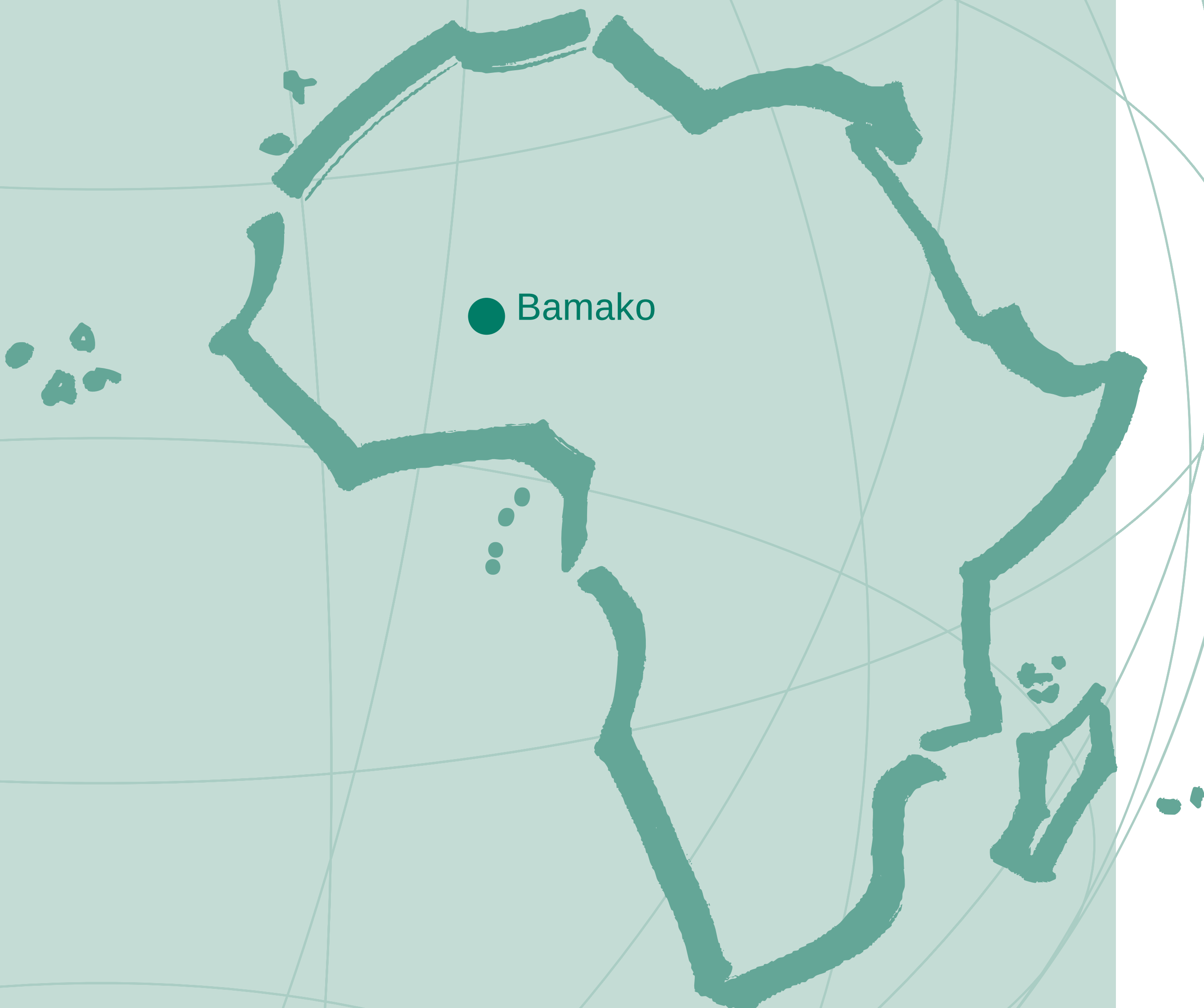
Poverty remains widespread in Kenya and has been aggravated by the recent economic decline. It is estimated that about 15 million Kenyans (52 per cent of the population) live below the poverty line of one US dollar a day. This incidence of poverty is higher in rural areas where the estimate of the population living in absolute poverty is about 53 per cent. The basic features of poverty in Kenya include landlessness and lack of any form of education; the poor are also clustered in certain socio-economic categories, which include small farmers, pastoralists in the arid and semi-arid land areas, agricultural labourers, unskilled workers, female-headed households, the physically handicapped, orphans and street children. The government's current poverty alleviation programme – the National Poverty Eradication Plan (NPEP) – launched in 1999 focuses on the agricultural sector, physical infrastructure and rural development. The success of the programme requires the government to review and possibly remove some of the 120 restrictive laws and regulations that prohibit free entry into the agricultural sector. Also, the programme relies to a large extent on donor support and its success requires the government to take action to mend its relations with donors.

The Kenya Demographic and Health Survey (1998) indicates that the country's achievements in health and demographic indicators during the 1980s and early 1990s are declining steadily. In 2000, there were 481 hospitals, 601 health centres and 3 273 dispensaries in the country. These facilities registered an increase of 7.1 per cent, 1.3 per cent and 2.5 per cent respectively compared to 1999. About 77 per cent of the Kenyan population have access to health services, which is high compared to the African average of 60 per cent. Increasing incidence of epidemics such as malaria and easily preventable diseases have contributed to the deteriorating health situation. In areas such as child immunisation, Kenya's performance stands below the average for Africa: only 32 per cent of children in

Kenya are immunised against measles, and 42 per cent against tuberculosis, compared with African averages of 63 per cent and 77 per cent respectively. Recently HIV/AIDS has become a major factor behind the deteriorating health situation. UNAIDS estimates that the adult HIV/AIDS prevalence rate has increased in the last years, reaching a level of 13.95 per cent in 1999. According to national analyses the prevalence rate is higher in urban areas where the increase is from 16.3 per cent to 17.5 per cent, compared to the rural areas where the increase has been from 11 per cent to 13 per cent over the same period. It is also estimated that HIV/AIDS accounts for 50 per cent of daily deaths in Kenya. The declining health situation is a reflection of the worsening socio-economic situation as well as the inadequate resources devoted to health services in Kenya, where public expenditure represents only 1.7 per cent of GDP compared with the average 2.5 per cent for Africa.

Kenya made significant achievement on the literacy front from earlier investments in education which saw the educational system witness rapid growth in enrolment at all levels. The earlier gains continue to give the country strong educational indicators in Africa. The adult illiteracy rate of 20.7 per cent compares favourably with the African average of 43.5 per cent; the total primary school enrolment ratio (1995) stood at 84.9 per cent, compared with 79.5 per cent for Africa. The total number enrolled in primary school, which fell by 2.2 per cent in 1999, rose by 1.6 per cent in 2000. However, the numbers in primary school in 2000 were below 1998 levels. Government expenditure on education has remained consistent at around 6 per cent of GDP per annum over the 1995-2000 period, which is higher than the average 4 per cent for Africa. However, education in Kenya is currently characterised by non-enrolment, high levels of dropout and low completion rates particularly among girls, and poor transition rates from one level of education to the other. The government's current educational programme aims to increase expenditure on primary education from its current level of 57 per cent to 67 per cent of the Ministry of Education's recurrent expenditure, with the increased spending focused on provision of textbooks, bursaries for the poor, and increasing the participation of girls at all levels. Similarly, secondary education is to be boosted by reducing the cost of education and shifting subsidies away from the richest segments of the population to the poor.

Mali



key figures

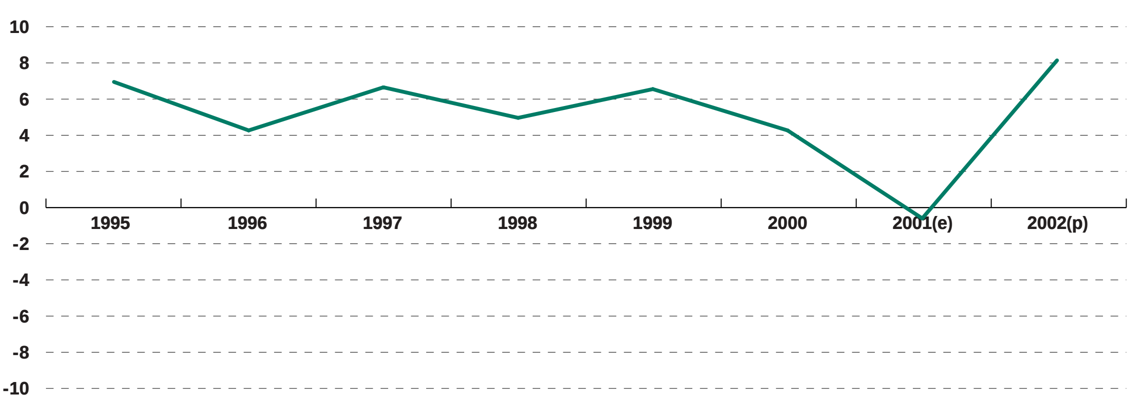
- Land area, thousands of km²: 1 220
- Population, thousands (2000): 11 351
- GDP per capita, $ (2000): 215
- Life expectancy (1995-2000): 50.9
- Illiteracy rate (2001): 56.9

Mali

MALI'S GDP HAS GROWN about 6 per cent a year since the 1994 devaluation of the CFA franc and as from 1991 the country has been moving towards democracy, whose strength may be tested at the presidential elections in 2002. However, the economy suffered several blows in 2000 that slowed down activity. Higher oil prices, political instability in neighbouring Côte d'Ivoire, poor rainfall and most of all a strike in the cotton sector (sparked by a drop in world prices and bad management of the national textile company CMDT) all contributed to the slowdown and spilled over into 2001. The halving of cotton exports and fall in food production cut deeply into the incomes of already-impoverished households. Such meagre performances by the farming sector were partly made up for at macroeconomic level by the speedy opening of new gold mines, which means the fall in growth in 2001 can probably be held to minus 0.6 per cent. A return to normal in the countryside and a slight increase in cotton prices should bring a new spurt of growth in 2002, reaching 8.2 per cent and putting Mali back on track with the economic trends since 1995. This will depend however on structural reforms being made in the cotton sector.

The future of Mali will depend on structural reforms being made in the cotton sector

Figure 1 - Real GDP Growth



Source: Authors' estimates and predictions based on data from the *Direction nationale de la statistique et de l'informatique.*

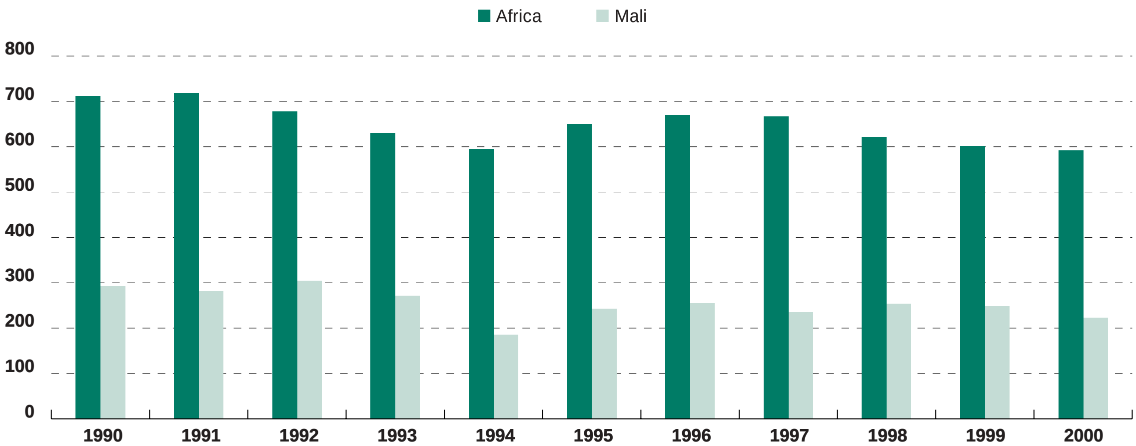
Recent Economic Developments

Since devaluation in 1994, GDP has grown consistently faster than population, which increased by around 2.4 per cent a year during the 1990s. But GDP growth was quite erratic, ranging from 3.2 per cent in 1996 to 6.8 per cent in 1997, and was partly to do with wide variation in primary sector performances.

During the 1980s, agriculture's share of GDP shrank mainly because of bad weather while the tertiary sector became more important. The industrial sector was small throughout the decade at less than 20 per cent of GDP. Globally, the primary sector is still dominant, accounting for more than 43 per cent. The state of agriculture, which is at the mercy of very changeable weather, directly affects GDP and strongly influences other sectors that depend mostly on agricultural raw materials.

The weather was good in 1999, so food crops accounted for about three-quarters of the just over 4 per cent GDP growth in 2000. But there was very poor weather during the summer of 2000, which cut agricultural production by about 15 per cent and

Figure 2 - GDP Per Capita in Mali and in Africa ($ current)



Source: Authors' estimates based on IMF data.

seriously affected the 2001 growth figure. The fall in agricultural food production coincided with poor results in export crops, mainly cotton. Production of cottonseed fell by 11.5 per cent during the 1999/2000 farm year and by 52 per cent the following one.

Structural problems also contributed to the bad performance. In 1999, the cotton sector had to cope with bad management by the national textile company CMDT and the steady fall in the world price of cotton since 1995. The CMDT's deficit was about 2 per cent of GDP. Things got worse the following year, especially when embezzlement of CMDT funds was discovered. The government's payment of lower prices to producers because of the fall in world prices as well as the sector's problems was a key factor in a strike by cotton farmers.

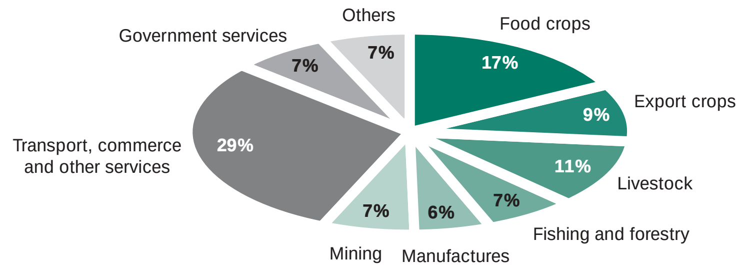
But this was not the only reason for the producers' action during the 2000 season. Trade union disputes (talks with farmers were hampered by the question of re-electing the leaders of the *SYCOV* union) and over-rigid attitudes during the conflict were also to blame. Successful mediation by groups such as the Permanent Assembly of Malian Chambers of Agriculture showed the growing importance of civil society. Another obstacle was the decision by neighbouring Senegal and Burkina Faso to set a price for farmers of 200 CFA francs/kg ($0.28) compared with only 170 ($0.24) in Mali. This made the 2000 harvest a major disaster, amounting to only 243 000 tonnes, against 519 000 tonnes in 1998 and 460 000 tonnes in 1999. The 2001 harvest should be substantially better (sowing has been much higher than expected) because of ample rain and the

Table 1 - Estimated Gold Production (tonnes)

Mines	2000	2001	2002	2003
Somisy	5.7	6.3	6.1	5.8
Sadiola	16.8	19.7	16.1	16.1
Morila	3.5	19.3	18.3	22.7
Yatela		5.3	6.4	8.0
Kodieran				3.4[a]
Tabakoto				4.1[a]
Segala				4.0[a]
Total	**26**	**50.6**	**46.9**	**64.1**[a]

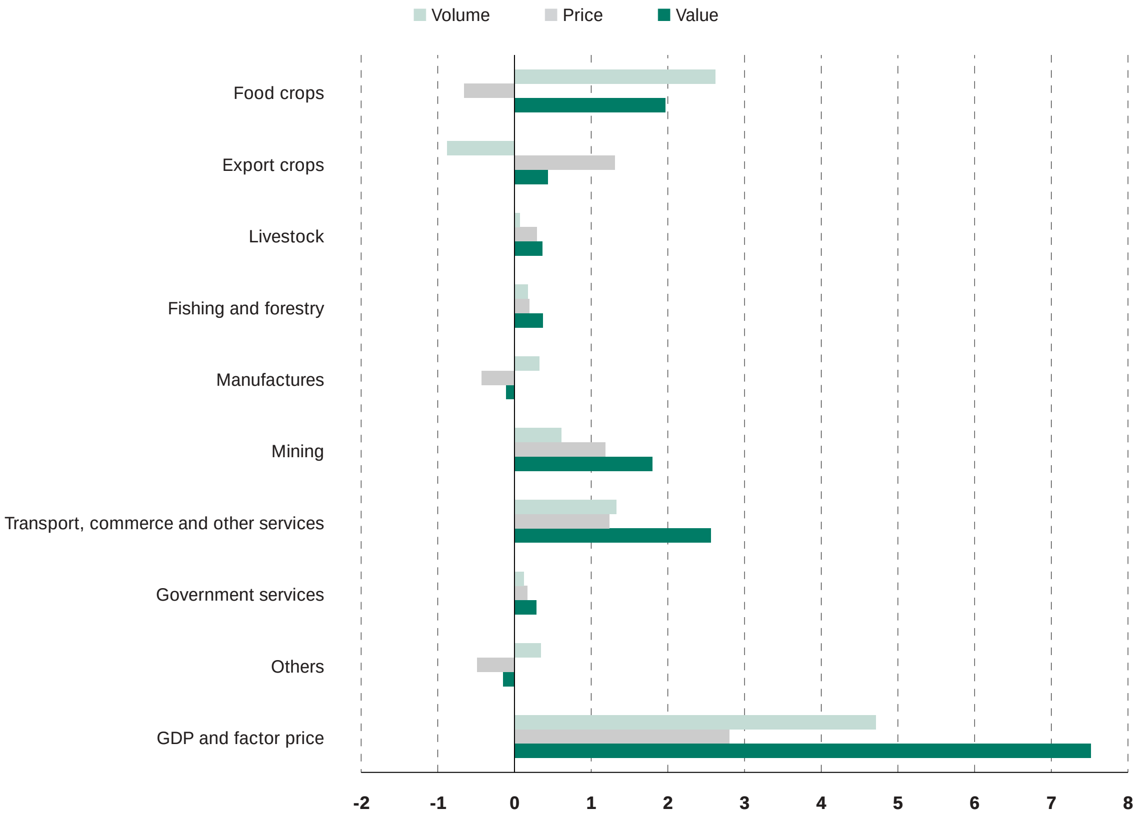
a. Tentatively, since opening mines in 2003 depends on world prices, with a minimum $300 an ounce needed to make them worthwhile.
Source: Ministry of Mines, Energy and Water.

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates and predictions based on data from the *Direction nationale de la statistique et de l'informatique.*

Figure 4 - Sectoral Contribution to GDP Growth in 2000



Note: Mali's national accounting includes the results of harvests in the following year's GDP, so the cotton sector's problems in 2000 do not show up in the chart here.
Source: Authors' estimates and predictions based on data from the *Direction nationale de la statistique et de l'informatique*

government's decision to increase the price to farmers to 200 CFA francs ($0.28).

The gold sector has expanded rapidly since introduction of a mining code in 1991 (updated in 1999). After the Sadiola mine began operating in 1997, gold became Mali's second biggest export and the country is now the third largest producer in Africa, after South Africa and Ghana and ahead of Zimbabwe. Despite the steady fall in gold prices and even though many countries stopped prospecting for it, Mali has opened up new deposits — at Morila in October 2000

Figure 5 - Cotton Production and Prices in Mali

a. Production and farmers' prices concern cottonseed. The world price given by the World Bank is for cotton fibre, so it has been converted into the equivalent for cottonseed at a conversion rate of 42 per cent.
Source: French Development Agency and World Bank.

and Yatela in May 2001. Three other mines are due to open in 2003 and 2004 which should make up the tonnage as the present mines are worked out. This activity is partly due to lower operational costs than in other gold-producing countries.

Poor world prices have put an end to the gold rush set off by the first discoveries in the 1990s and could also cancel the plans to open mines in 2003. Apart from its dependence on world prices, gold production also has a fairly brief life span[1]. This means a short

Table 2 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**24.1**	**21.1**	**20.0**	**21.1**	**21.1**	**19.2**
Public	9.8	9.2	9.1	9.1	9.4	8.6
Private	14.3	11.9	11.0	12.0	11.7	10.6
Consumption	**95.5**	**87.2**	**90.0**	**90.0**	**87.5**	**87.8**
Public	17.2	15.7	13.9	13.3	13.6	12.6
Private	78.2	71.5	76.1	76.7	73.9	75.2
External sector	**-19.5**	**-8.3**	**-10.1**	**-11.1**	**-8.6**	**-7.0**
Exports	21.9	23.0	22.5	23.3	23.6	23.0
Imports	-41.4	-31.3	-32.6	-34.4	-32.1	-30.0

Source: Authors' estimates and predictions based on data from the *Direction nationale de la statistique et de l'informatique.*

1. Also because when prices are low, the cost of deeper mining cannot be recovered.

period of concentrated wealth (which is tempting to use for current expenditure instead of long-term investment) and the sprouting of mining communities without provision for what happens to them after the gold is worked out. Gold mining also seriously damages the environment. In the short-term however, it has helped offset the effects of recession and boosted exports and government revenue in 2001.

The structure of demand in Mali shows the importance of household consumption in GDP, as well as the chronic external trade deficit. The slowdown in activity linked with the cotton crisis sharply reduced household revenues for two years — from November 1999 to October 2001 revenue fell by about 60 per cent — with a clear effect on demand. Mali also has a very weak savings structure and what little money there is does not get channelled into productive investment but is used to buy cattle or is hoarded.

Macroeconomic Policy

Budgetary and Monetary Policy

Because Mali chose a socialist development path soon after independence, the country has a strong tradition of state intervention that has endured despite ideological changes since the 1990s. After devaluation in 1994, the government made efforts to reduce macroeconomic deficits. But in 1999, the trade balance was hit by lower cotton and gold prices and more costly oil, and structural problems arose in the cotton and electricity sectors. This cut into government tax revenues. In addition, the UEMOA agreements provided for abolition of tariffs between all member-states on 1 January 2000 and their replacement by a common external tariff. This too involved loss of revenue. To make up for these shortfalls, as well as to modernise the tax system, the government introduced a single 18 per cent VAT on 1 April 1999[2]. At the same time, domestic and customs tax collection improved and new custom regulations were introduced in February 2000 in a crackdown on fraud.

In 2000, the coincidence of a large oil bill (25 billion CFA francs — $35 million) and the losses at the CMDT, which before the crisis earned about 800 million CFA francs ($1.1 million) a month for the government, further increased the budget deficit (from $86.4 million to $97 million). In 2001, losses connected with the CMDT affair continued to be a deadweight on the budget while the general slowdown in activity automatically cut into state revenues. Expenditure rose

Table 3 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[a]	**19.6**	**21.6**	**21.3**	**21.4**	**20.7**	**19.9**
Taxes	11.1	13.9	14.1	13.4	12.9	12.4
Grants	7.8	5.6	5.0	5.8	5.7	5.3
Total expenditure and net lending[a]	**24.6**	**24.1**	**25.0**	**25.3**	**25.0**	
Current expenditure	11.3	11.9	13.0	12.8	12.5	
Excluding interest	*9.8*	*11.2*	*12.2*	*11.9*	*11.6*	*10.8*
Wages and salaries	4.0	3.8	3.9	4.2	4.1	4.0
Interest payments	1.5	0.7	0.8	0.9	0.9	
Capital expenditure	13.2	12.2	12.0	12.5	12.5	11.4
Primary balance	**-3.5**	**-1.8**	**-2.9**	**-3.1**	**-3.3**	**-2.3**
Overall balance	**-5.0**	**-2.5**	**-3.7**	**-3.9**	**-4.3**	

a. Only major items are reported.
Source: Authors' estimates and predictions based on IMF and local authorities' data.

2. Exempted were medical and educational material and agricultural factors of production.

because the wage bill increased and subsidies were given to the electricity[3] and cotton[4] sectors.

Two events in 2002 may substantially worsen the government's deficit — the presidential elections and the African Nations Cup football tournament. The government has promised not to spend more than 9 billion CFA francs ($12.6 million) on the elections (though this is more than twice as much as the 6 billion initially budgeted) and to limit capital expenditure for the African Nations Cup to 10 billion CFA francs ($14 million).

The government is hoping structural reforms such as the thorough reorganisation of the CMDT (the plan was officially approved in June 2001), along with the end of petrol price subsidies (introduced in July 2001) and rising tax revenues can absorb the deficit in the long term. From 2002, less expenditure on the African Nations Cup and the elections should lead to a better overall balance.

Like other UEMOA countries, Mali's currency is pegged to the French franc and its monetary policy is conducted by the BCEAO, leaving budget policy as the government's main economic instrument. Since devaluation, inflation has been under control at less than 3 per cent and should stay that way in 2002, when it is expected to be 2.5 per cent.

External Position

Mali's trade structure is quite open and comprises three items that together account for nearly 95 per cent of all exports. This means the terms of trade largely dictate how well off the country is — in the case of exports because gold and cotton prices are set internationally and with imports because oil is a major element. This weight of foreign influence is increased by heavy dependence on aid, making the country very vulnerable.

Mali is also influenced by its two neighbours, Côte d'Ivoire and Senegal, with which it has a great deal of trade, Côte d'Ivoire accounting for more than 15 per cent of Mali's trade in 1999. This dependence was demonstrated once again by the crisis in Côte d'Ivoire and the drop in livestock exports that resulted.

Mali has a perennially negative trade balance because it exports so little. Devaluation plus the start of gold mining managed to produce a slight trade surplus which disappeared again in 1999 because of higher oil prices and a fall in the price of cotton. The current account deficit reached 9.6 per cent of GDP in 1999 and topped 9.7 per cent in 2000. The slide in the volume of cotton exports in 2001 was compensated for by a good performance by gold, which reduced the trade deficit. In 2002, the deficit should be near zero because of a return to normal in the cotton sector and a full-capacity performance from gold.

Mali depends largely on international grants and loans to finance its deficits. The country's external debt is one of the largest in Africa. The ratio of debt to exports rose to more than 450 per cent (in nominal terms) in 1999, but because more than 80 per cent of it is soft loans, servicing is quite low, at about 14 per cent of exports of goods and services. Very little of the debt is to the private sector (this has in fact been zero since 1996) and international financial institutions have accounted for more and more of it since the early 1980s (rising from less than 25 per cent to about 50 per cent today).

The debt has been rescheduled several times by the Paris Club and Mali has been granted relief through bilateral agreements, notably with France. Under the Naples Agreement, Mali obtained cancellation of two-thirds of its eligible debt, applying to both the debt itself and the period of repayment. The country was also deemed eligible for the Heavily Indebted Poor Countries (HIPC) Initiative in September 1998. In September

3. The electricity subsidies are to pay for connecting up the Malian grid to the Manantali Dam and to make up for the state utility's losses resulting from the freezing of electricity and water prices. To soften the effect on the budget, the government raised the price of water by 10 per cent and electricity by 5 per cent from 1 July 2001.

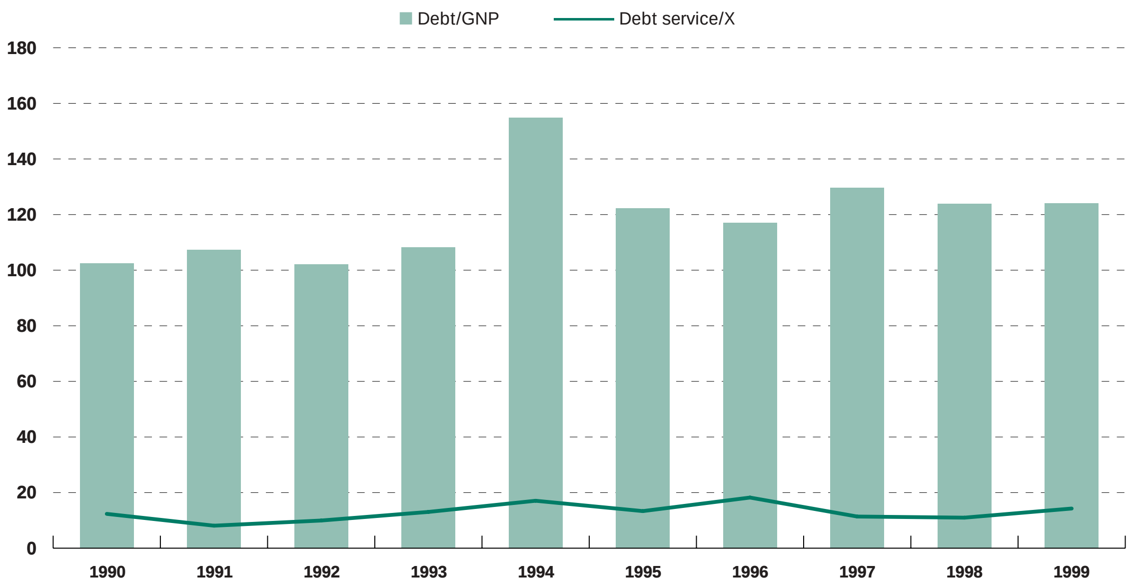
4. This was so the CMDT could pay off its 30 billion CFA francs ($42 million) debt to the banks and pay the higher prices to farmers.

Table 4 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-4.6	0.0	-1.5	-3.1	-0.2	0.8
Exports of goods	18.5	20.7	21.0	21.2	22.0	21.4
Imports of goods	-23.1	-20.7	-22.5	-24.2	-22.2	-20.7
Services balance	-16.0	-10.0	-9.6	-9.9		
Factor income	-2.1	-1.9	-2.6	-1.8		
Current transfers	13.4	4.1	4.1	5.1		
Current account balance	**-9.3**	**-7.8**	**-9.6**	**-9.7**		

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

2000, it reached completion point and $128 million (NPV) began to be made available. It is also expected to get another $401 million under the Enhanced HIPC Initiative in exchange for a commitment to efforts in education and health care and producing a final draft of a poverty reduction plan (completed on 30 September 2001). In all, Mali should get $523 million (NPV 1998) of its debt cancelled.

Structural Issues

The poverty reduction and growth programme adopted in 1999 has encountered the biggest obstacles in structural reforms, mainly because of the tricky reform of the cotton sector.

Privatisation has been steadily advancing in Mali since 1994 and the IMF notes, for example, that state-owned firms (except banks) fell from 31 in 1998 to 24 in late 1999. But these sell-offs were done without legal preparation and the first ones were not very successful, including the tobacco company *Sonatam*, which was initially put up for sale at 10 billion CFA francs ($14 million) only to be sold for three billion ($4.2 million). This aroused public anger and made it more difficult to reform the several large remaining state firms earmarked for privatisation.

The government chose to open up the telecommunications sector to competition before privatising it, adopting in April 2000 a plan originally scheduled for September 1999. It pledged to sell off at least half of the state-owned *Sotelma* before the end of 2001 (tenders were sought in September 2001).

Management of the electricity company EDM was handed over in 1994 to a consortium of Hydro-Québec and Saur. The goal was to produce an audit of its accounts by 1996 but this was not done because the state body's assets could not be precisely determined. The decision to privatise was taken in 1998. The government's inability to reform the company and the heavy commitments required from any buyer (connecting up all towns of more than 8 000 people by 2020 without being allowed to set the price of current) did not make the firm a very attractive prospect. Tenders were finally solicited on 11 August 2000 and those submitted by Saur and IPS were accepted. They took 60 per cent of the company, the government kept 20 per cent and private firms in the sub-region took the remaining 20 per cent. The sale, which came into effect in December 2000, involved privatising production facilities (except for four dams) and franchising the water supply system. Electricity distribution remained under state control however.

The sale of the airport authority ADM and the pharmaceutical firm UMPP, as well as the transfer of the Bamako-Dakar railway line to a predominantly private firm (SETI), all of them set for the end of 2000, have not yet been completed.

It has proved difficult to put the CMDT on the market because various aspects of it discourage buyers. These include its dire financial situation, because of the lack of definition between the state budget and its own accounts, and the vagueness of its official purpose, since as well as selling cotton, it performs social roles in health care and education as well as building infrastructure (repairing roads), all of which are normally the government's job but which in practice affect the prices paid to farmers. To solve these problems, the government in June 2001 approved a reform timetable aiming at opening up the entire sector to competition by 2005. The government has meanwhile pledged to cut costs at the CMDT, focus it on its original activities and introduce a way of setting prices requiring negotiation between the two sides, which implies boosting the role of farmers' organisations. The CMDT would also get government help to repay all its debts to the banks (30 billion CFA francs — just over $42 million) by September 2001.

Mali's banking system has greatly improved since 1995, but at the end of 1999, a quarter of the banks' portfolio of credits were non-performing, according to the IMF. The financial problems of the CMDT aggravated this structural deficiency because of the risk of default attached to these credits. Very few people use banks in Mali and only a small number of individuals and firms have access to credit. Such weaknesses led the government to adopt a restructuring plan for the financial sector in June 2000 with World Bank agreement. This includes state withdrawal from the banking sector by reducing its shares in banks such as BMCD and BIM-SA.

Mali is firmly landlocked and has a very feeble infrastructure, not just in terms of communications and energy but also health care and education. The cause of this structural weakness is poverty and a combination of human factors that exert an almost intolerable pressure on public infrastructure. They include high population growth (fertility of 6.7 children per woman) and rapid urbanisation (only 28 per cent of Malians live in towns but the number is growing by 6 per cent a year). The link between infrastructure and social development is vital and, with World Bank approval, the government adopted a three-year public investment programme focused on agriculture, infrastructure and developing human resources. The authorities are also looking for other energy sources because the electricity grid can only cope with 10 per cent of demand, though the Manantali dam, soon to come into operation, should boost this to 15 per cent. Also being considered are solar and wind energy, which would currently require heavy initial investment but, in view of the country's natural resources, could certainly ease the energy shortage in the long term.

Political and Social Context

Mali's first multiparty elections in April 1992 were won by Alpha Oumar Konare and his Alliance for Democracy in Mali (Adema). Since then, the country's political life has been turbulent, with opposition boycotts and accusations of embezzlement. The first round of the April 1997 parliamentary elections, initially won by Adema, was annulled by the Constitutional Court, which said they were badly organised. Despite an opposition boycott call, President Konare was easily reelected in May that year and new parliamentary elections strengthened Adema's position. At local elections the following year and in 1999, the opposition, grouped in the Association of Opposition Political Parties (Coppo), again refused to take part despite the setting up of a national forum aimed at dialogue with them. So presidential elections in 2002 will be significant as the first democratic handover of power, since the president's maximum of two terms in office are ending. They will also test all the political groups taking part in the democratic process. The campaign is already heating up and has led to splits in the ruling party over who should succeed Konare.

Internationally, Mali is under serious threat of instability on several of its borders. The conflict with the Tuaregs, which officially ended in 1996, has severely strained relations with Mauritania, which Mali has accused of helping the rebels. It continues to make the border with Algeria very hazardous and attacks and vehicle thefts occur. Mali also has a frontier with Guinea, which is directly affected by the wars in Sierra Leone and Liberia. The region's ill-defined borders have led to much fighting in the past, including a brief war between Mali and Burkina Faso in 1985.

More recently, the political crisis in Côte d'Ivoire has seriously affected diplomatic relations with Mali and harmed the Malian economy[5]. But Mali's importance in the sub-region was underlined by President Komare's reelection as president of UEMOA. Mali is one of the 10 African countries that attended a United Nations symposium on arms control and conflict prevention in December 2000 and was invited by Denmark to take part in a special session of the OECD Council of Ministers in 2001. It is also a member of the Islamic Conference Organisation and has close ties with Libya.

The key problem of corruption plagues both state bodies (as the recent turn of events at the CMDT shows) and political life. The authorities seem determined to promote "good governance" and launched an anti-corruption campaign in October 1999 by setting up a committee to systematically monitor use of public funds, including those used by state firms.

The government also has an ambitious decentralisation programme aimed at reducing the gap between rural and urban areas (most services are concentrated in Bamako) and making the country more cohesive, mainly by bringing back into the picture the northern provinces that have been long neglected because of the conflict with the Tuaregs. A commission was set up in 1993 (and strengthened in 1997) to delegate administrative and economic powers to 701 communities, 682 of them created at the same time as the commission. However, this is all relatively new (the first election of mayors and village officials only took place in June 1999) and the transfer of responsibilities and funds will only be done gradually, since many communities do not yet have the skills to handle them.

In the social field, the sustained growth that followed the 1994 devaluation has managed to slow the worsening poverty. But Mali is still one of the world's poorest countries and one of the most impoverished in French-speaking Africa. The poor live mainly in the countryside, where repeated drought causes frequent food shortages. Mali has sharp disparities of all kinds. As well as in income, the imbalances include population distribution (91 per cent of Malians live in the south, mainly around Bamako, while the rest endure the chronic drought in the north), infrastructure (varying from region to region) and wide gender inequality, with women having very little access to health care and education and little involvement in public life, despite their growing role in civil society.

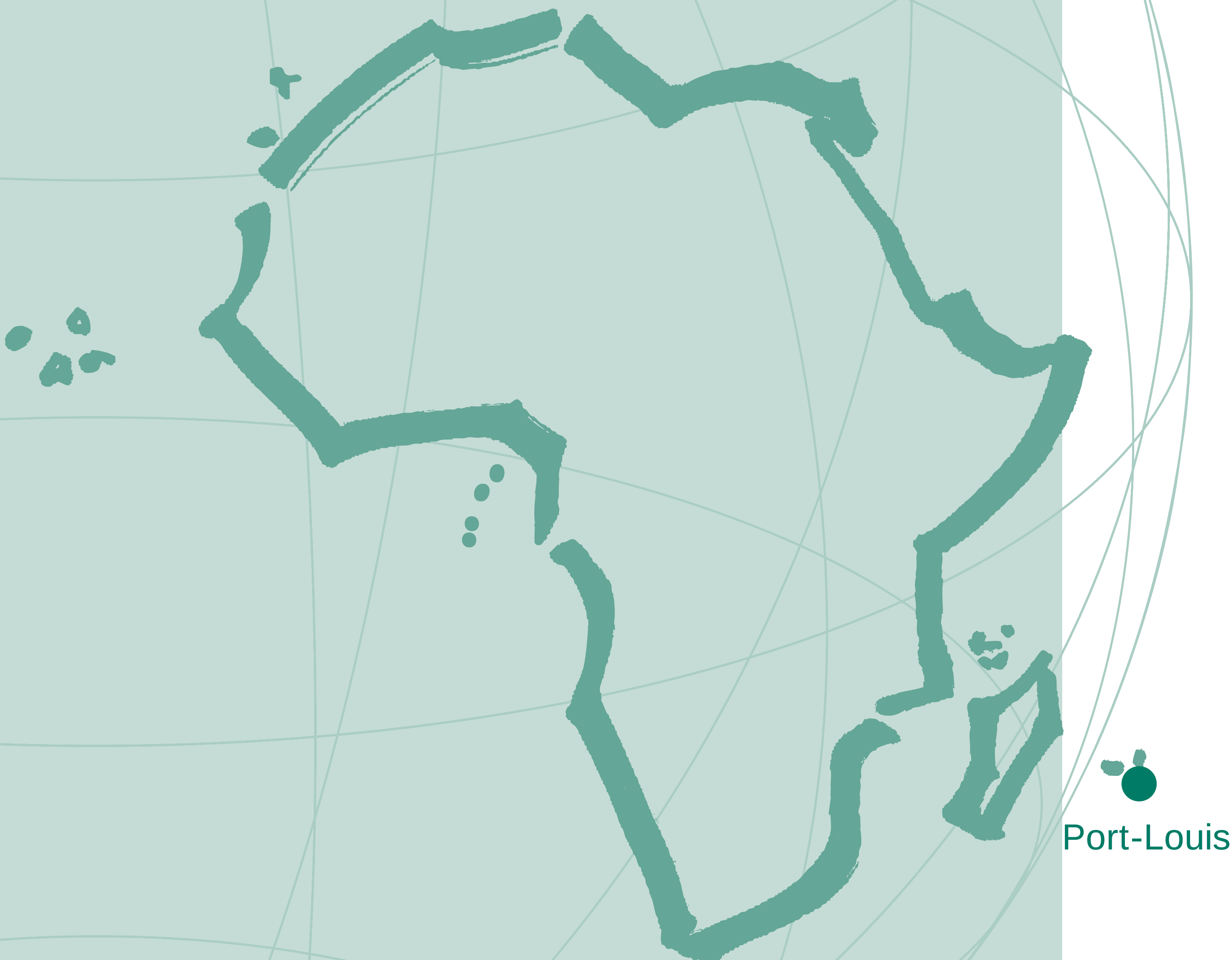
5. As a landlocked country, Mali has access to the sea through Côte d'Ivoire, especially for oil imports.

Health care data again shows the huge gap between town and country. The overall situation is very bad, especially concerning mother and child health. As a result, despite the very high fertility rate, population growth is quite small. High infant mortality (a projected 120.5 per 1000 between 2000 and 2005) as well as substantial emigration (more than 3 million Malians live abroad, mostly in France and Côte d'Ivoire) checks the growth of a population which was 11.4 million in 2000. Money is no guarantee that social development projects will be carried out or poverty reduced. More than 80 per cent of credit extended to Mali was not used, so of the 350 billion CFA francs ($492 million) earmarked for four years of the 10-year health-care plan Prodess, only 4 per cent of the amount had been disbursed at the end of three years.

Mali's education system is in deep crisis. The government has long given priority to funding universities and their 20 000 students to the detriment of 2 million children in primary education, thus increasing the 57 per cent illiteracy rate. Despite this, secondary and university students have not managed to complete a single uninterrupted academic year for the past decade, which has had a disastrous effect on the country's pool of qualified people. The effects of the weak education sector on the labour market have been aggravated by large-scale emigration of qualified people and a very small working population, which increases the labour shortage.

New public investment programmes sponsored by the World Bank seek to remedy the situation through channelling funds to primary education.

Mauritius



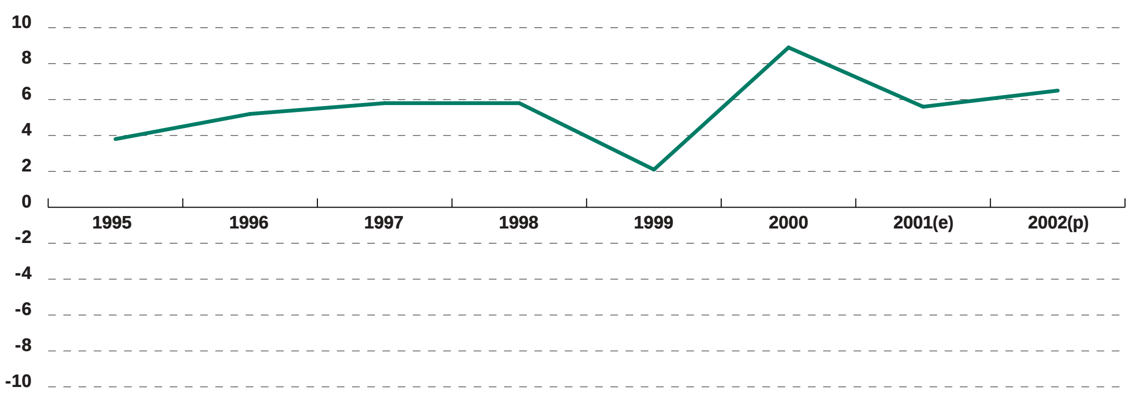
key figures

- Land area, thousands of km²: 2
- Population, thousands (2000): 1 161
- GDP per capita, $ (2000): 3 987
- Life expectancy (1995-2000): 70.7
- Illiteracy rate (2001): 15.0

MAURITIUS CAN BE CONSIDERED one of the most successful stories in the African continent. In the last two decades real GDP growth has increased by 5.7 per cent on average and educational attainment is among the highest in developing countries. After the severe drought that hit the country in 1999 with a great impact on the sugar sector, the economy rebounded and in 2000 it grew by 8.9 per cent. GDP growth — with an average rate of 6.1 per cent — will continue its usual high pace in 2001 and 2002. Once heavily dependent on sugar exports, Mauritius has been able to diversify its economy with the development of the garment manufacturing industry through the Export Processing Zones (EPZs). Despite its remarkable performance, the country is facing severe economic challenges since the bases on which it has built its development path are rapidly changing. Labour cost rises in recent years have eroded its competitiveness in the textile industry, and preferential market access, that has been critical for the development of the sugar sector and garment industry, will phase out over the next few years.

Mauritius has been able to diversify its economy through the Export Processing Zones

Figure 1 - Real GDP Growth



Source: Authors' estimates and predictions based on domestic authorities' data.

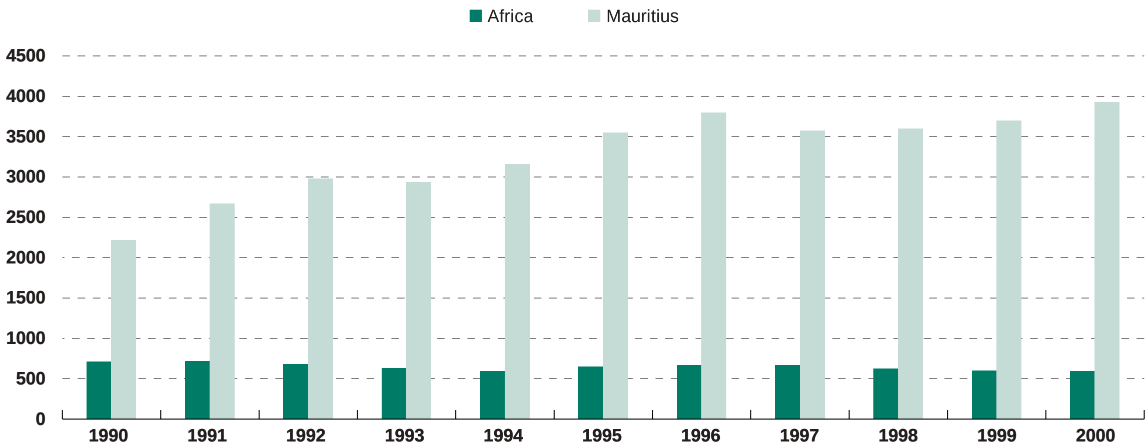
Recent Economic Developments

In the last six years (1996-2001) Mauritius has grown on average by 6 per cent rooting its development on its growth engines: EPZs, the sugar sector, tourism and the emerging financial services sector.

The consolidated penetration in the French, UK and US markets of the garment industry — by far the largest production in the EPZs — has allowed the sector to expand at a sustained level in the recent past. Accounting for 12 per cent of GDP and bringing in almost three-quarters of export earnings, the EPZs industry has grown by around 6 per cent in recent years. Nevertheless, the changing economic environment could jeopardise the near future of the industry. The end of the quota and duty free access to the European market starting by December 2004 coupled with increasing labour costs in the EPZs incurred in the last decade could require a drastic change within the EPZs industry.

The sugar sector — which consists of sugarcane production and to a lesser extent the sugar industry — has largely rebounded in 2000 after the 1999 drought,

Figure 2 - GDP Per Capita in Mauritius and in Africa ($ current)



Source: Authors' estimates based on IMF and domestic authorities' data.

one of the most severe that the country has known. The sector expanded by 52.5 per cent in 2000 and in 2001 is expected to recover at its pre-drought production level. Following the sector's boom during the 1970s, the sugar sector has expanded steadily over the last two decades mainly due to the Sugar Protocol and Special Preferential Sugar (SPS) Agreement with the EU which allowed exports at a guaranteed price three times higher than the world price. As a result, almost the entire production is sold to the EU. The likely reduction in the guaranteed EU sugar price could hamper the future developments of this sector.

The tertiary sector has expanded remarkably in the last few years (11.1 per cent in 2000) and represents 62 per cent of the entire economy. In the last five years, Mauritius has carved a comfortable niche in the world of international financial services thanks to its expanding tax treaty network, a reputable offshore jurisdiction, its strategic location, and its membership in major regional trading blocs. Financial services now represent the third pillar of the economy, after the EPZs manufacturing sector and agriculture. The introduction of new legislation related to anti-money laundering has reinforced confidence in the regulatory, institutional and operational frameworks boosting the sector's growth by 11.1 per cent in 2000.

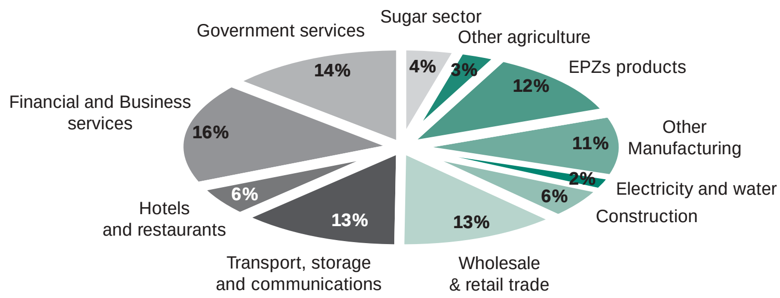
Alongside financial intermediation, tourism contributes significantly to economic growth and has been a key factor in the overall development of Mauritius. In the past two decades tourist arrivals increased at an average annual rate of 9 per cent. In 2000, the sector expanded at a higher pace.

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**25.8**	**25.3**	**26.0**	**25.6**	**22.5**	**25.8**
Public	8.0	6.0	6.6	6.5	5.7	8.5
Private	17.8	19.3	19.4	19.1	16.8	17.3
Consumption	**76.7**	**75.5**	**77.5**	**76.4**	**75.2**	**77.9**
Public	12.1	12.5	12.8	12.4	11.4	11.6
Private	64.6	63.0	64.7	64.0	63.7	66.4
External sector	**-2.5**	**-0.8**	**-3.5**	**-2.0**	**2.3**	**-3.7**
Exports	59.6	65.6	63.5	60.8	58.6	55.9
Imports	-62.1	-66.4	-67.0	-62.8	-56.3	-59.6

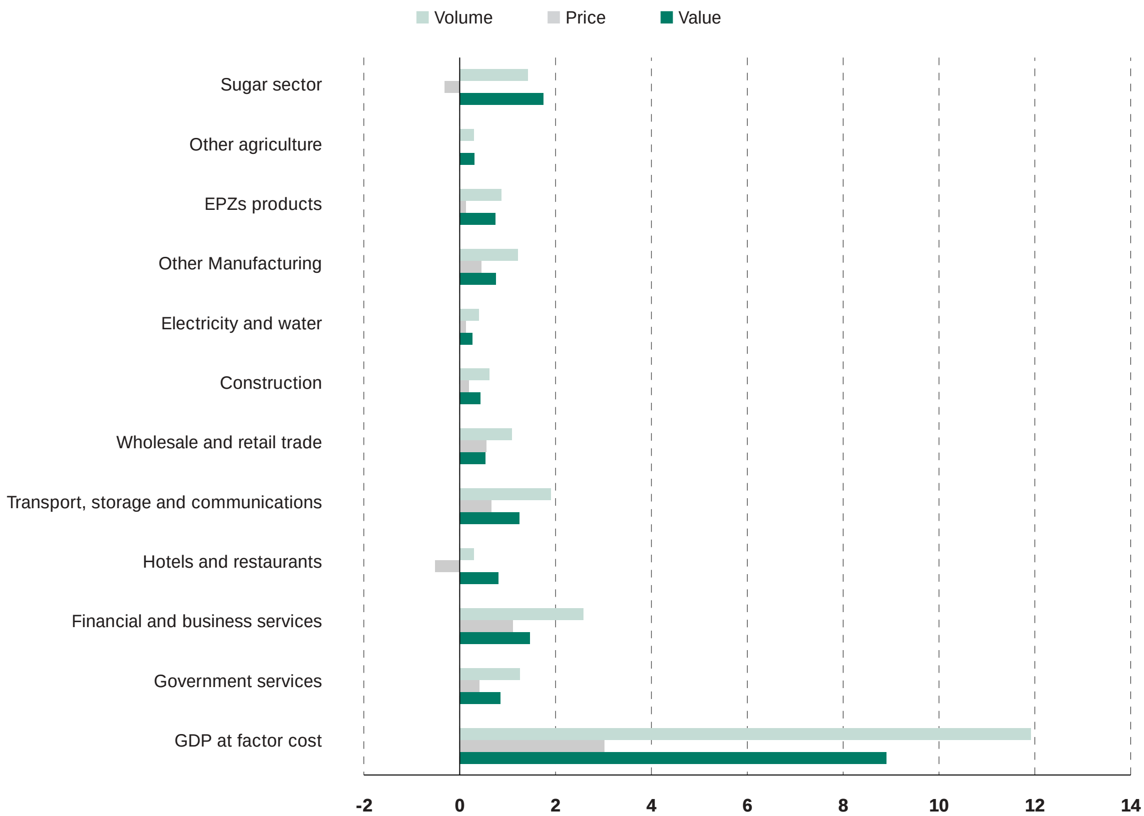
Source: Authors' estimates and predictions based on domestic authorities' data.

Figure 3 - GDP by Sector in 2000



Source: : Authors' estimates based on Central Statistical Office data.

Figure 4 - Sectoral Contribution to GDP Growth in 2000



Source: Authors' estimates based on Central Statistical Office data.

The composition of demand has remained nearly stable over the last years with investment accounting for a quarter of domestic demand and exports and imports accounting altogether for more than 120 per cent of GDP. The fluctuation of gross fixed capital formation can be explained as the result of the large impact of investments of air and land transport in the transport sector. Similar trends are expected in 2001 and 2002 although public investment will grow following the new fiscal policy stance in fiscal year 2001/02.

Macroeconomic Policy

Fiscal and Monetary Policies

Despite the fact that the principal aim of recent budgetary policy has been the reduction of fiscal deficit, over the last five years (fiscal years 1996/97 to 2000/01) Mauritius has registered an average overall fiscal deficit of 4.9 per cent of GDP. The situation has worsened particularly in 2000/01 owing to the losses experienced by large parastatals and to some revenue reductions. After consolidating the central government budget deficit with those of the State Trading Corporation (STC) and the Central Electricity Board (CEB), the revised estimate for the 2000/01 budget deficit rose to 7.6 per cent to be compared with a target of 2.9 per cent of GDP. Losses incurred by the STC and the CEB are mostly attributable to higher energy prices which have not been passed on to consumers. On the revenue side, significant reductions in external tariffs as well as some income tax and indirect tax reductions have contributed to the current large fiscal deficit.

Because of repeated and large budget deficits, public debt — mainly domestic debt — has expanded notably in the recent past. From a level of $1.2 billion in June 1995 domestic debt reached $1.8 billion in June 2000, equivalent to 39 per cent of GDP. Added to external public debt, the ratio of total public debt stood at 47 per cent relative to GDP.

Notwithstanding increasing concerns related to the rising public debt, the current government has prioritised the financing of a vast public investment programme in its 2001/02 budget. The need for a highly skilled labour force and good infrastructure, necessary to face the rising labour costs and the end of preferential market access, has been the main concern of the current government. Consequently, capital expenditure will increase by 58 per cent to finance investment in education and training, ITC and infrastructure, environment and health, as well as for various social sectors. Therefore, the budget primary deficit for 2001/02 is expected to reach 5 per cent in spite of an increase in value-added tax from 10 per cent to 12 per cent. The government has announced its intention to bring down the overall budget deficit gradually, over the next five years, to 3 per cent of GDP. Nevertheless, the ambitious four-year public investment programme launched in the last budget poses concerns over its sustainability in the coming years as the widening of the primary deficit for 2001/02 suggests.

Table 2 - Public Finances[a] (percentage of GDP)

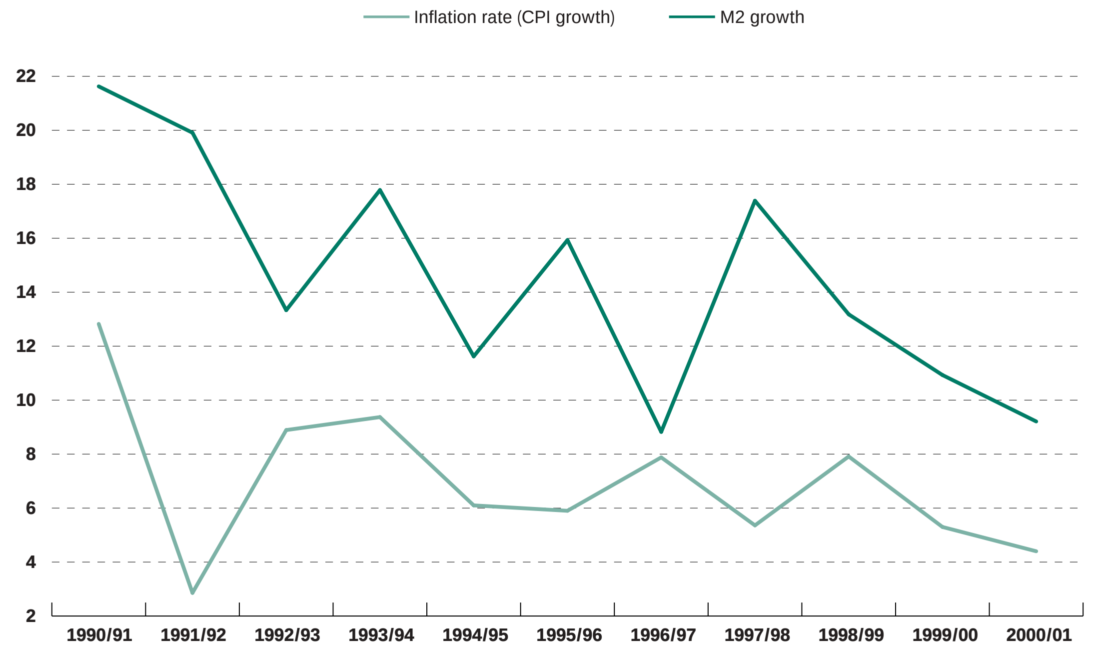
	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Total revenue and grants[b]	**20.0**	**20.2**	**20.6**	**21.4**	**17.3**	**17.6**
Tax revenue	16.9	17.2	17.3	18.8	15.4	15.8
Total expenditure and net lending[b]	**23.7**	**24.2**	**24.0**	**25.4**	**23.6**	
Current expenditure	20.0	21.1	21.1	21.3	20.0	
Excluding interest	*16.9*	*17.2*	*17.6*	*17.8*	*16.2*	*16.2*
Wages and salaries	7.6	7.1	7.2	7.1	6.2	6.0
Interest on public debt	3.1	3.8	3.5	3.5	3.8	
Capital expenditure[c]	3.8	3.0	2.1	3.2	3.1	4.4
Primary balance	**-0.6**	**-0.1**	**0.1**	**-0.4**	**-2.5**	**-5.0**
Overall balance	**-3.7**	**-4.0**	**-3.4**	**-3.9**	**-6.3**	

a. Fiscal year begins 1 July.
b. Only major items are reported.
c. Including net lending.
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

The mandate of monetary and exchange rate policy, under the authority of the Central Bank, the Bank of Mauritius, is to sustain growth through stable prices and exchange rates. The Central Bank has pursued this objective in the recent past through a mix of policies. In the domestic market, a tightening in monetary policy followed the elections in September 2000. Money growth has been targeted consistently with a growth in GDP of 5.5-6 per cent and inflation of 4.5-5 per cent. The Lombard rate, introduced in December 1999, was raised accordingly from 11 per cent as of June 2000 to 12.5 per cent until April 2001. As a result, despite the strong recovery of the economy after the drought that hit the sugar sector in 1999, inflation has remained subdued and passed from a level of 5.3 per cent in the year 1999/2000 to a level of 4.4 per cent over the following fiscal year. For 2001, with expected inflation of 4.1 per cent, the monetary stance of stable prices will be followed.

On the exchange rate market, a large real appreciation of the Mauritian rupee occurred during 1999 and much of 2000 as a result of inflation differentials with trading partners and owing to the depreciation of the euro *vis-à-vis* the US dollar. In response to demands of the sugar sector the Bank of Mauritius reintroduced a 50 per cent surrender requirement on the export proceeds of the Mauritius Sugar Syndicate. Since October 2000, in response to market pressures, the Mauritian rupee depreciated in real effective terms by 7.5 per cent, reversing much of the previous loss in competitiveness.

Figure 5 - Inflation Rate and Broad Money Growth



Source: Central Statistical Office data.

External Position

Mauritius is one of the most open economies in Africa and its trade relationships have been mainly shaped by preferential market access. Therefore, while sugar exports are essentially shipped to European countries under preferential access schemes and at guaranteed prices, the main export markets for garment manufacturing industry are France, the United Kingdom and the United States where Mauritius' products also enter duty free. On the imports side, trade relationships are more diversified. Indeed, beside high-income countries such as France (which is the second largest supplier), other EU countries, the United States and Hong Kong, other significant partners include India and South Africa. Imports consist mainly of manufactured materials (textile yarns and cotton fabrics), machinery and transport equipment, and to a lesser extent food and live animals.

Mauritius' external position is structurally characterised by the trade balance deficit offset by net exports in services (principally borrowing) and current transfers. Indeed, over the last five years, an average trade balance deficit of 9 per cent of GDP has been consistent with a current account deficit averaging only 0.9 per cent of GDP. As a result of increasing — mainly public — investment in 2001/02, imports will be at 44.2 per cent of GDP in 2001/02 widening the trade deficit by 40 per cent.

In fiscal year 1999/2000, despite the impact of the drought on sugar exports, the current account balance passed from a 1.6 per cent deficit to a surplus of 0.5 per cent thanks to growing tourism receipts.

With a 10-year average of 1 per cent of GDP, foreign direct investments are not significant determinants of the overall balance of payments. More importantly, the flows of FDI do not contribute significantly to productive capacity expansion since it represents, on average, less than 4 per cent of gross investment. Nevertheless, the acquisition by France Telecom of 40 per cent of Mauritius Telecom shares in November 2000, has produced exceptionally high FDI inflows, equal to 6 per cent of GDP and 25 per cent of total gross investment.

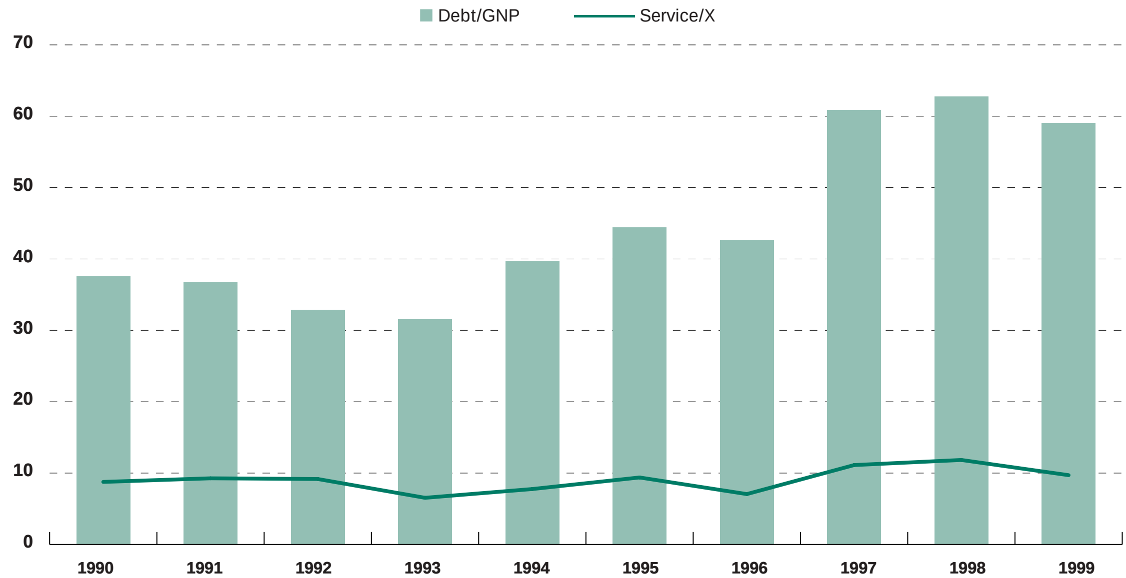
In the last ten years Mauritius' external debt has increased remarkably from below $1 billion in 1990 to $2.5 billion in 1999. Long-term debt, which represents three-quarters of the total, is largely owed to private creditors representing 73 per cent of total

Table 3 - Current Account (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Trade balance	-10.3	-10.1	-8.8	-10.5	-9.5	-13.6
Exports of goods (f.o.b.)	38.6	39.6	40.3	35.5	32.1	30.6
Imports of goods (f.o.b.)	-48.9	-49.8	-49.1	-46.0	-41.6	-44.2
Services	2.9	4.8	5.6	9.8		
Factor income	-0.5	-0.5	-0.6	-0.8		
Current transfers	2.7	3.0	2.2	2.0		
Current account balance	**-5.2**	**-2.9**	**-1.6**	**0.5**		

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Figure 6 - Stock of Total External Debt (percentage of GNP) **and Debt Service** (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

creditors in 1999. Nevertheless, the external debt service has remained stable (8.8 per cent of exports of goods and services in 1990, to 9.7 per cent in 1999).

Structural Issues

The comparative advantages which had been crucial for the sustained economic growth of Mauritius in the last few decades are now changing and in the near future the country will face important new challenges. The transformation of the trade environment will require a rethinking of the current economic model based mainly on low-end garment production and on a strong sugar industry. On the internal side, the ageing of the population due to demographic changes will affect the population dependency ratio, with implications on the growth potential and putting pressure on public finances.

On the external side, the major changes are related to the ending of non-reciprocal preferential market accesses. The elimination of global quotas on clothing — under the Multifibre Arrangement (MFA) — by the EU and the United States by the end of 2004 will reduce preferential access enjoyed by the garment industry, exposing the country to world competition. Moreover, the gradual phasing out of the EU guaranteed sugar price in the next few years will definitely hamper the current profitability of the sugar sector. On the other hand, the African Growth and Opportunity Act (AGOA) enacted by the United States in 2000 could have a significant impact on Mauritius especially for the garment industry. The duty-free access in apparel to the US market in force until 2008, subject to the rule of origin requirement, could outweigh the negative impact of the MFA elimination phasing out. In addition, regional trade could be enhanced through a boosting of Mauritius' FDI in neighbouring African countries, such as Madagascar and Mozambique, which are exempted from the rule of origin requirement for a period of four years.

On the internal side, the relatively long period of sustained growth which occurred in the country in the last three decades has influenced demographic trends. The decline in the fertility rate from 3.25 in 1970 to 1.90 in 1998, coupled with an increase in life expectancy from 63 to 72 years, is changing the population structure. Indeed, over the next ten years, labour force growth will decline to less than 1 per cent per year with a consequent ageing of population. This will add considerable pressure on pension funds and on public finance, with an increasing weight of the current transfers, as well as on the economy's growth potential.

Changes in current regulatory framework and developments of infrastructure are currently implemented to adapt the country to those structural changes and to allow it to reach a new stage of development.

The regulatory framework related to FDI has been reformed in the last year in order to attract new potential investors. So far, top-heavy bureaucratic procedures in issuing FDI permits and work permits for expatriates have acted as a disincentive for attracting FDI. From a fragmented institutional framework with responsibilities given to various institutions and ministries, the government has created a new institution called the Board of Investment (BOI). This is responsible for the whole set of procedures required of foreign investors to settle new investment projects. Moreover, a new strategy is currently being put into place based on selective targeting of potential foreign investors instead of the usual road shows exposing the investment potential of the country to a broad category of foreign investors.

By African standards, Mauritius has well-developed basic infrastructure**.** The large government investment projects of the recent past have markedly improved the island's road transport and road network with 1 880 km of tarred roads. Sea transport is also well developed with the main harbour, Port Louis, which has been recently been expanded and modernised to cater for bigger vessels. Under the control of the Mauritius Freeport Authority (MFA), a parastatal body created in 1992, the country has substantially increased its port facility. The establishment of a Freeport considered as the logistics platform for warehousing, distribution and marketing of the region is in line with the government policy to develop the services sector and help Mauritius to become a regional trading hub. Mauritius also has a well developed infrastructure related to air transport with the state-owned international airport, through which 15 international airlines operate, handling about 150 flights a week.

In addition to the development of basic infrastructure, Mauritius is taking steps towards achieving its ambition to become a telecommunications and ITC hub. With a tele-density of 250 lines per thousand inhabitants Mauritius has the most developed telecommunications network in Africa. Nevertheless, the ambitious plan of developing Mauritius as a world-class ITC hub still faces constraints related to the present telecommunications environment. The costs of basic telephony are still high and Internet access prices as well as the number of Internet host per 10 000 inhabitants is still lagging relative to competitors such as Malaysia, Korea or Singapore. The telecommunications market is still dominated by the monopoly of Mauritius Telecom which is the only fixed line operator and Internet service provider and is likely to remain so until the end of 2003. On the other hand, the completion — scheduled for the end of 2001 — of the new SAFE (South Africa Far East) undersea fibre-optic cable, which will link the island to Malaysia, South Africa and then onwards to West Africa and Europe, will boost the island's high capacity bandwidth. Beside that, a large infrastructure ITC project — Cybercity — with the technical and financial co-operation of India, is likely to attract national and international investors to relocate their activities on the island.

The banking sector is one of the most developed in sub-Saharan Africa and Mauritius is rapidly achieving a remarkable position in the international market for financial intermediation**.** Offshore banking took off in the 1990s primarily thanks to liberalisation of the Indian economy and Mauritius enjoys bilateral tax conventions signed in the last ten years with several Asian countries. Mauritius is now considered to be the fourth largest foreign investor in India through large portfolio investment. The total number of offshore entities on register has reached 10 561 as at November 1999 in the form of national and international companies, and trusts. Off-shore banking — dominated by Barclays, HSBC and South Africa Investec — comprises 11 offshore banks and total assets have stood at \$2.6 billion, while non-bank deposits were \$1.1 billion. On the other hand, the ten onshore commercial banks operating in Mauritius can be considered as profitable. The banking system is well capitalised enjoying an average capital adequacy ratio in the range of 12-13 per cent in the past three years, above the Basel requirement of 8 per cent. This sector — which is still dominated by Mauritius Commercial Bank and the State Bank of Mauritius — has been able to raise markedly private sector credit which has increased on average by 30 per cent in the last three years, with a parallel evolution of deposits. Financial supervision has followed the pace of development of the entire sector. The supervision of the offshore sector has been recently strengthened with the introduction of the Financial Services Development Bill which will bring under one umbrella the regulation and supervision of the non-bank financial sector. Moreover, the National Assembly has ratified the Economic Crime and anti-Money Laundering Act — which led to the setting-up of the Economic and Crime Office. The supervision of onshore activities has been enhanced as well through closer monitoring of the central bank.

Political and Social Context

Mauritius enjoys one of the most stable political systems in Africa, based on a multiparty democratic republic. Legislative power lies in the hand of the elected National Assembly which comprises 60 elected representatives. The last general elections were held in September 2000 opposing two main alliances: the Mauritian Militant Movement and the *Mouvement Socialiste Militant* (MMM-MSM) alliance on one side and the Mauritian Labour Party and *Parti Mauricien Social Démocrate* (MLP-PMSD) alliance on the other. The MMM-MSM alliance won 54 of the 60 parliamentary seats. Such landslide victories are not unusual in Mauritian elections — in 1995 an MLP-MMM alliance won all 60 seats, and in 1992 an MMM-MSM alliance won 56 seats.

The MSM-MMM alliance has a pre-electoral agreement to share the post of Prime Minister. Sir Anerood Jugnauth, leader of the MSM, will hold the post of Prime Minister for the first three years and will then become President of the Republic. For the remaining two years in the five-year mandate, Paul Berenger, leader of the MMM party, will be Prime Minister. This will be the first time that Mauritius has experienced a sharing of power between two parties in one mandate. When Mr Berenger accedes to the post of Prime Minister, he will be the first Prime Minister of Mauritius coming from a non-Hindu minority community.

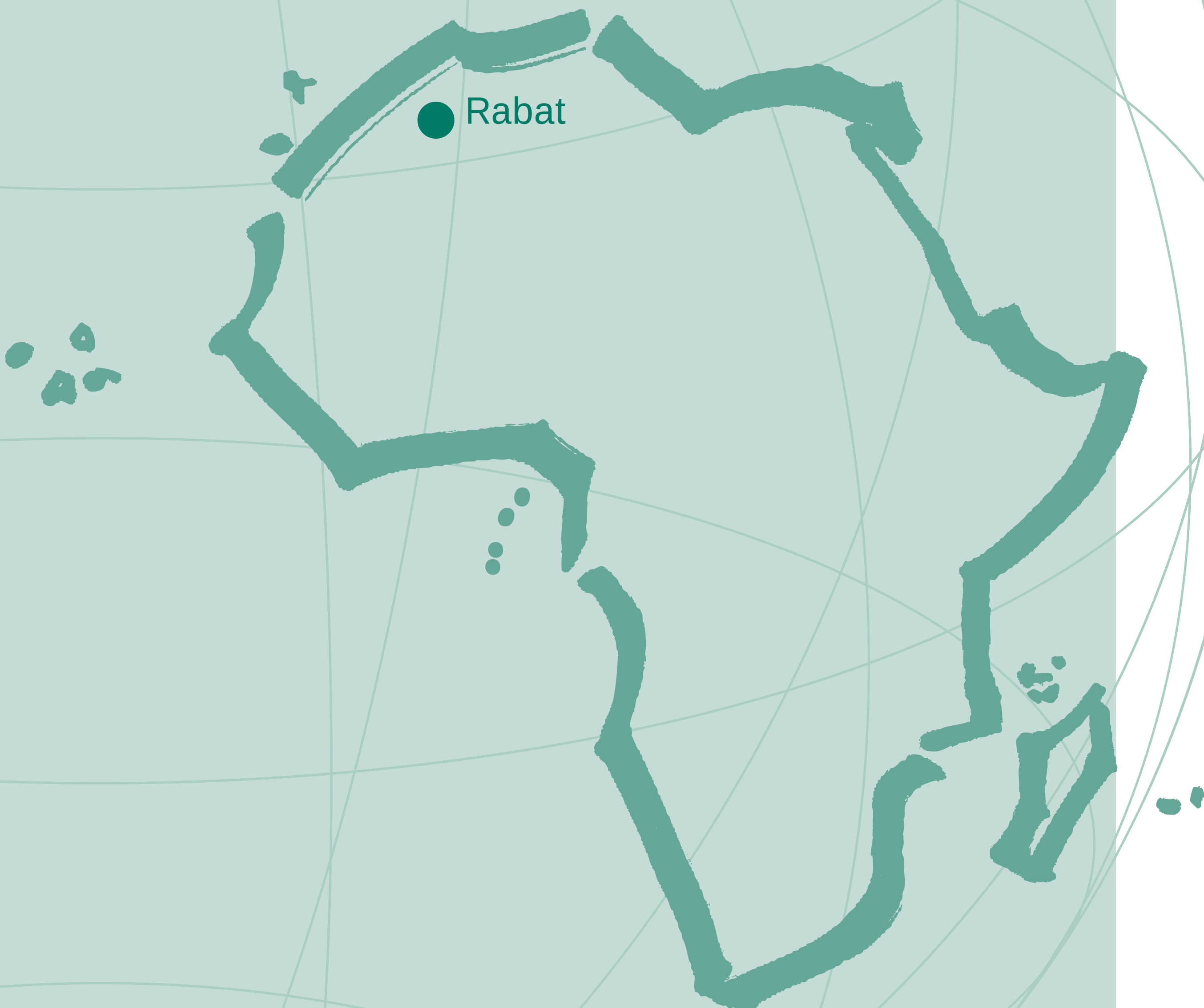
The strong ties that exist between Mauritius and the West are due to Mauritius' political heritage and dependence on Western markets. Mauritius has sought to establish close links with the European Union and its member states, particularly the United Kingdom and France, which exercises sovereignty over the neighbouring island of Réunion. In the last decade, Mauritius' foreign policy emphasis has gradually moved towards the strengthening of its ties with the African continent, with steady integration within SADC, COMESA and IOC (Indian Ocean Commission) regional blocs and by pursuing closer economic and political ties with South Africa. Finally, India and Mauritius share close relations based on cultural and ethnic links.

Within the African context Mauritius can be considered as a successful case of sustained economic growth associated with a substantial welfare improvement of the entire population. The achievements of the universality of access to primary health care as well as universal primary education are unambiguous signs of great advances in the social services. Nevertheless, the changing socio-economic environment has not been accompanied by a revision of the education system. As a result the labour market in Mauritius is facing an increasing skills mismatch and a rise in unemployment.

With an adult literacy rate of 85 per cent, free education until university level, and universal primary education, the education standards of Mauritius are remarkable within the African context. Nevertheless, enrolment rates fall from 100 per cent in the primary sector to just 60 per cent in the secondary level, as a result of the high drop-out and failure rates at the end of the primary level. The causes of this drop are related to the inequalities which persist in society itself and the inability of the primary school system to overcome them. Regions with higher incomes have better schools and there parents are prepared to pay for private tuition for their children to pass the competitive Certificate of Primary Education (CPE) examination at the end of the primary level. Moreover, the system is lagging behind the changing socio-economic environment: Mauritius ranks 95 in terms of the percentage of population enrolled in science, computing and engineering, significantly less than its world competitors such as East Asian countries and other African countries such as Botswana, Cameroon, Côte d'Ivoire, Egypt, Nigeria, and Zimbabwe.

Despite sustained economic growth, the employment situation has markedly deteriorated over the last five years. The unemployment rate went up to 8 per cent in 2000 from a level of 2.8 per cent in 1990, and preliminary estimates for 2001 suggest a level above 9 per cent. The pace of this rise has been remarkable in the last two years, when the rate of unemployment increased by 18.4 per cent. The evolution from a low-skilled/low-technology economy towards a service economy accounts for this pattern. Indeed, the labour force is still highly characterised by semi-skilled and low-skilled workers who account for 97 per cent of employment. On the other hand, there are specialised jobs in the economy that cannot be filled by the current unemployed because of a lack of related skills. Another important factor to be reckoned is women's participation rate which increased from 30 per cent in the 1980s to 40 per cent in 2000.

Morocco



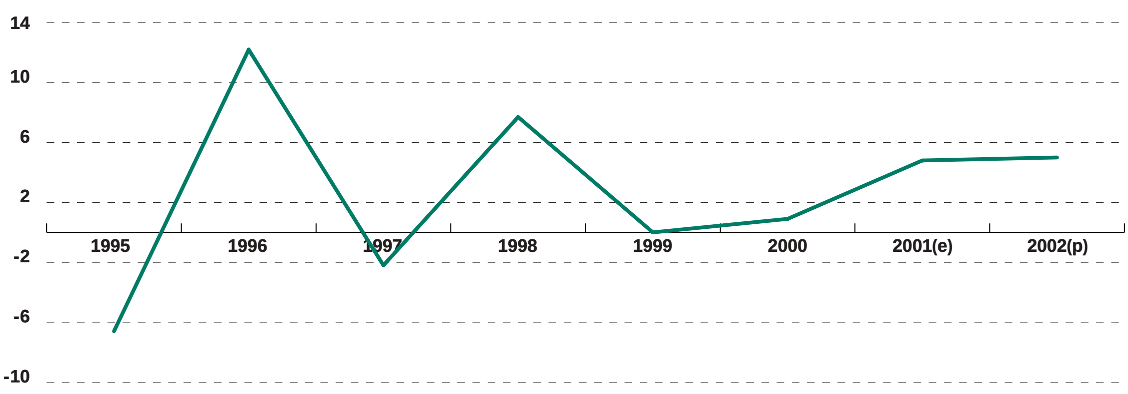
key figures

- Land area, thousands of km2 : 446
- Population, thousands (2000): 29 878
- GDP per capita, $ (2000): 1 120
- Life expectancy (1995-2000): 66.6
- Illiteracy rate (2001): 50.1

MOROCCO'S ECONOMY HAS GROWN quite slowly in recent years, with real GDP rising an average 2.8 per cent a year (1.6 per cent per capita) between 1997 and 2000. It also showed irregular movements due to erratic agricultural performances. The decline of social indicators and widening of inequalities are an obstacle to sustainable growth. Higher investment (funded by money from privatisation) and public sector wages, along with a 5 per cent devaluation of the dirham against the dollar, should boost real GDP by about 4.8 per cent in 2001, though at the cost of some inflationary pressure (2.1 per cent). A continuing policy of reviving public investment and a new devaluation of the dirham (5 per cent) may produce higher real GDP growth in 2002 (5 per cent) with lower inflation (1.6 per cent). But a fairly substantial trade deficit (around 9 per cent of GDP) is likely because of a volume of imports driven by increased demand and a still high real effective exchange rate.

Morocco's economy has grown quite slowly in recent years

Figure 1 - Real GDP Growth



Source: Authors' estimates and predictions based on data from the *Direction des statistiques du Maroc.*

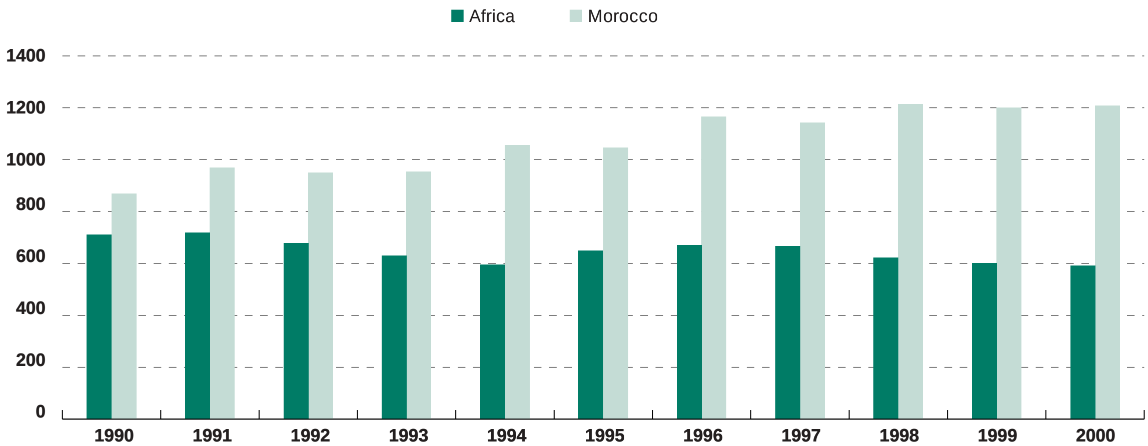
Recent Economic Developments

The primary sector accounts for 16 per cent of domestic value added and employs 48 per cent of the working population. Agriculture is very much at the mercy of the weather (only 13 per cent of cultivated land is irrigated) and is dominated by small plots using hardly any machinery. Large modern farms mainly produce export crops (fruit and vegetables and citrus) and much of the irrigated land is in their possession.

In 2000, 73 per cent of the fertile agricultural area was given over to cereals and 22 per cent to export crops. Two consecutive years of drought damaged cereal production. Total agricultural output fell 49 per cent between the 1998/99 and 1999/2000 seasons and persistent drought in 2001 is thought to have wiped out crops equivalent to a fifth of the cultivated land. Citrus production grew by 7 per cent, however, illustrating the country's two kinds of agriculture — one of them irrigated, expanding and geared to foreign markets and the other old-fashioned and aimed at domestic consumption.

Fishing has much potential for growth. The non-renewal of agreements with the European Union (and

Figure 2 - GDP Per Capita in Morocco and in Africa ($ current)



Source: Authors' estimates and predictions based on data from the *Direction des statistiques du Maroc.*

Russia) in December 1999 meant Moroccan boats could now fish all the country's territorial waters and the national catch grew in volume by 20 per cent in 2000. Since 1997, the government has been modernising and expanding the fleet and port facilities in the hope of doubling production between 1999 and 2003. The programme could create up to 100 000 jobs.

Mining is dominated by phosphates, of which Morocco is the world's third largest producer and leading exporter. The sector is in the doldrums after a 7 per cent fall in export volume in the three years since the peak year of 1997.

The secondary sector accounts for about 30 per cent of GDP and employs 20 per cent of the workforce. It has grown a modest average of 3 per cent a year since 1997. Manufacturing industries represent two-thirds of the value added of the sector and comprise food processing (36 per cent), chemical and para-chemical industries (32 per cent), textiles and clothing (17 per cent) and mechanical and metallurgical industries (12 per cent).

Food processing has grown strongly in recent years — 15 per cent between 1997 and 2000 and 5 per cent during 2000 — but the sector is dominated by family firms and not very competitive.

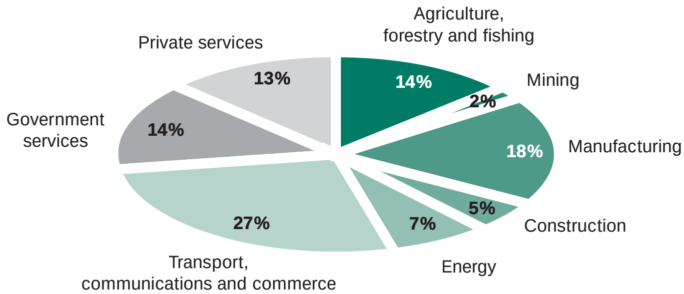
The chemical and para-chemical industry is downstream of the mining sector and mainly turns phosphates into fertiliser and phosphoric acid for export. Phosphoric acid and fertiliser alone account for 12 per cent of all exports. The sector's production has grown 10 per cent since 1997 (3 per cent in 2000), showing the state-owned Moroccan Phosphates Authority's determination to boost the sector's domestic value added by increasing output of by-products.

The textile and clothing industry is focused strongly on exports (accounting for 34 per cent of the total) and has to face the very competitive conditions of the world market. The sector has been handicapped by the rise in the real value of the dirham and will have to prepare for the dismantling of the multi-fibre agreements, to be completed in 2005. The sector had to shed 44 000 jobs in 1999 — 23 per cent of its total and 3 per cent of all industrial employment.

Since 1997, construction has been the most dynamic sector, with an average real growth of 5 per cent (6 per cent in 2000), largely fed by a 1994 government programme, backed by international funding agencies, to build cheap housing to replace slums.

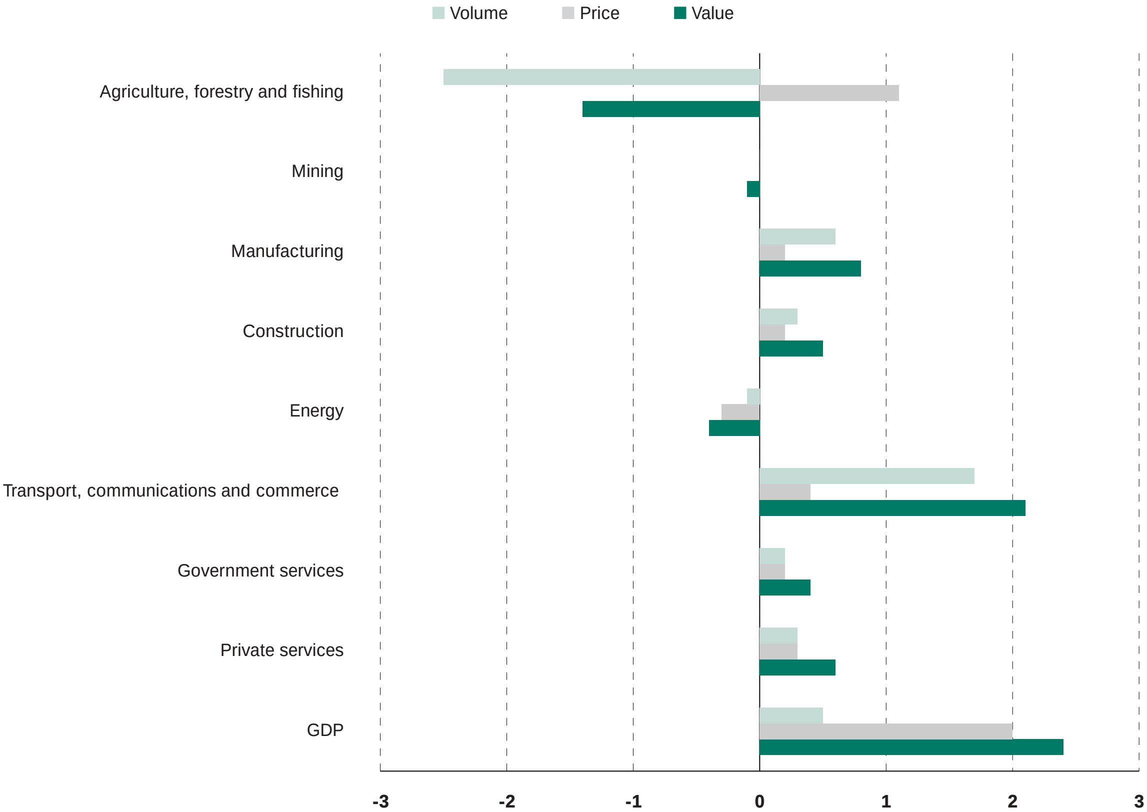
The tertiary sector, which employs 32 per cent of the working population and accounts for 54 per cent of GDP, has grown fastest of all in real terms in the past

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates and predictions based on data from the *Direction des statistiques du Maroc.*

Figure 4 - Sectoral Contribution to GDP Growth in 2000



Source: Authors' estimates and predictions based on data from the *Direction des statistiques du Maroc.*

few years, especially (since 1997) transport/communication (+28 per cent) and commerce (+19 per cent).

The communications sector is being thoroughly restructured. The state monopoly, *Maroc Télécom*, was broken in 1999 by sale of a GSM licence. The firm was opened up and *Vivendi* took a 35 per cent share in early 2001. Two more private telecommunications licences (one mobile and one fixed) are expected to be offered by 2003 and another 15 per cent of *Maroc Télécom* should be up for sale.

Tourism, the country's main source of foreign exchange, is expanding rapidly and grew by 13 per cent in current dirhams in 2000 (29 per cent since 1998). The sector has room for further growth. The total present capacity is 95 180 beds, while neighbouring Tunisia has about 185 000. The Moroccan government has been encouraging the sector with tax breaks and privatisation of state-owned hotels. Several investment projects are under way, notably in the Agadir and Marrakesh regions.

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**21.3**	**22.2**	**23.4**	**24.3**	**23.5**	**23.6**
Public	3.7	2.7	2.9	3.0	3.3	3.3
Private	17.6	19.4	20.5	21.3	20.2	20.4
Consumption	**85.2**	**86.1**	**85.1**	**86.8**	**86.4**	**85.7**
Public	17.3	18.0	19.2	19.4	20.8	20.4
Private	67.9	68.1	66.0	67.4	65.6	65.3
External sector	**-6.5**	**-8.3**	**-8.6**	**-11.0**	**-9.9**	**-9.3**
Exports	27.2	17.7	18.9	20.2	19.7	20.1
Imports	-33.7	-26.0	-27.5	-31.3	-29.6	-29.4

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Real growth of domestic income, at 5 per cent, has been mostly driven by household consumption. The increase in investment slowed in 2000 (by 3 per cent in real terms) after several years of sustained growth. Real public investment grew 7 per cent in 2000, but its share in GDP is still small. The faster expansion of domestic demand rather than GDP shows a supply shortage and has resulted in increased imports and thus a bigger foreign trade deficit.

Macroeconomic Policy

Budgetary and Monetary Policy

The state budget has been almost balanced in recent years and even showed a surplus in 1999 after the sale of the second GSM licence. But 2000 ended with a deficit equal to nearly 6 per cent of GDP because the government decided to stick to its spending plans despite the delayed privatisation of *Maroc Télécom*, whose proceeds had been earmarked for the 2000 budget. Normally, the country's budget is hampered by the size of current expenditure (75 per cent of the total in 2000), which leaves little money for public investment and structural reform. The main reason is the enormous wage bill for 770 000 civil servants (8 per cent of the total workforce) that absorbs 40 per cent of total expenditure (12 per cent of GDP). Interest on external debt, although declining, is still high at 17 per cent, while consumer price subsidies for energy and food staples take up 6 per cent. Public investment accounts for only 17 per cent (just under 6 per cent of GDP in 2000) but is rising because of the new Hassan II Fund to which most privatisation proceeds are channelled and which has set improving public infrastructure as a priority.

The burden of current expenditure is expected to grow in the short term. Devaluation should increase both the public external debt service and price subsidies for imported goods (oil and especially cereals). The system of subsidies was however pared down because they were becoming too onerous for the government after the rise in oil prices in 2000. The 10 per cent increase in the minimum wage in October 2000 and giving a number of civil servants job tenure automatically raises the cost of public-sector wages.

Liberalisation of the banking sector (abolishing credit control in 1991, liberalising interest rates on overdrafts in 1992 and on accounts in credit in 1996) and an expansionist monetary policy (reducing intervention rates of the central bank on the money

Table 2 - Public Finances[a] (percentage of GDP)	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[b]	**23.8**	**24.4**	**29.3**	**24.7**	**28.6**	**26.0**
Taxes	21.5	21.8	23.6	22.6	21.1	21.3
Total expenditure and net lending[b]	**28.9**	**28.2**	**28.5**	**30.6**		
Current expenditure	22.0	22.3	22.3	23.0		
Excluding interest	*16.1*	*17.1*	*17.2*	*17.8*	*19.1*	*18.6*
Wages and salaries	11.1	11.4	11.9	11.8	12.5	12.1
Interest payments	5.9	5.2	5.1	5.2		
Capital expenditure (including Hassan II Fund)	5.5	4.5	5.1	5.6	6.0	6.0
Primary balance	**0.8**	**1.3**	**6.0**	**-0.6**	**1.9**	**-0.2**
Overall balance	**-5.1**	**-3.8**	**0.9**	**-5.9**		

a. Until 2000, the financial year was from July to June, so calendar-year periods do not correspond with budget periods.
b. Only major items are reported.
Source : Authors' estimates and predictions based on IMF and domestic authorities' data.

market and reducing reserve requirements) has substantially cut interest rates. The central bank's average nominal intervention rate has fallen by 144 basis points since 1997 and reached 5.1 per cent in 2000 (3.2 per cent in real terms). The banks' nominal minimum lending rate dropped by 200 basis points over the same period to the present 7.2 per cent (5.4 per cent in real terms) for loans shorter than two years. Credits to the economy rose from 50 to 60 per cent of GDP between 1997 and 2000 (7 per cent up in 2000). Apart from lower interest rates, the growth of credits to the economy was helped by reduced bank credits to the government (their share of GDP fell by 10 per cent between 1997 and 2000). As a result, growth of the M3/GDP ratio held up in recent years (14 per cent since 1997 and 5 per cent in 2000) but still did not stoke up inflation, which remained modest, at 1.9 per cent in 2000 compared with 0.7 in 1999. The effect on prices of the April 2001 devaluation, minor so far, will determine whether the expansionist monetary policy is maintained. The central bank's aim is to limit annual inflation to 2.5 per cent.

The value of the dirham is pegged to a basket of currencies whose weighting was changed in April 2001, leading to a devaluation of about 5 per cent. This was done in a context of a deteriorating trade balance and lower duties on imports from Europe, as well as persistent pressure from the textile and clothing sector (whose union called for a 10 per cent devaluation). The steadiness of prices and lighter external debt helped too. The real impact of devaluation on macroeconomic equilibrium cannot yet be judged, but it is evidently not enough to restore the price-competitiveness of Moroccan exports. The real effective exchange rate in 2000 was 22 per cent higher than at the time of the last devaluation in 1990.

External Position

With the new round of World Trade Organisation talks and the opening up of the Moroccan market through free trade agreements between the European Union and the Mediterranean countries, Morocco is coming up against stiffer competition in domestic and foreign markets. But it may also be able to sell more of its farm products in Europe.

In 2000, the country's trade balance took a drastic plunge (to a 34 per cent deficit in current dirhams, according to official figures) due to a faster growth of imports (15 per cent) than exports (7 per cent), and export coverage of imports fell to 64 per cent. Oil products (12 per cent of all imports) and cereals (6 per cent) were the main sources of import growth. The oil bill should diminish in the long run because of the discovery of unproven reserves of oil and natural gas that could supply the country for between 15 and 30 years. But extraction at the site, known as Sidi Belkacem 1, may not start until 2003. The growth of cereal imports is due to the fall in domestic production because of drought. Imports of capital goods (21 per cent of all imports) dropped sharply by 9 per cent in 2000, confirming the slowdown of private sector investment.

Exports were driven by the fishing sector, which accounts for 10 per cent of the total. Clothing exports (32 per cent of the total) only grew 2.7 per cent because of the rise in the real value of the dirham and the opening of the European market to other exporting countries. Exports from the phosphate sector (phosphates, phosphoric acid and fertiliser), which accounted for 17 per cent of the total in 2000, fell slightly in value.

The trade deficit was mostly made up for by invisible items such as tourism and remittances by Moroccans living abroad, which are a substantial source of foreign exchange. The two sectors grew by 13 and 18 per cent respectively in 2000 (in dirhams). Reduction of external debt service meant the current account deficit could be kept to 1.7 per cent of GDP in 2000.

Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-7.5	-6.5	-6.9	-9.0	-8.2	-7.6
Exports of goods	20.7	19.9	21.3	22.5	22.2	22.6
Imports of goods	-28.1	-26.4	-28.2	-31.5	-30.3	-30.2
Services balance	0.8	2.4	3.1	3.3		
Factor income	-4.0	-2.9	-2.8	-2.8		
Current transfers	7.1	6.5	6.1	6.8		
Current account balance	**-3.6**	**-0.4**	**-0.5**	**-1.7**		

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

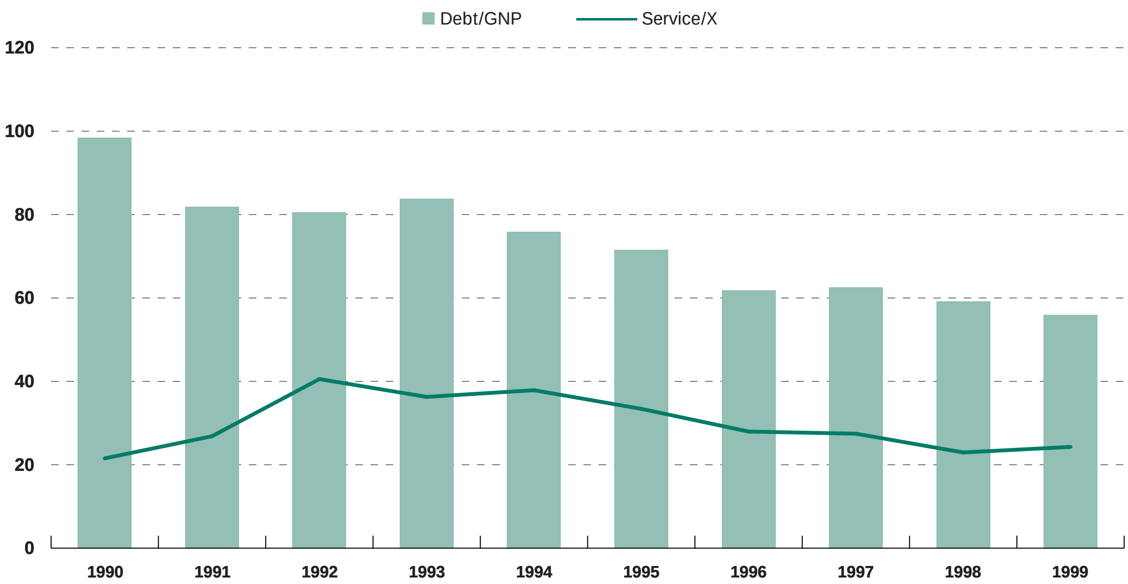
Apart from privatisations and franchises, foreign direct investment remains small in Morocco and bureaucratic red tape, lack of legal security and political and social uncertainty are cited as the main obstacles to its development. Growth of tourism and the oil sector, as well as continued privatisation of state enterprises, should however increase it in the short to medium term.

The proceeds of privatisation and the equilibrium of the current account have helped boost foreign exchange reserves by 57 per cent (in dollars) between 1995 and 1999 (28 per cent in 1999 because of the sale of a GSM licence). The reserves fell by 15 per cent in 2000 but rose again the following year owing to the part sale of *Maroc Télécom*. They were equal to 5.5 months of imports at the end of 2000 (compared with seven months in 1999).

Owing to several reschedulings of the debt to the Paris and London Clubs since 1983, efforts at adjustment since the early 1980s and implementation of bilateral debt reconversion procedures, new drawings have been less than repayments, so the country's external debt has been reduced since 1985 and is now at a sustainable level. The ratio of debt to GNP in 1999 was 56 per cent and of debt service to exports 24.3 (compared with 71.6 per cent and 33.4 in 1995). There is no danger of illiquidity because foreign exchange reserves are currently equivalent to about 22 months of external debt service.

Just over a third of Morocco's external debt is to members of the Paris Club and another third to international funding institutions. The share of bilateral creditors is diminishing as debt reconversion proceeds. Since 1996, France, Italy and Spain have done debt equity swaps amounting to slightly more than $600 million (just over 3 per cent of the official debt stock in 1995). The Moroccan government has been actively managing its debt since 1997 by using the fall in interest rates on capital markets and issuing eurobonds on the international financial market so as to pay off higher-interest loans taken out earlier. In the second

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of goods and services)



Source: World Bank (2001), *Global Development Finance.*

half of 2000, a €500 million eurobond issue was floated by the government.

Structural Issues

Until March 2000, Morocco enjoyed European Union trade preferences. The new free trade agreement on Barcelona terms (which Morocco signed in 1996) introduces for the first time reciprocal tariff preferences for industrial goods between the EU and the Mediterranean countries. In fact, because the earlier EU preferences were larger, the agreement means Morocco lowering its tariffs for industrial imports from EU countries. Complete liberalisation of the market should be achieved by 2012. Agriculture and fishing are currently excluded from the agreement but will be dealt with in the coming negotiations. Paradoxically, the present trade agreements between Morocco and the EU encourage cereal production while discouraging citrus and fruit and vegetables where Morocco has a greater comparative advantage[1].

Liberalisation of industrial trade will not be uniform. Duties and taxes on imported goods Morocco does not produce will be cut more quickly than on goods competing with local products. For the second category — mainly food products, minerals, electrical equipment and vehicles — the market will not begin to be liberalised until 2003 and the tariff reduction will be over ten years, at a rate of 10 per cent a year. Duties on other imports will be reduced 25 per cent at a time and two such cuts have already been made (in March 2000 and March 2001). Machinery imports however were completely liberalised on 1 March 2000. So for the time being, the Moroccan economy's level of protection has in fact risen somewhat.

The close ties between Morocco and the EU (which takes three-quarters of its exports and supplies two-

1. Duties imposed by Morocco on cereals from the EU are set at 144 per cent for the fairly small import quotas involved and are even higher outside the quotas. The expansion of the citrus and fruit and vegetable sector is restricted by seasonal import quotas imposed by the EU. The next round of EU-Morocco negotiations will tackle these points.

thirds of its imports), mean that the tariff agreements should have a considerable effect on the country's economy. But import duties account for 18 per cent of tax revenue, which means reducing them will oblige the government to reform the tax system. Morocco's industrial output could also be seriously damaged by competition from European goods. The government has moved to increase competitiveness and modernise local small and medium-sized firms, but does not seem to be having much success.

The government has launched a programme to rebuild the country's economic structures, involving reform of the labour market, privatisation of state-owned firms and services and encouraging foreign direct investment.

Competitiveness of industrial goods has declined in recent years as wage costs have risen and the real value of the dirham has increased. As a result, the government has begun revising the labour laws to make the job market more flexible. However, social pressures such as high unemployment and poverty led in April 2000 to a collapse of negotiations over a new labour code because of disagreement about conditions of lay-offs. But the lack of competitiveness of the local workforce is not so much about wages as lack of skills, so Moroccan firms will be in better shape on this score when education and vocational training improve.

The leading privatisations have been in telecommunications, with the sale of part of *Maroc Télécom* and deregulation of the sector. The next major opening-up of a state company is set for 2002, when 40 per cent of Royal Air Maroc will go on sale. About 50 firms remain to be sold off. Sixty or so have been divested since the first privatisation law in 1990, earning the government some \$3.9 billion since 1993, including \$2.2 billion from opening up *Maroc Télécom*. The state is gradually withdrawing from electricity and water-supply by offering franchises to the private sector, such as to build a power plant at Tahaddart and supply electricity and water to the Tetuan-Tangier region and water for Casablanca.

Wholesale reconstruction is under way in the banking sector, with the government partly involved in financial rehabilitation of three state-owned banks to prepare for future privatisation. One of them, *Crédit Immobilier et Hôtelier*, has been hard hit by corruption and embezzlement scandals. The amount of legally dubious deposits with the bank has forced the government and a group of nine small banks to guarantee its operations. The central bank, *Banque Centrale Populaire*, the country's largest, may be privatised in 2002.

Since the mid-1990s, the government has been pushing local and foreign private investment. The effort includes setting up duty-free industrial zones, an investment charter in 1995, a commerce law in 1996 and a business court in 1997. Laws grant many tax exemptions to encourage investors, especially foreigners and formalities have been reduced, with one-stop facilities for new investors. But procedures are still cumbersome: official decrees take a long time to be enacted and laws do not seem to be applied. The free zones are still at the early stages. The principal one will be in Tangier but is being held up by delays in renovating the port there because of a row between the government and the French construction firm Bouygues. Land-owning is also complicated by outdated practices and buying land to build on can take months or even years depending on its legal status. The private sector complains about very unreliable legal guarantees for investments because of corruption, so the weight of bureaucracy and its inefficiency is clearly a major obstacle to the country's development.

Political and Social Context

The late King Hassan II took a long time to start moving towards democracy and then only did so very carefully, retaining effective power while setting up a multi-party parliamentary system. But in March 1998, for the first time, he appointed an opposition figure (and veteran moderate left-winger), Abderrahmane el-Youssoufi, as Prime Minister. The king's death in July 1999 seemed to speed up democratisation. His eldest son and successor, Mohammed VI, was soon nicknamed "King of the Poor" by Moroccans, who had great hopes of social progress and political freedoms. The new king allowed political exiles to return, declared in favour of equal rights for men and women and fixed new parliamentary elections for November 2002.

However, since these first symbolic gestures, political liberalisation and social reform seems to have been put on hold. The media is still not allowed to criticise the king, discuss the role of Islam, or comment on human rights violations and the government's policy on Western Sahara. The issue of phosphate-rich Western Sahara, taken over by Morocco when Spanish colonial forces pulled out in 1975, is a thorny political issue and source of constant tension with neighbouring Algeria. A cease-fire was signed in 1991 with the Polisario Front pro-independence movement and Morocco agreed to hold a UN-supervised referendum on the future of the territory. The vote was originally set for 1992, but has been postponed because of disagreement over who can take part.

Other substantial blocks to progress are corruption and administrative rigidity. The presence of the state everywhere in the economy has led to corruption and unfair competition. The slowness of legal reform and delay in revamping the electoral system confirms the impression of an unpredictable legal environment. However, the government's stated determination since 1998 to fight corruption has already produced some results. A conference on morality in public life was held in June 1999, corrupt civil servants were dismissed and reforms were made in the state accounts court, the legal system, the method of bidding for government contracts and in the customs and tax departments. The clean-up of public life was supported by the national business confederation and many NGOs. In 2000, Morocco was 37th (level with Mauritius) on Transparency International's 100-nation index of the perceived degree of corruption in a country. This respectable position, compared with other countries in Africa, is proof of the government's success in tackling the problem.

The decline in the general standard of living could however endanger the country's social and political stability. A general strike, averted at the last minute in early 2001, is still being threatened by the trade unions, forcing the government to be conciliatory and suspend its programme to reduce the number of government workers. The risk of serious disturbances is greater because hopes raised by the political changes since 1998 have not been fulfilled. Since the early 1990s, poverty in Morocco has deepened and inequalities have widened. Morocco was only 112th on the UN Human Development Index in 2001, behind the rest of North Africa and Egypt though ninth among Africa countries.

The recent slowdown in growth increased the number of poor people (those living below the national poverty line) by half — from 13 per cent in 1997 to 19 per cent in 1999. Inequality is striking. The poorest 10 per cent have only 2.6 per cent of the country's wealth while the richest 10 per cent own 30.9 per cent of it. Three-quarters of the poor live in the countryside, where persistent drought hits their income from farming. Malnutrition among children under five in 1997 was four times greater in rural areas (12 per cent) than in the towns (3.3 per cent), according to the UNDP. These figures are similar to those in Least Developed Countries (LDCs). The area from the east of the country to the edge of the Sahara is a band of poverty with poor basic infrastructure, inadequate education and low incomes.

The level of urban unemployment (22 per cent in 1999) is very high and worse among women (27.6 per cent) than men (20.3 per cent). The highest rates are among people under 34 (30.3 per cent in 2000) and university graduates (29 per cent). Current trends are worrying, with urban job-seekers growing annually by 5 per cent while the number of jobs increases by only 4 per cent. The economy will have to grow between 6 to 8 per cent a year to create the 200 000 extra jobs needed both to absorb the 150 000 people who come onto the urban job market every year and to start reducing unemployment.

Although life expectancy at birth has improved (69 years now compared with 64 in 1993) and average primary school enrolment has doubled since the 1960s, Morocco's performances in health care and education are far behind those of countries with similar income levels. Infant mortality was about 45 per 1 000 in

1999, compared with the average of 35 for the Middle East and North Africa (24 in Tunisia, 36 in Algeria and 41 in Egypt). The health situation in the countryside is especially bad, with only half the population having access to proper medical care.

Morocco's illiteracy rate is one of the highest in the Arab world — 50 per cent among adults (people over 15). The figure is 44 per cent in Egypt, 31 in Algeria and 28 in Tunisia. Rural areas are far behind in school enrolment of children between seven and 13, with 26.9 per cent never having been to school, compared with 3.3 per cent in the towns. The most vulnerable Moroccans are women and girls in the countryside. Only 51 per cent of girls between seven and 12 attend school, compared with 74 per cent of boys (90 per cent are in school in towns). Fewer than 15 per cent of rural women are thought to be literate.

Despite government efforts, public spending on social sectors is still small compared with the rest of North Africa. In 1998, health care spending was 1.2 per cent of GDP in Morocco, against 2.6 in Algeria and 2.2 in Tunisia. For education, the figure was 5.3 per cent of GDP in 1997 compared with 7.7 in Tunisia. However, since Mohammed VI became king, the fight against poverty has become a government priority, with an emphasis on rural development through investment in basic infrastructure (roads, electricity, irrigation systems and activity generating jobs and income) as well as a serious rural literacy programme.

An informal education programme has been launched to teach children between eight and 16 who have never been to school how to read and write. Rural incomes are expected to improve thanks to a micro-credit and insurance programme backed by the Hassan II Fund, which is funded by the proceeds of privatisation and co-ordinated by the Social Development Agency. Meanwhile the government seems determined to transfer some decision making to decentralised authorities — the 1 547 towns legally recognised as important agents of local development, the 44 rural provinces and 24 urban prefectures that supervise local government and the 16 regions that oversee in turn the development of the provinces and prefectures. But so far very little power has been handed over to local elected officials.

Mozambique

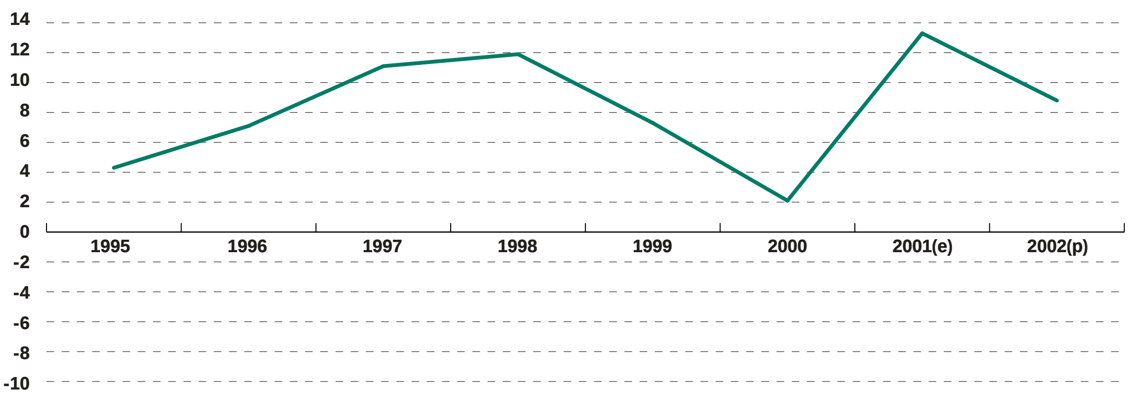
key figures

- Land area, thousands of km²: 784
- Population, thousands (2000): 18 292
- GDP per capita, $ (2000): 208
- Life expectancy (1995-2000): 40.6
- Illiteracy rate (2001): 54.7

Mozambique has been reported as a post-war rehabilitation success. Since the end of the civil war in 1992, the country has embarked on a series of impressive changes, in terms of civil sector reforms, structural policies and capacity building in the area of macroeconomic policy. With control over inflation since 1996, Mozambique has been able to record a remarkable rate of economic growth over the last five years. Nonetheless, owing to its geographical location, Mozambique's process of development is vulnerable to natural disasters, as patently demonstrated by the floods that hit southern and central Mozambique in 2000 and central and northern Mozambique in 2001. As a consequence, real GDP growth slowed down to 2.1 per cent in 2000. However, the partial recovery of agricultural production associated with the first full year of the aluminium smelters' production should allow the growth rate to rebound strongly in 2001 at a rate of 13.3 per cent. Indeed the starting of "mega-projects" related to development corridors is expected to have a strong impact on growth performance over the years to come (in 2002, growth rate should reach 8.8 per cent). Nonetheless, the vast majority of the population is still living in conditions of absolute poverty, usually without any links to markets and dependent on subsistence agriculture, and inequalities between southern and northern regions are still large.

The starting of "mega projects" related to the developments of corridors is expected to have a strong impact on growth in Mozambique

Figure 1 - Real GDP Growth[a]



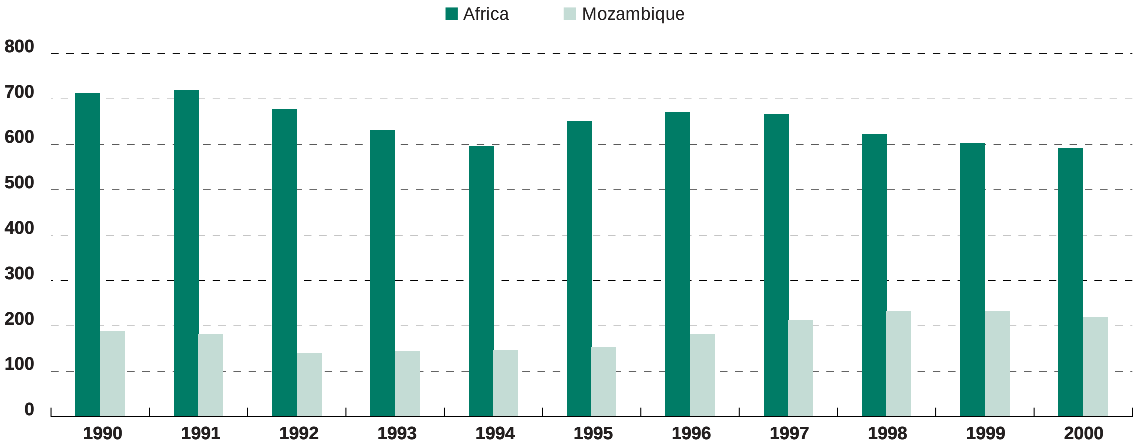
a. The percentage scale is different from the other countries since GDP growth exceeded the level of 10 per cent.
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Recent Economic Developments

Since the achievement of macroeconomic stability in 1996, the country has registered a remarkable rate of growth in a non-inflationary environment. Between 1996 and 1999, average real GDP growth was 9.3 per cent. In real per capita terms, over the same period, GDP grew by 6.9 per cent. The main source of economic growth has been the recovery of smallholder agriculture, as well as the expansion of the service sector, buoyed by transport and the financial sector growth. Manufacturing has performed well recently thanks to increased demand, fuelled by donor inflows. In spite of these gains, Mozambique remains one of the poorest countries in the world.

With a rate of economic growth at 2.1 per cent in 2000, recent performance of Mozambique has fallen short of earlier forecasts fixed at 7 per cent. The

Figure 2 - GDP Per Capita in Mozambique and in Africa ($ current)



Source: Authors' estimates based on IMF and domestic authorities' data.

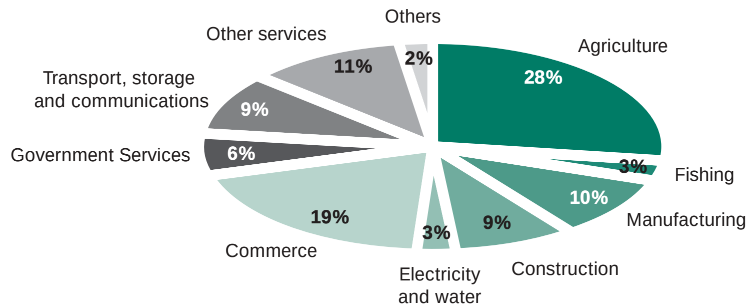
February-March 2000 floods had a catastrophic impact on the country's development. Moreover, the confidence in the business environment, which had increased sharply since 1998, declined as a result of the disruptions caused by the floods and the political instability that followed the general elections of December 1999.

Agriculture still represents the bulk of the economy involving some 80 per cent of the population and representing the most important economic sector in terms of GDP. The sector comprises a large smallholder sector that produces around 95 per cent of value-added in agriculture, mainly as food crops and some cash crops such as cotton, cashew nuts and, more recently, sugar. After the collapse of agricultural production in less than a decade, between the late 1970s and early 1980s, the sector has recovered. The return of 3 million displaced people to rural areas as well as the restoration of the basic transport links together with good weather led to the recovery of the rural economy in the post-war era. The commercial sector has not yet recovered and significant growth potentials remain to be exploited. The sugar sector as well as cashew nuts and cotton — which were at 1930s levels in 1985 — have marginally regained some production. Moreover, the floods during the first months of 2000 have further threatened the sector's recovery. More than 140 000 ha of cultivated land were flooded and a significant number of cattle and livestock were drowned. Therefore, estimates for the whole sector growth for 2000 are 2.4 per cent after a sustained period of growth.

The manufacturing sector expanded dramatically over the last five years, with an average growth of 16.1 per cent in the period 1995-99. The most dynamic sub-sectors have been food (food, drinks and tobacco) and mineral sub-sector processing. Therefore, the food sub-sector — already the largest component of industrial output — has increased its role in manufacturing. As a whole, the sector growth can be attributed to a rise in capacity utilisation. According to a 1997 World Bank study, capacity utilisation in manufacturing averaged about 48 per cent, up from 10-30 per cent in 1989. The construction sector benefited from increased demand for residential properties, as well as from the road building and infrastructure programmes, and it has grown an average of 18.5 per cent over the 1995-99 period. In 2000, the manufacturing sector — small manufacturing in particular — was seriously damaged by the floods and is still slowly recovering.

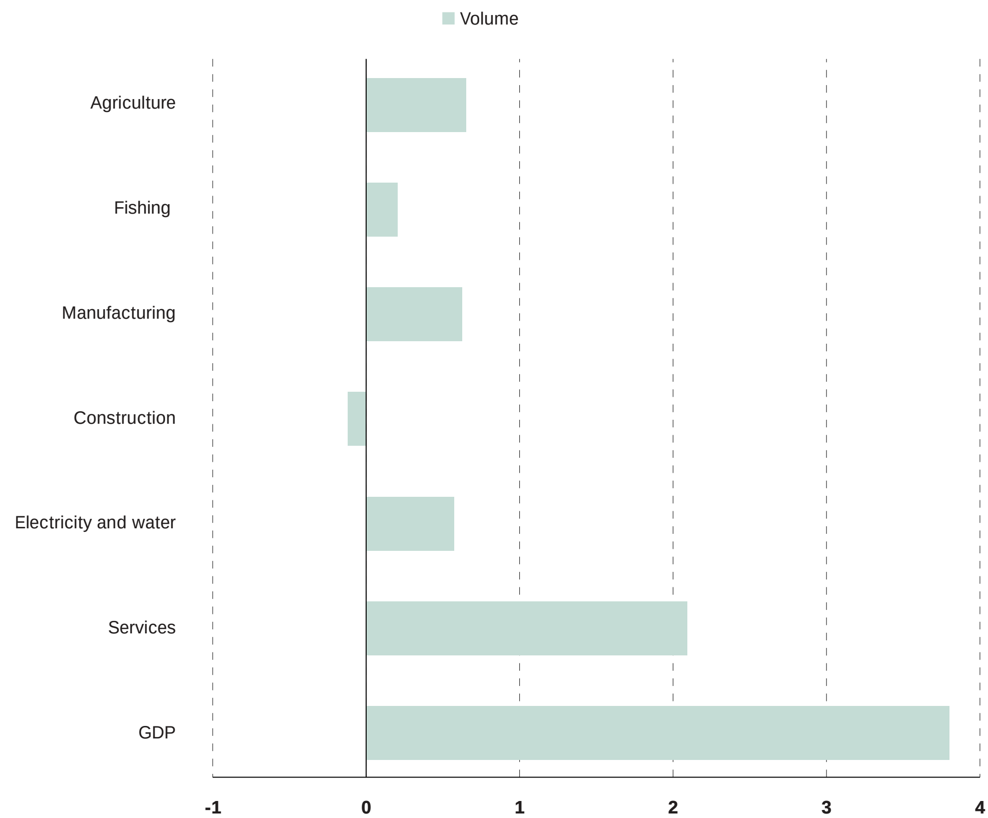
Apart from development of the existing manufacturing activities, new mega-projects are reshaping the structure of the sector. These new initiatives have been concentrated in the Maputo Corridor, which is the direct link between the port of Maputo and the industrial heart of South Africa. A regional privately-led initiative, the Maputo Development Corridor — conceived by the South African and Mozambican governments — has started to generate spin-offs through the activation of the

Figure 3 - GDP by Sector in 1999[a]



a. Data for 2000 are not available.
Source: Authors' estimates based on IMF and domestic authorities' data.

Figure 4 - Sectoral Contribution to GDP Growth in 2000[a]



a. The sectoral contribution is calculated on a growth rate base of 3.8 per cent, although it should be noted that the last estimated growth rate is 2.1 per cent. No consistent data were available for sectoral price evolution in 2000.
Source: Authors' estimates based on IMF and domestic authorities' data.

aluminium smelter outside Maputo during the end of 2000. The investment project — the biggest investment project in the country — is likely to start a series of large investment projects which could change the country's development process in the near future.

The service sector has performed strongly since the end of the civil war. The transport sector in particular has grown at an annual rate of 10 per cent since 1987.

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**28.0**	**23.5**	**32.6**	**30.0**	**32.8**	**56.0**
Public	16.1	14.4	17.2	18.1	21.9	21.6
Private	11.9	9.1	15.4	11.9	11.0	34.4
Consumption	**98.9**	**92.8**	**93.3**	**94.1**	**85.6**	**76.3**
Public	7.8	9.6	11.0	11.8	12.6	10.7
Private	91.1	83.2	82.3	82.4	73.1	65.6
External sector	**-26.9**	**-16.3**	**-25.9**	**-24.1**	**-18.5**	**-32.2**
Exports	12.1	10.5	11.7	13.1	22.6	24.3
Imports	-39.0	-26.8	-37.6	-37.2	-41.0	-56.5

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

The road rehabilitation required for the country's recovery has been a priority, and Mozambique benefited from the multi-donor Roads and Coastal Shipping (ROCS) Project which rehabilitated 3 800 kilometres of priority trunks roads and improved road maintenance.

The high economic growth that occurred in Mozambique in the period 1996-1999 has been sustained mainly by the rise of domestic demand. Private consumption has been fuelled by external aid inflows, which were necessary to ensure maintenance of minimum consumption levels. Investment boomed from 1999 onwards owing to the big impact of the large inflow of FDI related to the construction of the Mozal aluminium smelter plant. In 2002 private investment is expected to take over public investment as a result of further FDI flows. Beside the remarkable pickup of investment and consumption, Mozambique's external position remains vulnerable.

Macroeconomic Policy

Fiscal and Monetary Policies

The reform of the budgetary process that started in 1997 and the introduction of medium-term policy instruments have dramatically improved the implementation and the medium-term consistency of fiscal policy. The key step has been the introduction of the Budget Framework Law which put in place the basic principles for preparing, managing, executing, controlling and accounting for the budget. A new rolling five-year medium-term expenditure framework has been introduced and the government is now required to make budget proposals to the National Assembly in a medium-term framework. However the process needs further improvements since the existence of extra-budgetary activities are hampering the proper conduct and analysis of fiscal and other macroeconomic policies.

Alongside those budgetary instruments the government has introduced the Action Plan for the Reduction of Absolute Poverty (*Plano de Acção para a Redução da Pobreza Absoluta* — PARPA) — to set out the public strategy for poverty reduction. The programme consists of a series of policies and actions aimed at achieving measurable objectives (performance indicators) in the areas of education, health, infrastructure, agriculture and rural development, employment, social security and assistance, food security and institutional capacity building on poverty issues. In April 2001, a new PARPA (2001-2005) was approved and it has since been endorsed as the first full PRSP.

Given this medium-term strategy, the government has increased in recent years the share of expenditure in some priority areas. Between 1994 and 1998, it nearly doubled its share of current expenditure on health (from 10 to 18 per cent) and education (from 5 to 10 per cent). As a result improvements have been achieved in health and education.

Macroeconomic stability is still highly dependent on aid inflows. In 1999, foreign aid represented 47 per cent of total expenditure and two-thirds of capital

Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[a]	**20.9**	**19.7**	**24.2**	**24.3**	**26.6**	**27.7**
Taxes	10.2	10.6	11.3	11.6	11.2	12.3
Grants	9.7	8.2	11.9	11.6	14.2	14.2
Total expenditure and net lending[a]	**23.9**	**22.1**	**25.6**	**28.8**		
Current expenditure	10.1	11.3	12.5	13.3		
Excluding interest	*8.5*	*10.3*	*11.8*	*13.1*	*14.5*	*13.5*
Wages and salaries	2.3	4.5	5.9	6.5	7.2	6.4
Interest on public debt	1.6	1.0	0.6	0.2		
Capital expenditure	13.3	9.9	11.8	13.3	16.1	15.9
Primary balance	**-1.4**	**-1.4**	**-0.8**	**-4.3**	**-4.0**	**-1.7**
Overall balance	**-3.0**	**-2.4**	**-1.5**	**-4.5**		

a. Only major items are reported.
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

expenditure. Efforts have been made to increase revenues in order to balance the large budget deficits (the overall deficit before grants stood at 16.1 per cent in 2000). A value-added tax was introduced in 1999 replacing the existing sales and consumption taxes. In 2000 the government reviewed the system of tax and customs exemptions, and revenue gains are expected for 2002.

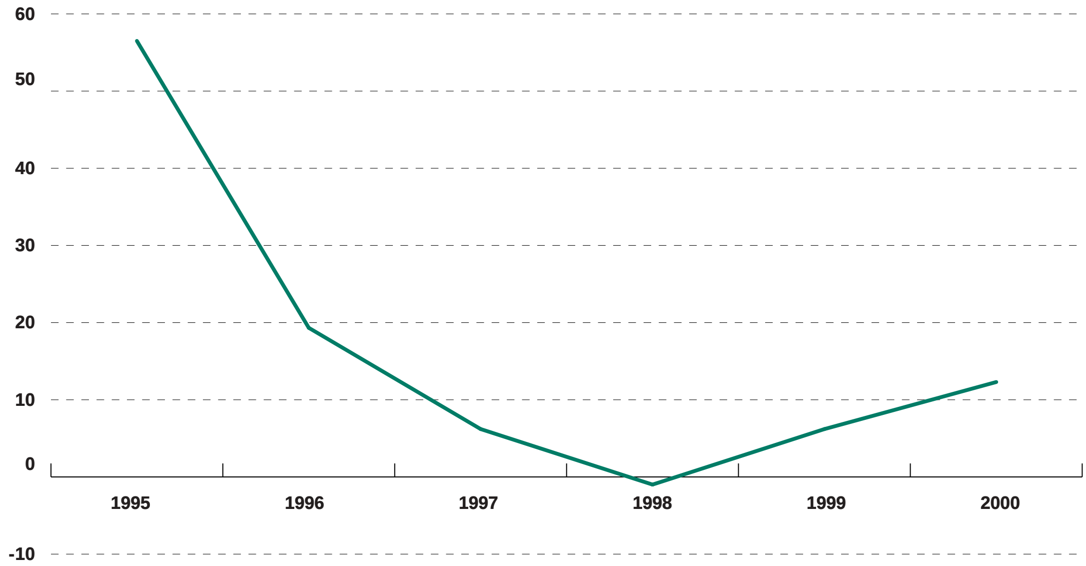
In 2000 and 2001, in response to the economic and social impacts of the floods, the revised budgetary programme contained a significant rise in expenditure partly financed through additional aid inflows. The non-interest current outlays are expected to have risen from 11.8 per cent of GDP in 1999 to 14.5 per cent in 2001. Besides a rise in expenditure in sectors prioritised in the PARPA, the increase reflects a larger wage bill, 7.2 per cent of GDP in 2001, and the liquidity and solvency problems faced by two of the largest partly state-owned commercial banks, which forced the government to finance a bank recapitalisation through a one-off outlay. It has been estimated that the cost of the recapitalisation was equal to 2.9 per cent of GDP spread over 2000 and 2001. However, slightly decreasing current expenditure is expected to allow an improvement of the primary balance in 2002.

The capacity to control broad money growth and curb inflation has increased dramatically in recent years. Indeed, following the partial privatisation of the state-owned banks in 1996 and 1997, money growth has been kept under control since the monetary losses of the banking system have no longer underpinned broad money expansion. Broad money expansion was reduced from 55 per cent in 1995 to 35 per cent in 1999. Inflation rates reacted accordingly and started declining in 1995 from a yearly level of 52 per cent in 1995 to a level that rarely exceeded 4 per cent during the 1998-99 period.

Following the disruption of distribution networks in the aftermath of the floods, the annual inflation rate in 2000 returned to a two-digit level, i.e. 12.3 per cent. Banco de Moçambique (the central bank), however, is willing to reduce the money growth, mopping up liquidity through large bond emissions during 2001. This tightening of monetary policy coupled with the stabilisation of supply markets is likely to cause inflation to return to single digit figures. Nonetheless, partly as a result of an earlier depreciation; the 12-month rate of inflation was over 7 per cent in July 2001.

Under a flexible exchange-rate regime, during 2000 the metical — the national currency —depreciated by 18.6 per cent in nominal terms. In 2001 the trend has not been reversed, and between December 2000 and June 2001 the official rate fell by 28 per cent. The recent depreciation of the metical could be considered the outcome of a combination of different forces. The floods in 2000 produced a surge of imports, with

Figure 5 - Inflation Rate



Source: IMF and domestic authorities' data.

subsequent heavy pressure on the financial system. On the other hand, political turbulence in 2000 has produced an increasing dollarisation of the economy since a larger share of bank deposits was being converted into dollars.

External Position

The external position of Mozambique, despite post-war recovery, remains vulnerable, and with total trade accounting for 42 per cent of GDP, Mozambique is still moderately trade-oriented. Nevertheless, after reforms implemented during the 1990s, Mozambique has now one of the most open trade policy regimes in Southern Africa. Import licensing was abolished in the early 1990s, and administrative requirements in 1998. Tariff structure, although still highly dispersed, has been simplified and ad valorem tariffs have been regrouped for different kinds of goods.

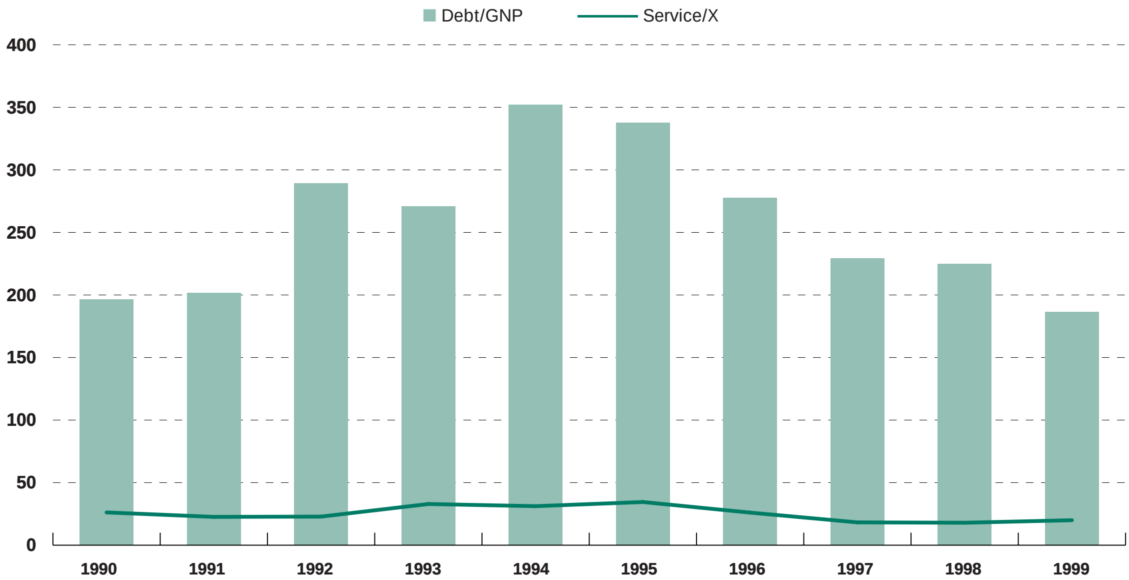
Although recovering since the mid-1990s, exports have under-performed, particularly relative to the country's high level of growth and to the open trade policy orientation. The high dependence of total exports on a few agriculture and fishery products — owing to bottlenecks in rural development such as poor infrastructure and trading network — can be considered the main reason for the poor performance of the external sector. Yet, the slow recovery of potential export products such as sugar and cashews to pre-war volumes is further preventing export increases. Nevertheless, the composition of exports is starting to diversify: since 1998 the mega-projects in the Maputo Corridor have boosted electricity exports. The Mozal aluminium smelter along with other investment projects are further improving total exports in 2000-2002. Imports are increasing considerably as well from 1999 owing to the investment projects in the Maputo corridor, producing an increasing trade deficit. In fact, despite increasing official transfers, the current account deficit over GDP remains large (11.6 per cent in 2000).

FDI is booming and has come to play a central role in Mozambique since the mid-1990s. The privatisation of firms in the tourism, industry and banking sectors largely characterised the FDI until 1996. Since then, FDI has been mainly directed towards the exploitation of natural resources, and large scale/capital-intensive projects have started. The largest industrial project has been the construction of the $1.3 billion Mozal aluminium smelter in June 1998 in the area of the Maputo Development Corridor. A joint project with

Table 3 - Current Account (percentage of GDP)	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-23.6	-14.9	-23.5	-20.8	-19.5	-31.2
Exports of goods (f.o.b.)	7.4	6.4	7.3	9.5	14.0	15.1
Imports of goods (f.o.b.)	-31.0	-21.3	-30.8	-30.4	-33.6	-46.3
Services[a]	-5.3	-4.6	-6.0	-5.6		
Factor income[a]	n.a.	n.a.	n.a.	n.a.		
Current transfers	14.5	8.2	11.1	14.8		
Current account balance	**-14.4**	**-11.4**	**-18.4**	**-11.6**		

a. Factor income is included in services.
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

Billiton (the London-listed arm of the South African mining company Gencor) as the primary private investor, the firm started production in June 2000. In 1999, thanks to the aluminium smelter project, foreign direct inflows reached 13 per cent of GDP from a level of 1.8 per cent in 1997. In May 2001 the implementation agreement — which sets projects' operating conditions — for the $1.6 billion Maputo Iron and Steel Project (MISP) was signed between the US Enron Corporation and the Mozambican authorities and several other mega-projects are under consideration. Therefore, positive growth projections are envisaged.

External assistance has been crucial so far in balancing the current account deficit and more broadly in overcoming the humanitarian crisis of the late 1980s and early 1990s. It has helped the economy to break out of the vicious circle of low savings and low growth, and in terms of balance of payments, support represents more than four times the value of industrial exports. As a corollary of hefty external assistance since the late 1980s, Mozambique has accumulated a large external debt which reached the impressive level of 352.2 per cent of GNP in 1994 (in nominal values). Since 1987, there has been a series of debt negotiations and rescheduling with international donors, notably IMF and World Bank and the Paris Club official bilateral creditors. In light of the remarkable economic reforms undertaken by the country in the 1990s and of the unsustainable burden of the external debt, creditors agreed, in April 1998, to include Mozambique in the original HIPC Initiative. The country reached the completion point — the point at which debt relief is actually granted — in June 1999 and received \$1.7 billion of cash flow relief in NPV terms (about \$3.7 billion in debt relief over time). Moreover, the country is receiving additional debt relief under the Enhanced HIPC Initiative for which it reached the decision point on April 2000. The completion point — previously scheduled for March 2001 — has been postponed together with the IMF's poverty reduction and growth facility (PRGF) following the crisis in the banking sector. Nonetheless, in September 2001 Mozambique reached the completion point (the third country after Bolivia and Uganda) and will receive \$306 million in NPV terms (about \$600 million in nominal terms). According to the IMF, as a result of HIPC assistance and bilateral debt relief already committed, Mozambique's total external debt is reduced by some 73 per cent.

Structural Issues

In the recent past Mozambique has embraced a vast programme of structural reforms addressing privatisation, financial sector development and public sector reform.

The privatisation programme accelerated in 1995 and now state-owned enterprises account for less than one fifth of total economic activity, down from more than two-thirds in 1990**.** Twenty large SOEs were privatised by 1999 and within the targeted group of firms to be privatised only the national airline is still state-owned owing to the lack of acceptable bids. Another 220 small and medium enterprises were targeted for privatisation in 1999 and at this stage only 33 firms hold government majority. Moreover, beside the privatisation programme, the government deregulated utilities such as railways, ports and port services as well as the concession of water delivery in five major cities.

The financial sector reform programme started in 1992 with the separation of the central bank from Banco Commercial de Moçambique (BCM), and the deregulation of entry into banking and insurance activities. In addition, regulations have been introduced for bank licensing, capital adequacy, provision policies and exposure limits. In response to the persistent macroeconomic instability associated with the banks' poor performance, the government decided in 1996 to sell its majority shares of the two state-owned banks: BCM and Banco Austral (BA) — formerly called Banco Popular de Desenvolvimento — which represented more than half of the entire banking sector. Although the sale of the banks was relevant in order to gain control over monetary policy, the privatisation process has not produced the expected outcomes. Indeed, during 2000, the solvency problems of the two banks forced the government, in agreement with private shareholders, to intervene in the market. The BCM — for which solvency problems were mainly due to bad loans inherited before privatisation — has been re-capitalised and the restructuring plan was completed in March 2001. The BA, the country's third largest bank, has been bought back entirely by the state after private investors refused to recapitalise the bank and handed back their shares in April 2001 to the government. It has not yet been restructured. Inherited bad loans as well as risky and unclear activities may have played a role in the collapse. The government's planned sale of the bank to a reputable one will entail a substantial fiscal cost. The issue is being closely monitored by the Bretton Woods institutions. The third review under the PRGF arrangement and the attainment of the HIPC Initiative completion point were delayed to develop a strategy to resolve Banco Austral's difficulties.

Mozambique's development is still hampered by its low skill base across the board in the public sector. The shift away from a centrally-planned economy and the recent upsurge of economic activity has made it particularly difficult for the government to retain and attract scarce skilled personnel. At present, only some 5 per cent of its 100 000 civil servants have more than 12 years of schooling. A far-reaching civil service reform process is underway to improve service delivery, efficiency and accountability with enhanced career incentives.

The development of infrastructure has been one of the priorities of post-war rehabilitation and is still a major challenge for the progress of the country**.** The first phase of infrastructure development has been road rehabilitation, in an attempt to re-integrate the crucial food surplus-producing areas of the north which were isolated and poorly linked to the rest of the country. The project (Road and Coastal Shipping Project — ROCS) has been led by external donors and included the rehabilitation of port infrastructure. The coastal shipping sector has recently been opened to the private sector and now four companies provide container services between the different ports. The second phase of infrastructure development has been conceived through the making of development corridors between Mozambique and three of its neighbouring countries: South Africa, Zimbabwe and Malawi. The most developed one has been so far the Maputo Development Corridor co-ordinated by the South African and Mozambican governments and has entailed improving transport and infrastructure in the corridor between the South African provinces of Gauteng and Mpumalanga and the port of Maputo. Work on a 440-kilometre toll road was commenced in May 1998 by the French led consortium Trans African Concessions and completed in 2001. Several other projects are in the pipeline — approved or proposed — in order to develop the ports of Nacala, Beira and Maputo as the three main accesses for Malawi, Zimbabwe and South Africa. Projects are also under way or at proposal level to strengthen railway systems and toll roads between landlocked Malawi and Zimbabwe and the sea ports in Mozambique. The spin-offs that those corridors can generate are larger than merely linking industrialised landlocked areas with sea access. It is believed that those initiatives will boost the investor interest in the region, creating a stimulus for renewed economic growth.

Political and Social Context

Since the signing of the 1992 Rome Peace Agreement that brought Mozambique's 16-year civil war to an end, political developments have been characterised by deep-rooted antagonism between the Frente de Libertação de Moçambique (FRELIMO) and the Resistência Nacional de Moçambique (RENAMO). The country's first multi-party elections, held in 1994, confirmed FRELIMO's popularity, and it won a majority of both parliamentary and presidential votes. During the first multi-party legislature, the country witnessed the emergence of a blossoming yet fragile democracy, within civil society and legal institutions. The country's first-ever municipal elections, held in 1998 as part of the ongoing process of political and administrative decentralisation, were boycotted by RENAMO and brought a disappointing 15 per cent of voters to the polls.

The second multi-party elections, held in December 1999, were hotly contested with FRELIMO trying to capitalise on the merits of its economic recovery plan while the opposition sought to harness the support of those who had yet to benefit from recent prosperity. The RENAMO-led coalition won the vote in six of the country's ten provinces, confirming its popularity in the central and northern regions of the country. FRELIMO's victory was dictated by its stronghold over the southern provinces where it won as much as 87 per cent of the vote.

The campaign and count were considered fair by international observers and its results were confirmed by Mozambique's Supreme Court after a dismissal of RENAMO's appeal for a recount. RENAMO has since failed to recognise the outcome of both the presidential and legislative vote and has unsuccessfully sought to gain a share of power in the post-election period. Talks between President Chissano and the opposition leader Afonso Dhlakama have been interrupted and RENAMO's demands to be consulted in the appointment of Governors (a presidential prerogative) in the six provinces where it won were not met. Following President Chissano's announcement that he would not run for re-election in 2004, differences between the ruling party's "old guard" and its modernising faction have resurfaced over their leader's succession.

Mozambique's international reputation as a hallmark of an emerging democracy has however been tainted by recent events. In the aftermath of RENAMO-backed anti-government demonstrations, 82 inmates seized during the protests mysteriously died while in police custody in the northern province of Cabo Delgado in November 2000. A few days later, Carlos Cardoso, the country's most prominent and vocal investigative journalist was murdered in Maputo. Mr. Cardoso had been investigating cases of corruption and financial fraud.

Despite the successful economic growth trajectory, poverty is still overwhelming in Mozambique. Its Human Development Index is still well below the sub-Saharan African average, ranking it 157 out of 162 countries and 69.4 per cent of the country's population live below the national poverty line ($0.40 per day). While poverty is widespread throughout the country, the most affected population is concentrated in rural areas where farmers and households have not been able to take full advantage of the favourable macro-environment. Agricultural production is still limited by the use of traditional farming methods, low-yielding varieties, poor availability of agriculture inputs, low levels of irrigation and drainage and by limited access to credit and agricultural markets. Moreover, the introduction of new technologies to increase agricultural productivity is hampered by the attainment of full capacity — given the existing infrastructure — in crop production in the rural areas. As a result, the incidence of poverty is higher in rural areas (poverty head count index of 71.3 per cent), where 79.7 per cent of the population live. Poverty in Mozambique tends to be linked to high household dependency rates, low levels of education (particularly in rural areas and among women), limited access to basic health services and to infrastructural constraints, principally in rural areas. The government has put the eradication of poverty at the top of its agenda since at least 1995 and investing in human capital has been considered a key strategy to reduce structurally the high level of poverty. Indeed, Mozambique is still lagging behind in terms of health care and education level and attainment compared to other developing countries.

Regarding health, despite improvements, the indicators in Mozambique are among the worst in the world. In 1997-98 life expectancy at birth was just 46 and the child mortality rate was 134 per thousand live births. Malnutrition is widespread and inequalities between rural and urban areas are large: on average rural households suffer 3.7 months per year of food insecurity. The government's Health Sector Recovery Programme (HSRP) has markedly improved the quality of services and access, and delivery and quality of health services have been enhanced since 1995 as the rehabilitation or construction of 300 first-level facilities clearly shows. However, two major health problems still affect the lives of millions of Mozambicans: HIV/AIDS and malaria. While the true extent of malaria is unknown, it has been estimated that it is the leading cause of sickness and death in Mozambique. The spread of HIV/AIDS is large, as in other southern African countries: UNAIDS estimates that 13.2 per cent of the population was living with HIV/AIDS in 1999. Moreover, since many people infected have yet to develop AIDS, and considering the typical pattern of the spread of the virus, the prevalence rates are likely to reach 35 per cent in the next ten years. Aside from the human aspects, there is growing concern that the epidemic will have a dramatic impact on the Mozambican economy. Although not entirely predictable, the impact of HIV/AIDS on the labour market may be particularly severe in Mozambique since it relies on a small pool of people with technical, managerial and administrative skills.

The upgrading of the education system ranks high in the government's poverty reduction strategy and for the country's overall development**.** The education profile in Mozambique is characterised by a relatively low rate of school attendance, outdated curricula, low quality of teaching, and by great disparities in schooling access amongst the different provinces. Net enrolment is highly variable according to the different level of education. Indeed, starting from a rate of net enrolment of 40 per cent in primary schools, enrolment beyond primary school drops dramatically to under 3 per cent. Low quality of teaching and the nature of the secondary school curricula, very academic and encyclopaedic, have often been advocated as two of the main reasons of such large drops in the attainment level. The other striking feature of the education system in Mozambique is the great disparity between South and Central and Northern regions in terms of education attainment that ultimately could be considered as the outcome of poor supply of classrooms in the Northern and Central provinces. Despite great emphasis given by the government to the development of the education system, the role played by the state has not changed notably during the 1990s. Around a half of total expenditure on education is foreign financed.

Namibia

key figures

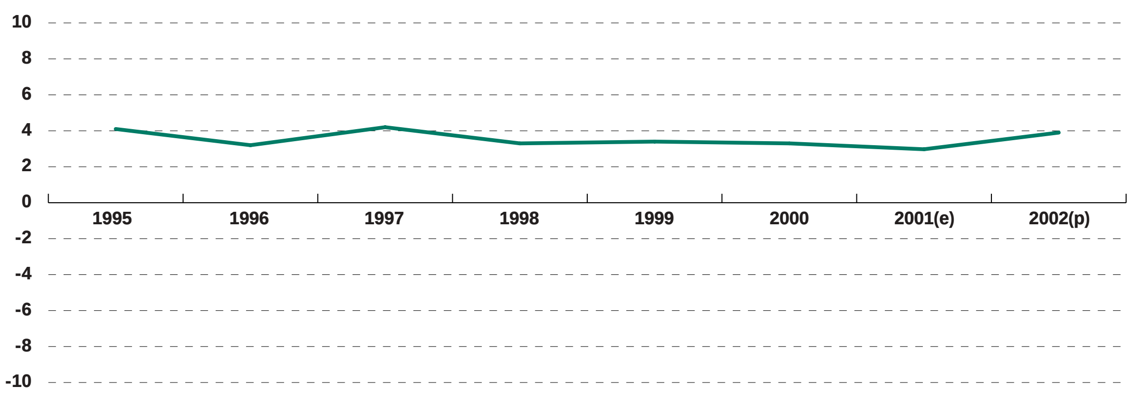
• Land area, thousands of km²:	823
• Population, thousands (2000):	1 757
• GDP per capita, $ (2000):	1 955
• Life expectancy (1995-2000):	45.1
• Illiteracy rate (2001):	17.3

Namibia

NAMIBIA, A MIDDLE INCOME COUNTRY with an income per capita of $1 955 and a total population of less than 2 million, is still an economy largely based on the exploitation of natural resources such as diamonds, agriculture and fishing. Since its independence in 1990, public policy has been struggling with the development of other economic activities. However, the pace of growth has remained stable at moderate levels — around 3.3 per cent a year — and is expected to stay the same in 2001 and 2002. So far, the main structural change has been the increase of state intervention in the economy with government services accounting for almost a quarter of gross domestic product. On the political side, land reform is increasingly gaining momentum, and black empowerment, although high on the government agenda, has given mixed results. Yet, Namibia is an uneven society with one of the highest levels of income inequality. With poverty delineated along functional groups and by urban-rural dualism, social cohesion is still a highly sensitive issue.

So far, the main structural change in Namibia has been the increase of state intervention in the economy

Figure 1 - Real GDP Growth



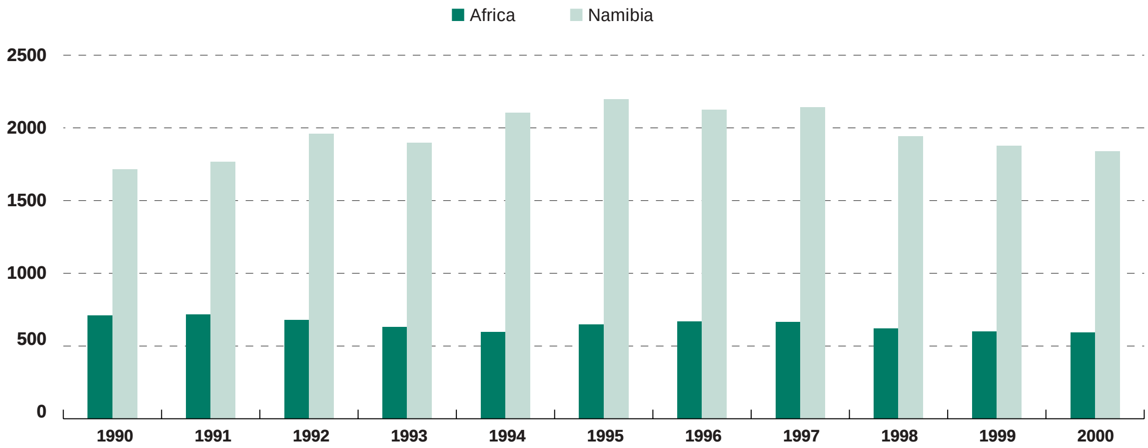
Source: Authors' estimates and predictions based on domestic authorities' data.

Recent Economic Developments

During the last six years (1995-2001) Namibia experienced an average growth rate of 3.5 per cent, 1.5 per cent below the target of public policy, but slightly above the rate of population growth resulting in an average increase of 0.3 per cent in real GDP per capita over the period. Real growth has been sustained by the developments of the export-oriented primary sectors (agriculture, fisheries and mining) and by the large non-tradable government sector. In 2000 output growth declined slightly from 3.4 per cent in 1999 to 3.3 per cent in 2000.

The mining sector is still the backbone of the economy accounting for 50 per cent of merchandise exports earnings. After a rapid expansion in 1999, diamond output, which represents the bulk of mining, dipped sharply during 2000. The sector has been transformed in the last years: the proportion of diamonds mined off-shore reached 57 per cent in 2000. The performance of the mining sector in 2000 was helped by the reopening of a copper mine that led to an increase of 10.3 per cent in value added from non-diamond mining. The outlook for the sector appears positive, since the opening of a major new zinc mine

Figure 2 - GDP Per Capita in Namibia and in Africa ($ current)



Source: Authors' estimates based on IMF and domestic authorities' data.

at the end of 2002 is likely to have an enormous impact on the country's economic growth.

After a two-year period of decline, the agriculture sector made a significant turnaround in 1999 and 2000 registering an average growth rate of 10.7 per cent. This good performance was largely the outcome of the recovery in livestock. However, sectoral performance remains volatile owing to climatic conditions. The fishing sector, after a poor year in 1999, grew by 13.3 per cent in 2000 with white fish performing especially well.

The role of the government in the economy has continuously expanded since independence in 1990: excluding parastatals — for which statistics are not available on an aggregated basis — government services in 2000 accounted for almost a fourth of GDP. In 2000 the sector grew by 4.2 per cent, much higher than the average for the last five years.

The manufacturing industry — a priority for government policy — has not increased significantly during the last five years, although in 2000 the sector's output increased by 4.5 per cent. Its contribution to growth is still unstable given that almost 80 per cent of the sector is engaged in food-related industries (food processing, fish processing and brewing). However, the good performance of the non-food processing sub-sector was largely the cause of the encouraging growth in 2000.

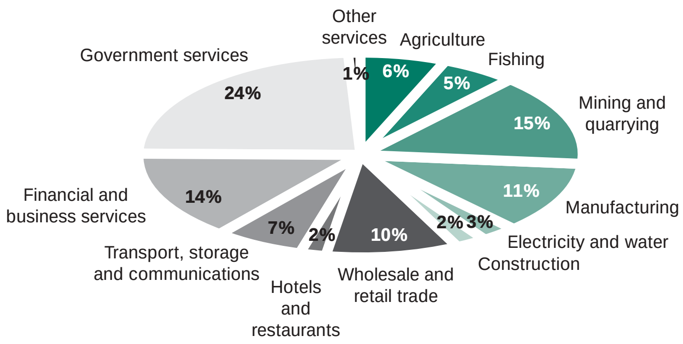
The structure of domestic demand is changing as a result of declining investment. Indeed, investment

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**21.2**	**25.1**	**22.8**	**18.1**	**18.1**	**18.5**
Public	5.5	4.7	4.6	3.3	3.3	3.3
Private	15.7	20.3	18.2	14.8	14.9	15.1
Consumption	**84.8**	**86.7**	**87.7**	**84.6**	**86.3**	**85.8**
Public	29.5	28.8	29.7	27.4	28.0	27.2
Private	55.3	57.9	58.0	57.2	58.3	58.6
External sector	**-6.0**	**-11.7**	**-10.5**	**-2.7**	**-4.4**	**-4.3**
Exports	48.4	44.7	45.3	50.0	46.8	43.3
Imports	-54.4	-56.4	-55.8	-52.7	-51.2	-47.5

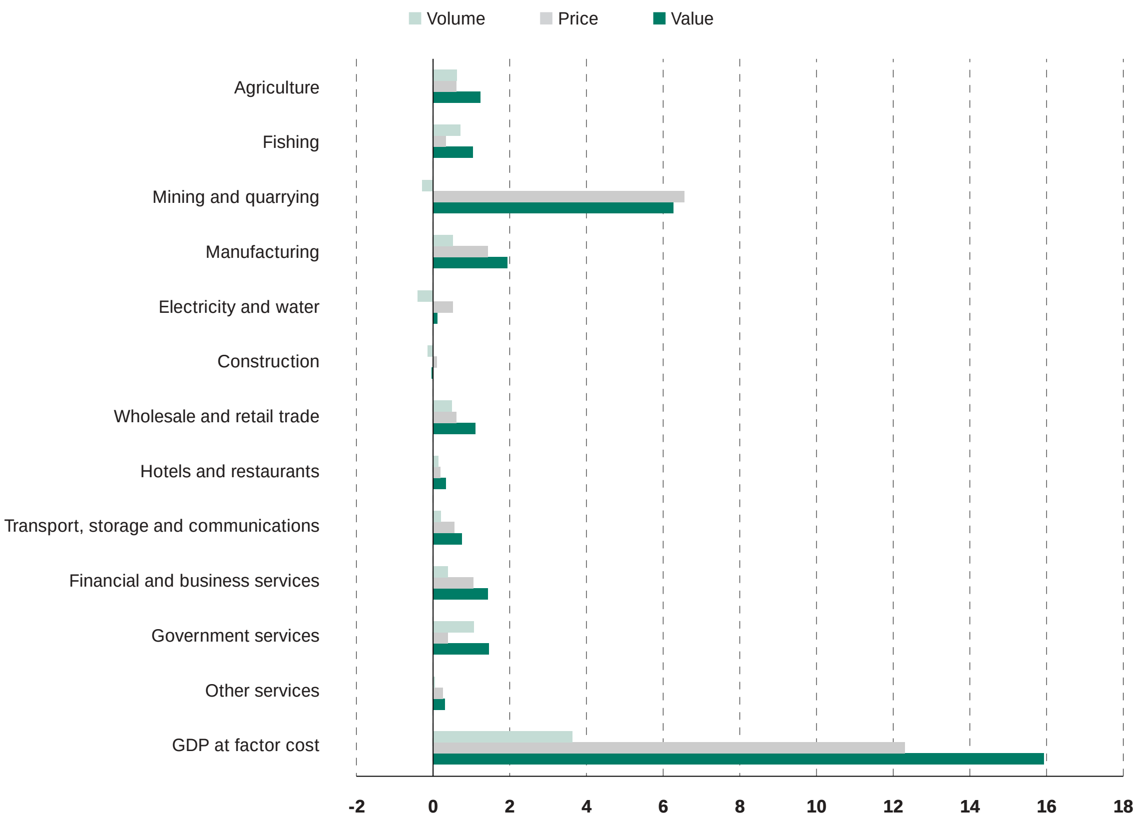
Source: Authors' estimates and predictions based on Central Bureau of Statistics data.

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates based on Central Bureau of Statistics data.

Figure 4 - Sectoral Contribution to GDP Growth, 2000



Source: Authors' estimates based on Central Bureau of Statistics data.

decreased by 12.4 per cent in 2000. The lack of a dynamic investment demand coupled with the lack of financial intermediaries capable of channelling savings from pension and life insurance funds toward investment projects are largely responsible for such trends. As a result, with investment lower than national savings, Namibia is experiencing capital outflows mainly directed to South Africa. Beside those developments, the share of public consumption in GDP is still very large accounting for 27.4 per cent of GDP, among the highest in the region and in developing countries. Similar trends are expected in 2001 and 2002 .

Macroeconomic Policy

Fiscal and Monetary Policies

Since 1995 Namibian economic policy has been conducted in terms of a medium-term framework derived from the first National Development Plan (NDP1) covering the period 1995/96 to 1999/2000. The main national development goals included a 5 per cent average annual real growth target, the creation of employment, the reduction of inequalities in income distribution and the tackling of poverty. The achievements have so far been disappointing. Economic growth has been consistently below target. Despite the absence of reliable and up-to-date data on employment trends, the widespread perception is that employment has stagnated during the last ten years. A government projection based on the 1997 Namibia Labour Survey puts employment growth at 2.5 per cent per year, equivalent to the growth in the economically active population. The government priorities of tackling poverty and reducing inequality were mainly pursued by allocating large proportions of government expenditure to health and education, with mixed results.

Table 2 - Public Finances[a] (percentage of GDP)

	1995/96	1998/99	1999/00	2000/01	2001/02(e)	2002/03(p)
Total revenue and grants[b]	**31.4**	**32.0**	**34.5**	**33.2**	**33.7**	**32.5**
Tax revenue	27.8	28.5	31.3	29.9	30.1	29.0
Total expenditure and net lending[b]	**35.0**	**35.9**	**37.7**	**36.8**		
Current expenditure	30.2	31.6	32.6	31.2		
Excluding interest	*29.1*	*29.1*	*30.2*	*28.9*	*29.5*	*28.7*
Wages and salaries	16.1	16.4	17.2	16.0	16.4	15.9
Interest on public debt	1.1	2.5	2.4	2.3		
Capital expenditure	4.9	4.3	5.1	5.5	5.5	5.6
Primary balance	**-2.5**	**-1.3**	**-0.8**	**-1.3**	**-1.4**	**-1.7**
Overall balance	**-3.7**	**-3.9**	**-3.2**	**-3.6**		

a. Fiscal year begins 1 April.
b. Only major items are reported.
Source: Authors' estimates and predictions based on domestic authorities' data.

Moreover, budgetary policy over the last years has shown a propensity to overspending: the provisional budget voted each year has been constantly revised in the light of higher than expected expenditure. The overall deficit is equal to 3.6 per cent for the budgetary year 2000/01 and has been on average 3.8 per cent for the 1995/96-1999/2000 period. The government has been struggling without success to reach fiscal balance mainly on account of the burden of the civil service on expenditure. In 1999, the situation worsened due to the government's decision to provide public sector jobs to 9 000 ex-combatants. There is no indication that the primary deficit will be reduced in the years to come. It is then predicted to remain around 1.2 per cent of GDP.

The constant revision of the budget at the end of the fiscal year suggests a lack of fiscal discipline. Indeed, weak budgetary expenditure controls can be considered as a major explanation for the upsurge in government expenditure during the last years. In 1997/98 —the latest year available — the Auditor-General's report declared an amount of unauthorised expenditures of nearly 1 per cent of GDP. Efforts have been made by national authorities to intensify fiscal controls: a computerised control system to control expenditure lines and ceilings on remuneration and travel allowances is now in place. Nevertheless, the lack of a unique decision centre for the allocation of budgetary resources has made those measures ineffectual. Moreover, the role of the Auditor General is to report on these issues to Parliament and he has little power to rectify this situation. On the revenue side the tax system has undergone continuous reform since independence which has brought about numerous improvements. A value added tax was introduced towards the end of

2000 but it is a little premature to judge how successful it has been. In his last budget speech the Minister of Finance announced his intention to conduct a comprehensive study on further tax reform.

Two other trends worthy of note are the rise in public spending on defence and the proliferation of parastatals. Defence spending as a proportion of GDP has risen significantly since the mid-1990s owing to the combination of three main factors: the implementation of the 1993 Defence White Paper, the employment of ex-fighters and the military intervention in the DRC. Relative to GDP, defence spending now stands towards the higher end of the international spectrum. The number of parastatals has risen as a result of the government's policy of commercialisation — turning what were government departments into SOEs. While the government has talked of its desire to privatise some of these entities, so far it has stopped short of action. Most parastatals remain publicly owned monopolies exposed neither to competition nor to price regulation.

As a consequence of the persistent budget deficit, the government continued to issue public domestic debt, which stood at a level of 23.5 per cent of GDP in the fiscal year 1999/2000. The annual rate of increase, 15 per cent in 1999, raises some concerns for the future: a rough estimate suggests that debt will be around 60 per cent of GDP in 2010 if it continues to increase at this pace. Nevertheless, due to the integration of Namibia into South Africa's monetary system, public debt is unlikely to crowd out private investment.

Monetary policy is characterised by a fixed exchange rate of the national currency — the Namibia dollar — with the South African rand. Therefore, monetary conditions and interest rate movements follow closely those in South Africa. The improved market conditions and the low level of inflation in South Africa during 1999 have led the South African monetary authorities to relax their policy throughout 1999 and 2000. To stimulate investment and economic growth the Bank of Namibia lowered the bank rate from 18.8 in December 1998 to 11.5 in December 1999. However, during 2000 the Bank of Namibia decided to keep interest rates stable in the wake of the pick-up of inflation.

Inflation increased in 2000 reaching 9.2 per cent, mainly owing to a rise of inflationary pressure from imported goods. The Namibian inflation rate remained significantly higher than those of its trading partners with potentially negative implications on the country's international competitiveness. It should however experience a significant slowdown in the years to come in line with a similar move in South Africa. It is then expected to reach 6.0 per cent in 2001 and 5.8 per cent in 2002.

External Position

Namibia is an open economy with trade accounting for more than 100 per cent of gross domestic product. Namibia's trade is closely linked to South Africa. The share of imports from South Africa has increased in the last years from 80 per cent in 1993 to 95 per cent in 1997. The share of exports to South Africa — accounting for 18 per cent of total exports in 1997 — is also remarkable. However, the main market for Namibian exports is the European Union, which accounted for 50 per cent of total exports in 1997.

The composition of exports — largely in raw materials — has not changed significantly in the last five years and Namibia is still highly vulnerable to external shocks such as terms of trade changes, external demand and climatic variations. Mineral products still represent the bulk of exports. Diamonds in particular accounted for 70 per cent of mineral exports and 35.7 per cent of total exports in 1999. However, the sector remains largely an enclave with few backward and forward linkages to other economic sectors. Manufactured products — mainly processed fish and meat preparations — are the second main category of exports.

The main aim of trade policy in Namibia has been the diversification of the export base through various investment packages. The key government policy was the establishment in 1995 of the EPZ programme with generous tax incentives to attract investors. However, the scheme has yet to fulfil its expectations. So far the assessment of the impact of this strategy has been mixed since only 18 firms have started operations creating less than 500 jobs. This may be about to change with the arrival of a major new manufacturing investment as the announcement of a new foreign investment in textiles confirms.

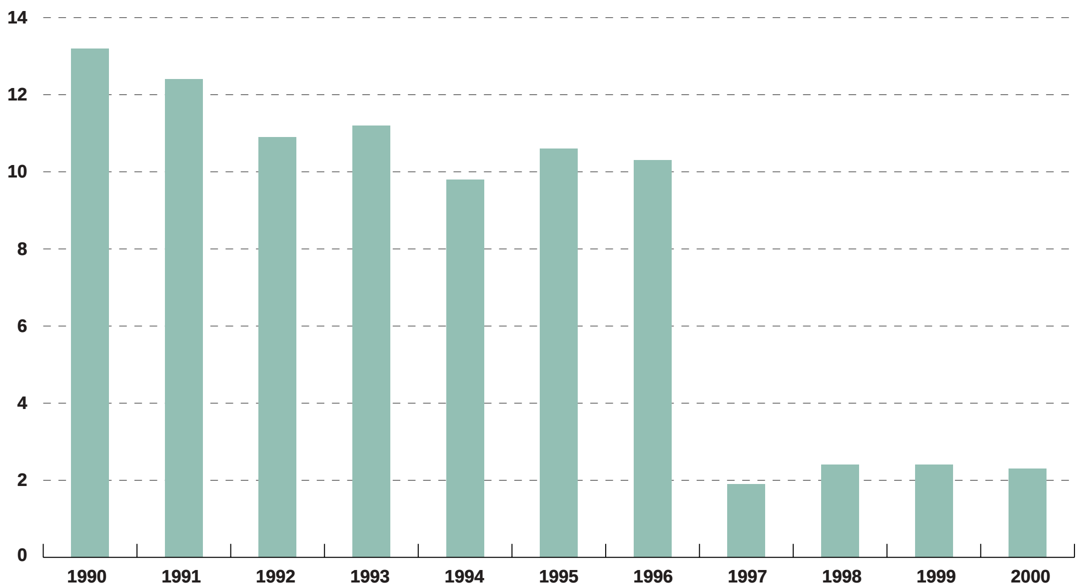
The structure of Namibia's current account in the last five years has been characterised by a negative trade balance coupled with sizeable transfers from the SACU revenue pool. However, in the last two years the trade balance deficit narrowed owing to an acceleration of exports, mainly primary commodities such as diamonds and beef. In the short run, the trade balance is expected to remain stable around –4 per cent of GDP. The increased exports in the diamond sector — equal to 35.4 per cent in 2000 — are the result of an increase of international prices, which outweighed the 7 per cent loss in real term of the sector. Agriculture exports benefited particularly from an increase of beef exports to the European Union. The other key-exporting sector — manufacturing — contributed to this higher path even if the expansion was at a lower pace. Among the manufactured products, fish-processing has displayed the highest growth. SACU receipts — 86 per cent (1999 data from Central Bureau of Statistics) of the current transfers — are the main contributors to the surplus of the current account and in 2000 increased by 28.4 per cent compared with an increase of 24.1 per

Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-3.6	-8.2	-3.8	-4.1	-4.0	-3.8
Exports of goods (f.o.b.)	39.6	34.5	39.8	42.4	41.1	38.0
Imports of goods (f.o.b.)	-43.2	-42.6	-43.6	-46.4	-45.1	-41.9
Services balance	-6.7	-4.5	-3.9	-3.3		
Factor income	4.5	2.6	-0.5	-0.3		
Current transfers	11.4	12.5	11.8	13.3		
Current account balance	**5.6**	**2.4**	**3.6**	**5.7**		

Source: Authors' estimates and predictions based on Central Bureau of Statistics data.

Figure 5 - Stock of Total External Debt (percentage of GDP)



Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

cent in 1999. The planned revision of the SACU sharing formula for 2002 highlights the need to change the structure of the current account through an expansion of alternative sources of revenues. Moreover, further trade liberalisation in line with WTO obligations and the EU-South Africa agreement[1], together with the ratification of the SADC protocol, will have additional negative effects on SACU revenues.

The level of Namibia's external debt is low compared to other SSA or low middle income countries. In 1997 South Africa wrote off Namibia's external debt to South Africa slashing Namibia's stock of external debt to a mere 2 per cent of GDP. Although the external debt is still manageable and low compared with the GDP, its rate of increase contributes to the steady expansion of total public debt.

Structural Issues

The structure of Namibia's economy is still highly characterised by the legacy of colonial status of South Africa until the late 1980s. Indeed, Namibia displays developed basic and modern infrastructure with good transport and financial systems, while its economy is still characterised by an uneven distribution of resources. Mobilising the available resources for creating new activities that would improve income distribution proves to be difficult.

Namibian transport infrastructure is fairly developed and does not represent a bottleneck for economic expansion. A well-maintained road network has been further improved with the construction of two major highways, the Trans Caprivi and Trans Kalahari Highways. The Namibian Ports Authority (Namport) has initiated several large development projects to promote greater usage of Walvis Bay as a regional hub port. Upgrading of the port facilities has started and the Coast-2-Coast Spatial Development Initiative (SDI, see South Africa country note) — at an early stage — will generate regional co-operation between Maputo and Walvis Bay. The ability to stimulate new industrial activity through these infrastructure developments is however still uncertain.

The Namibian financial sector is fairly well developed compared with other sub-Saharan countries and it is closely linked to South Africa. The banking system started to grow in 1993, and registered an annual increase in total assets of 38 per cent between 1994 and 1996 following the steady opening of the South African economy in 1994. The Banking Institutions Act came into force in 1998 as the legal framework for the development of effective banking supervision. The Bank of Namibia has been given new powers in line with international banking and supervisory standards.

The Namibian Stock Exchange (NSX) has become the second largest stock exchange in sub-Saharan Africa in terms of market capitalisation after the Johannesburg Stock Exchange thanks to the many dual-listed companies on the exchange. Like the financial sector, the stock market is closely related to South Africa: South African stock represented 98 per cent of total capitalisation in 1999.

There is a widespread perception that the Namibian financial sector lacks institutions that can effectively lend to longer-term and higher risk projects. Publicly-owned development finance institutions are considered to have failed, partly because they are subject to political influence. Government is now reacting to this situation by creating a new institution — the Namibia Development Bank (NDB) — in place of existing Development Finance Institutions. At this stage there are some signs that government is learning from its previous experiences with development lending and the intention is to bring in majority non-government shareholders. The central problem remains to encourage the private sector to enter the market through the creation of innovative vehicles such as private equity and venture capital funds appropriate to Namibian requirements. Until this happens the government will

1. South Africa will eliminate tariffs for 86 per cent of EU imports to South Africa in the next 12 years, with about three-quarters within the next three years.

continue to try to play a role for which it will always be unsuited.

There are signs that the government's rather piecemeal approach to changing patterns of ownership and management in the Namibian economy in favour of the black majority is beginning to harden. Increasingly, the government is using its power to allocate rights of exploitation over natural resources, outsourcing and commercialisation to accelerate the process of black economic empowerment, with mixed results. Opinions are divided over how transparent and competitive these initiatives have been and whether they have been pursued in a way that does not discourage foreign investment or jeopardise longer-term growth. There is little doubt, however, that this process is set to continue although there is no sign at present that it will take place within a clear and explicit policy framework.

The need for land reform is mounting after the upheaval over the land issue in Zimbabwe and since agriculture employs nearly 50 per cent of the labour force. Land in Namibia is held 52 per cent under freehold title while the remaining 48 per cent is communally held. Land is unequally distributed since 4 300 farmers, mainly white, own the commercial land, compared with 140 000 families, almost half of the population, living in the communal areas. Nevertheless, it should be noted that the commercial land, located in the south and in the centre of the country, is mainly of poorer quality compared with communal land. The land reform debate is focused on resettlement on commercial land, and on the allocation of individual rights and the establishment of an effective administration in the communal areas. As a result of a market-based policy pursued by the government, redistribution of commercial land has evolved at a slow pace. By mid-2000 only 300 black farmers had been able to purchase commercial land, and the government had purchased 0.6 per cent of land. White farmers are seen by many as deliberately slowing the process of reform and demanding high prices for land bought by the government. Although the SWAPO secretary-general has warned white commercial farmers that the government's patience was running out, and pressure has arisen from subsistence farmers asking for an acceleration of land redistribution, it is unlikely that land disputes in Zimbabwe will spread into Namibia.

Political and Social Context

Namibia enjoys political stability and a multi-party system is in place**.** In the 1999 national elections the dominance of South West Africa Peoples' Organisation (SWAPO), which has been the ruling party since independence in 1990, was confirmed. SWAPO won 76 per cent of the vote and President Nujoma, leader of SWAPO, was re-elected for a third presidential term after the amendment of the Constitution allowed him to stand for a third electoral term. The fragmented opposition does not represent a serious threat to SWAPO. Moreover, a problem of government accountability could potentially arise since the number of cabinet ministers, all MPs, represents a majority in the Parliament itself.

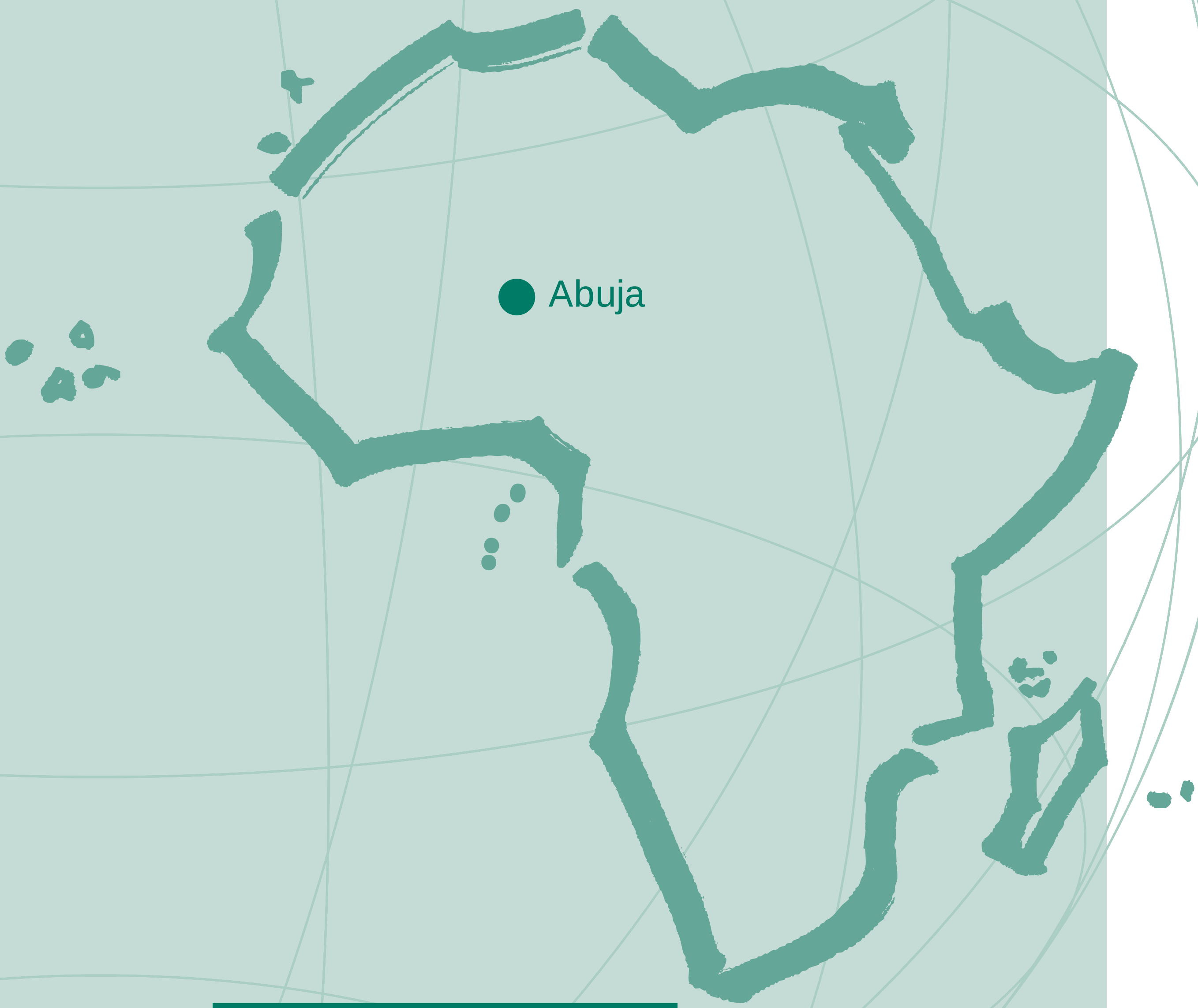
Since August 1998 Namibia has been engaged in the military conflict in the DRC in support of the government, and by mid-1999 an estimated 2 000 Namibian troops had been sent to the DRC. The ongoing military involvement has given rise to international criticism, and on the domestic front a certain amount of criticism in the press and in Parliament. With the peace process now in motion, almost all Namibian troops have now returned according to official sources.

Namibia is characterised by one of the highest levels of income inequality in the world**.** According to the 1998 National Human Development Report, Namibia has a Gini index of 0.70 for 1993/94, the highest recorded anywhere. A two-tier dualistic society clearly reflects the social and economic inequalities. Poverty is delineated along functional groups and by the urban-rural dualism. Wages and salaries received by urban employees are almost two-and-a-half times those in rural areas, reflecting the stark urban-rural inequalities. Differences within functional groups are exemplified by commercial farmers with incomes eight times higher than those of subsistence farmers.

Namibia's development is hampered by a scarcity of skilled labour. Despite major efforts to increase the manufacturing base through various policies, skill shortages remain an issue in Namibia. Ten per cent of all positions are not occupied by people with the right skills or remain unfilled. In the medium to long term, efforts to increase educational attainment should continue to be a priority. Despite the high share of expenditure on education — at 27.5 per cent of total government expenditure in 1999 — the net enrolment ratio decrease from 91.5 per cent to 45.5 per cent between primary and secondary levels and efficiency remains limited. Indeed, several issues are hampering the efficiency of the educational system: as an inheritance of the pre-independence period the northern regions perform badly since teachers are not adequately trained, the pupil-teacher ratio is much higher compared with the central and southern regions, and the infrastructure in the north much less developed.

Since the first victim was identified in 1986, HIV/AIDS has become the most serious problem for Namibian society. Namibia has one of the highest rates of infection in the world with 19.5 per cent of adults (defined as 15-49 year-olds) carrying the disease, as reported in the 1999 UNAIDS Report. Moreover, in 1999 AIDS claimed the lives of 1 per cent of the population, becoming the principal cause of death. Life expectancy at birth declined from 61 years in 1991 to 45 years in 1998 and is projected to reach a low of 40 years by 2005. Aside from the human aspects, the economic and social costs of the epidemic are massive. Direct health expenditures on HIV/AIDS have risen from 1.8 per cent of government spending in 1996 to 2.5 per cent of GDP in 2000 accounting for 20 per cent of the health budget. Hospitalisation of infected people increased 20-fold between 1993 and 1999. According to a recent World Bank study, HIV/AIDS will reduce real GDP growth by 1.1 percentage point in the period 2002-2010 (from an average rate of growth of 4.1 per cent without HIV/AIDS to an average rate of growth of 3 per cent with HIV/AIDS).

Nigeria



key figures

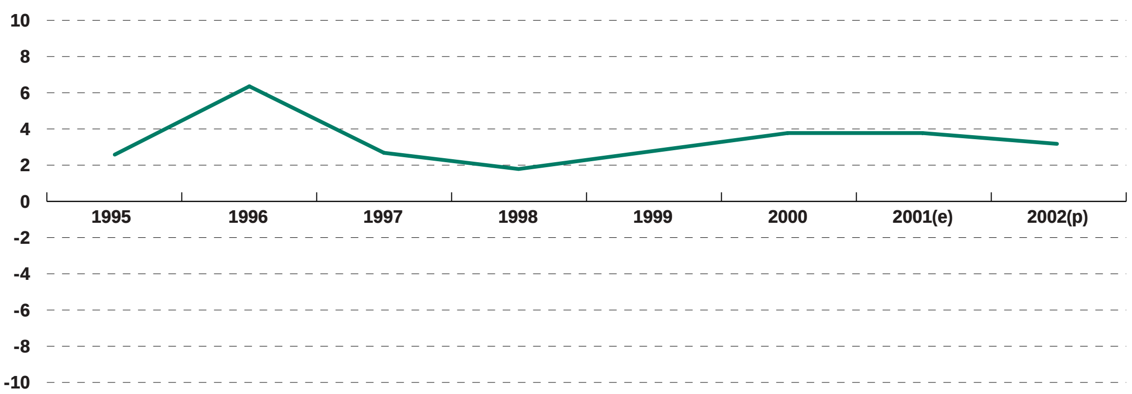
- Land area, thousands of km^2 : 911
- Population, thousands (2000): 113 862
- GDP per capita, $ (2000): 358
- Life expectancy (1995-2000): 51.3
- Illiteracy rate (2001): 34.7

Nigeria

NIGERIA USHERED IN A NEW administration in May 1999 after nearly two decades of military dictatorship. The new administration attempted a new social and economic order that would make the country exploit its enormous resources. The aim was to accelerate economic growth to alleviate the widespread poverty in the country. Against a backdrop of pressure to deliver a "democracy dividend", the new government increased spending, made possible by a sharp rise in oil prices in 2000. The high government spending and buoyant oil sector appeared to give a temporary boost to the ailing economy as real GDP growth increased to 3.8 per cent in 2000. Economic growth is expected to be maintained at about 3.8 per cent in 2001 and at 3.5 per cent in 2002. However, the growth process in 2000 introduced macro-economic instability as inflation rose sharply and the foreign exchange rate became unstable. This instability is expected to continue in 2001 and 2002. Nigeria's political transition now appears successful. However, the structural transformation of the country remains slow in areas such as privatisation. In addition, progress made in strengthening approaches to governance problems remains limited.

To deliver a "democracy dividend" the new government increased spending, made possible by a sharp rise in oil prices

Figure 1 - Real GDP Growth

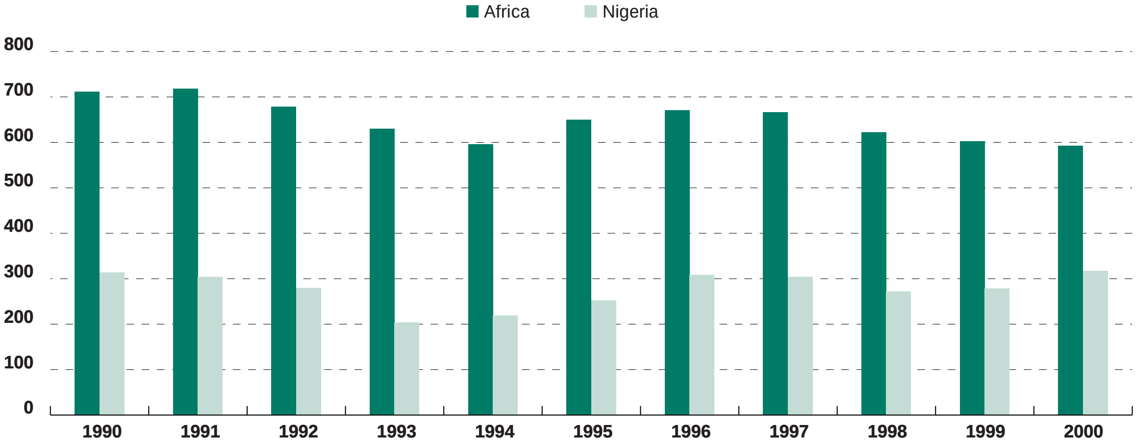


Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Recent Economic Developments

The Nigerian economy appeared to improve in 2000 as the real GDP growth rate rose to 3.8 per cent compared with 2.8 per cent in 1999 and 1.8 per cent in 1998. The improved growth performance in 2000 was due largely to the positive terms of trade shock, following an oil price increase from $18 per barrel in 1999 to $28 per barrel in 2000. The income effect of the shock enabled an expansion in government expenditure, which together with the buoyant oil sector boosted growth. The 2001 budget envisages higher government spending as the oil price is also anticipated by the government to remain high at an estimated $25 per barrel. However, the recovery in growth may be temporary as real GDP growth is estimated at 3.8 per cent in 2001 and to fall back to 3.5 per cent in 2002. The constraint in growth in 2001 might result in part from a reduction in Nigeria's OPEC oil production quota by more than 9 per cent during the first quarter of 2001, as well as the slow pace of reforms to remove structural bottlenecks in the economy.

Figure 2 - GDP Per Capita in Nigeria and in Africa (current $)



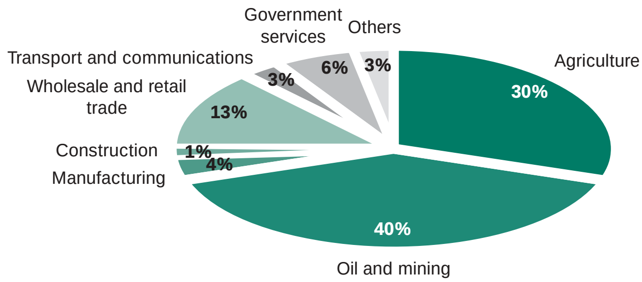
Source: Authors' estimates based on IMF data.

The structure of Nigeria's GDP showed a major change in 2000 with the oil sector emerging as the dominant contributor to GDP ahead of agricultural activities as was the case in 1999. The share of the oil sector in GDP increased from 28.3 per cent in 1999 to 39.5 per cent in 2000, while the share of agricultural activities fell from 35.1 per cent in 1999 to 28.5 per cent in 2000. The services sector accounted for 27.2 per cent of GDP in 2000 compared with 30 per cent in 1999.

Manufacturing retained its 4 per cent share in GDP in 2000. The fall in the share of agriculture in total GDP in 2000 did not reflect a major decline in growth of agricultural output as growth in the sector remained relatively stable at 3.1 per cent in 2000 compared with 3.3 per cent in 1999. Staple crop output rose by 3 per cent compared with 3.6 per cent in 1999 with all the major staples, except maize, recording significant output increases over the preceding year's level. Cash crop production grew by 3.3 per cent compared with 3.1 per cent in 1999. A national survey by the Central Bank of Nigeria (CBN) showed that the sustained growth in agricultural production was due largely to favourable weather conditions. However, notwithstanding the stable performance, the 3.1 per cent growth rate in 2000 was lower than the 5.5 per cent annual growth target set in the 2000-2002 national rolling plan. The output of crops in 2000 was hampered by shortages in the supply of fertilisers as the locally produced ones became inadequate following the continued closure of the National Fertilizer Company of Nigeria (NAFCON), which accounts for over 85 per cent of total domestic production of the commodity.

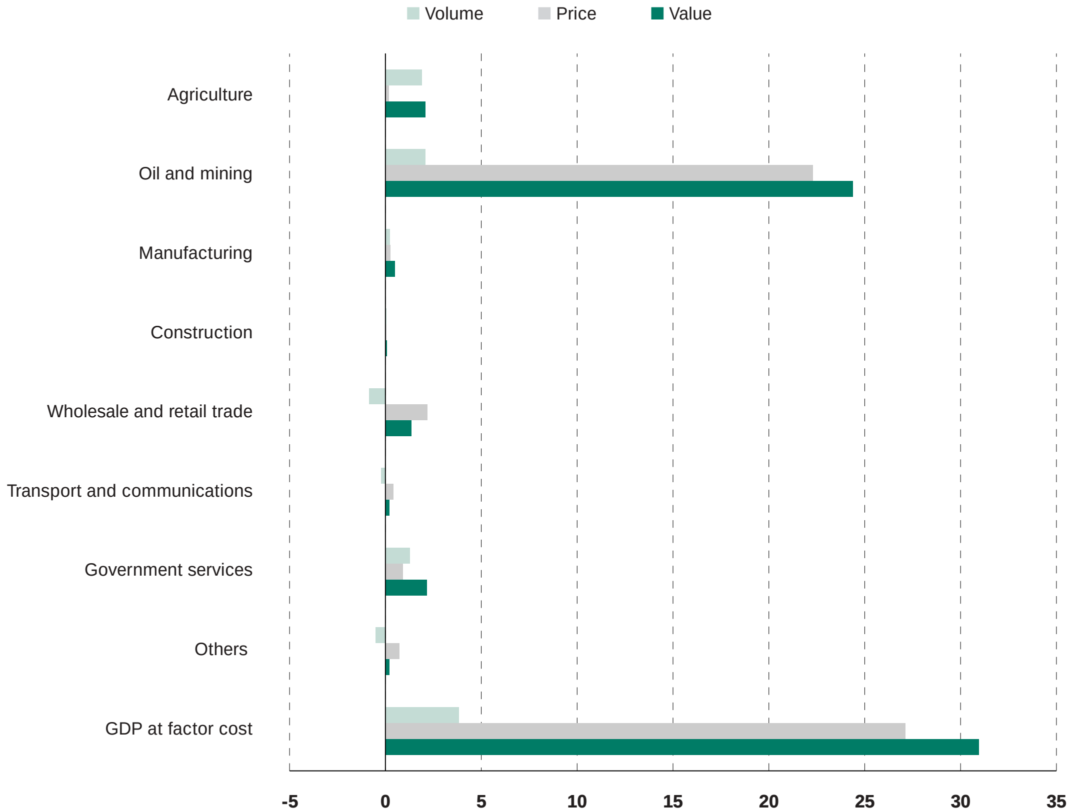
Industrial output, which fell in the preceding two years, recorded a strong recovery in 2000 owing to the 12 per cent expansion in crude petroleum, which accounted for about 99 per cent of mining output. The increase was attributed to OPEC quota increases, which raised Nigeria's shares from 1.89 mbd in March to 2.03, 2.09 and 2.18 mbd in April, July, October and November respectively. As indicated earlier, a fallback from these levels has already occurred, in early 2001. The other industrial sub-sectors did not fare well. Manufacturing recorded less than 1 per cent growth in 2000 compared with 3.5 per cent in 1999. The below expectation performance of manufacturing in 2000 was attributed to the continued weak demand for local manufactures, increased cost of production, and the general insecurity of lives and property in Nigeria that disrupted production programmes and discouraged new investment. The services sector as a whole grew by 19 per cent in 2000 with all the sub-sectors achieving significant growth rates. Growth in services was derived largely from improvement in the purchasing power of consumers as a consequence of increased public spending. The main sources of growth in services were

Figure 3 - GDP by Sector in 1999/2000



Source: Authors' estimates based on IMF data.

Figure 4 - Sectoral Contribution to GDP Growth 1999/2000

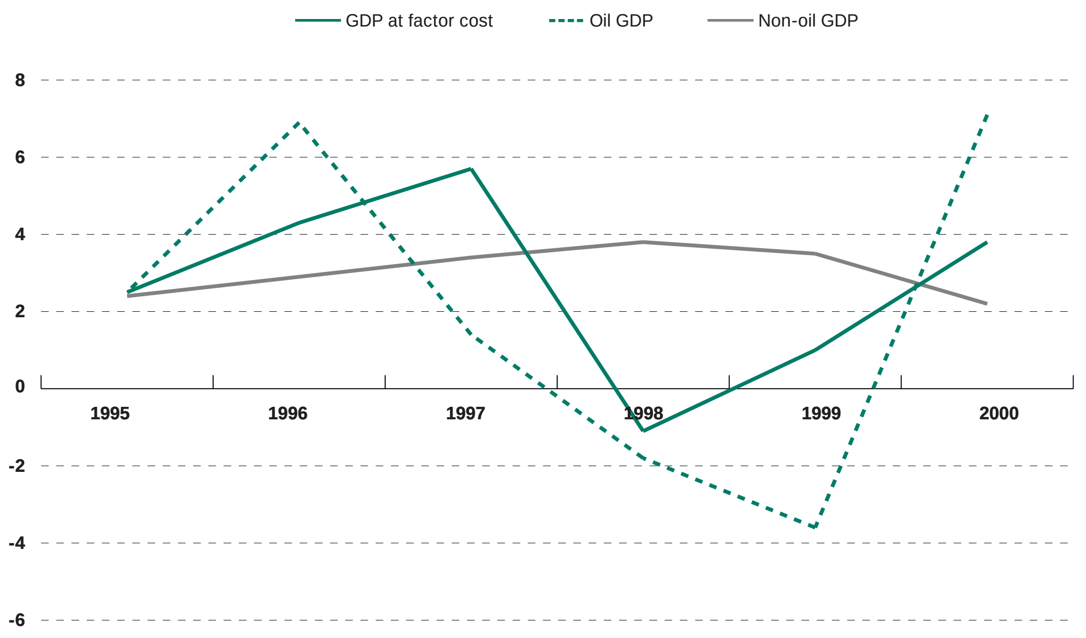


Source: Authors' estimates based on IMF data.

in transport, communications, finance and insurance, and producers of government services.

The demand composition of GDP shows that the oil windfall accruing to the government led to public consumption being maintained at a high level in 2000, while public investment continued its downward trend from 1998. On the other hand, private investment, which had fallen to a low of 3.7 per cent of GDP in 1998 on account of governance related problems, recovered to 12 per cent of GDP in 2000 as investor confidence in the economy was slowly restored with the return to democratic rule. Total consumption is expected to increase in 2001 and further in 2002, with

Figure 5 - Growth Rates of Total GDP, Oil GDP and Non-Oil GDP



Source: IMF data.

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**16.3**	**28.2**	**22.7**	**21.7**	**25.0**	**24.8**
Public	5.3	24.5	10.3	9.7	12.0	11.9
Private	11.1	3.7	12.4	12.0	13.0	12.9
Total consumption	**83.0**	**76.3**	**81.5**	**67.3**	**72.8**	**80.1**
Public	7.3	12.8	13.4	13.5	6.7	7.1
Private	75.7	63.5	68.1	53.8	66.1	73.1
External sector	**0.7**	**-4.5**	**-4.2**	**11.0**	**2.1**	**-4.9**
Exports	44.3	33.4	36.8	52.5	48.8	42.7
Imports	-43.6	-37.9	-41.0	-41.6	-46.6	-47.7

Source: Authors' estimates and predictions based on IMF data.

the increase coming from the private sector, as public consumption declines to historical low levels.

Macroeconomic Policy

Fiscal and Monetary Policies

The Nigerian government's total revenue in 2000 increased massively to represent about 46 per cent of GDP from about 31 per cent of GDP in 1999. The improved performance in 2000 was attributed to increases in revenue from the oil sector that reflected the substantial rise in the price of crude oil over the budget benchmark of $20 per barrel. A breakdown of gross revenues showed that oil receipts rose by 119.7 per cent accounting for 83.5 per cent of total revenue. On the expenditure side, the government's salary and wage increases in 2000 were reflected in their higher share of current expenditure. However, interest payments fell in 2000 owing to debt rescheduling, while capital expenditure rose moderately on the 1999 level. In effect, aggregate expenditure as a share of GDP recorded about a 6 per cent increase in 2000. The operations of the government in 2000 resulted in a primary surplus equivalent to nearly 10 per cent of GDP, compared with a surplus of 0.8 per cent of GDP in 1999. The primary balance is expected to remain in surplus in 2001 though at a reduced level from 2000. However, in 2002 the primary balance is expected to move into deficit as the domestic tax revenue falls.

The fiscal operations of the government in 2000 introduced fiscal imbalances that may be difficult and challenging to reverse. The government's unduly large expenditure in 2000, with similarly large outlays also envisaged in 2001 financed from oil revenues, could undermine prospects in the non-oil sectors as the real exchange rate appreciates (the "Dutch Disease" effect). Also, as the stagnation in capital expenditure is politically unsustainable, the sustainability of the fiscal balance would require major efforts to tackle politically sensitive expenditures such as the wage bill. In addition, the government may be constrained from maintaining fiscal sustainability by Nigeria's fiscal federalism. Under the current revenue-sharing arrangements (guaranteed by the Constitution) the states and local governments receive full and automatic access to their share of oil revenues. In the absence of corresponding limits on spending, there is no mechanism formally to involve states and local governments in contributing to fiscal stability – for example, by saving windfall gains from oil revenues.

Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total Revenue and grants[a]	**22.5**	**16.2**	**30.7**	**46.5**	**43.6**	**39.4**
Taxes	5.2	8.7	9.9	15.4	15.5	14.8
Oil revenue	12.2	7.2	23.1			
Total Expenditure and net lending[a]	**18.3**	**25.5**	**38.2**	**44.3**		
Current expenditure	7.6	8.1	18.2	16.7		
Excluding interest	*3.9*	*5.0*	*9.9*	*9.2*	*10.7*	*11.3*
Wages and salaries	1.6	2.0	4.3	6.7	8.2	8.9
Interest on public debt	3.7	3.1	8.3	7.5		
Capital expenditure	5.2	10.3	11.2	12.0	14.9	14.8
Primary balance	**7.8**	**-6.2**	**0.8**	**9.8**	**2.1**	**-2.4**
Overall balance	**4.2**	**-9.3**	**-7.5**	**2.2**		

a. Only major items are reported.
Source: Authors' estimates and predictions based on domestic authorities' and IMF data.

In 2000, monetary policy was loosened in an attempt to reflate the economy. With inflation very low at 0.2 per cent at the start of the year, the CBN pursued a policy of low interest rates to reflate the economy. The minimum rediscount rate was reduced in three steps from 18 per cent at end-1999 to 14 per cent in December 2000, and the cash reserve requirement was reduced in two steps from 12 per cent to 10 per cent over the same period. These policy actions and the magnetisation of the enhanced oil receipts were marked by rapid expansion in monetary aggregates in 2000 with the acceleration of monetary growth exceeding policy targets by substantial amounts. Broad money supply (M2) increased by 48.1 per cent compared with the target of 14.6 per cent for 2000. This followed a 31.6 per cent increase of M2 compared with the target of 10 per cent for 1999. The increasing money supply stoked inflationary pressures in the economy during 2000. The rate of inflation, measured by the 12-month increase in the consumer price index, rose from 0.2 per cent in December 1999 to 14 per cent in December 2000. The large government expenditure provided for in the 2001 budget further aggravated inflationary pressures. The rate of inflation duly rose to 18 per cent by March 2001. However, the rate of inflation is expected to moderate slightly to finish at an annual average of 13.7 per cent in 2001, and stabilise at that level in 2002.

Available data indicate that interest rates declined generally in 2000, reflecting the liquidity overhang in the financial system. At the prime market, the Nigeria Treasury bill issue rate declined from 17 per cent in January 2000 to 13 per cent in December. Commercial banks' deposit and lending rates declined accordingly. Since early 2001, the CBN has tightened the monetary policy stance. The minimum re-discount rate has been raised in three steps by 2.5 percentage points to 16.5 per cent (accompanied by increases in interest rates on Treasury bills and CBN certificates); the cash reserve requirement was raised by 2.5 percentage points to 21.5 per cent; and the liquidity ratio increased from 35 per cent to 40 per cent. These measures appeared to have an impact as market interest rates rose from about 17-20 per cent in early 2001 to between 30 and 40 per cent in May.

Nigeria's current exchange rate arrangement is described by the IMF as a managed float with no pre-announced target for the exchange rate of the naira. Currently, there are four exchange rates: the interbank foreign exchange market (IFEM) at which the CBN transacts, an interbank exchange rate quoted by a group of commercial banks — Nigerian Inter-Bank Foreign Exchange Fixings (NIFEX) — the *bureaux de change* rate, and the parallel market rate. The exchange rate of the naira depreciated in all segments of the foreign exchange market during 2000. At the IFEM, the naira depreciated on average by 6.5 per cent to N101.65/US$1.00. This followed a significant increase in import-driven demand for foreign exchange following the government expenditure increases: total demand for foreign exchange at the IFEM during the year was $6.9 billion compared with $4.9 billion in 1999. In the *bureaux de change* and the parallel market segments, the depreciation of the naira was steeper, as it dropped by the same margin of 10.7 per cent in both markets. Following the tightening of monetary policy at the beginning of 2001, there were nascent signs that the naira had strengthened. The parallel market rate appreciated from over N140 per US dollar in early April to about N135 per US dollar in mid-May. Correspondingly, the differential between the parallel and the IFEM rates narrowed from 23 per cent to about 19 per cent.

External Position

Nigeria continues to make progress towards liberalising its external trade. Nigeria introduced a customs and excise schedule for the 1995-2001 period, which liberalised external trade further by reducing the average tariff, the dispersion and number of rates, and lowering some tariffs on consumer goods while increasing those on raw materials. Nigeria currently has a structure of trade taxes, with at least seven taxes and with the customs duty varying from 0 per cent to 100 per cent. The customs and excise schedule has been reviewed regularly by the annual budgets. It is estimated that the tariff changes introduced in the 2000 budget reduced the average import tariff rate from 24 per cent to 12 per cent. The 2001 budget introduced many reductions in import duties and some increases in duties on final goods. Out of about 5 000 lines in the tariff code, 70 were increased (by an average of 25 per cent) and 437 were reduced (by an average of about 9 per cent). These changes are estimated to have further decreased the average tariff rate. Nigeria's trade regime also has a number of non-tariff barriers. The customs and excise schedule originally included import prohibition of 16 items and an absolute prohibition list of 19 items (mostly on health, safety or moral grounds). The import prohibitions have also been progressively reduced by annual budgets. In 2001, the import prohibition list included cement in bags; bulk vegetable oil; wheat flour; millet; sorghum; retreaded and used tyres; mosquito-repellent coils; and gaming machines.

Nigeria's trade account improved substantially in 2000 as the massive rise in exports was met with imports that stabilised at the 1999 levels. The increase in exports reflected the improvements in the oil sector, influenced mainly by the favourable international crude oil price, as performance of the non-oil sector showed only marginal improvement. The slight increase in imports in 2000 was accounted for by capital goods and raw materials, the share of which in total imports increased

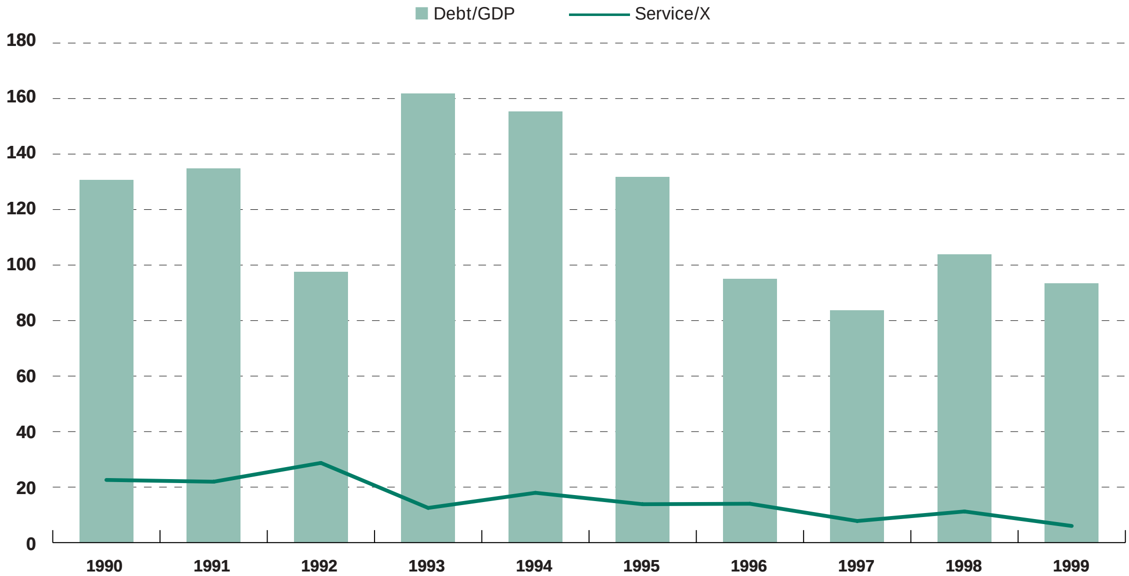
Table 3 - Current Account (percentage of GDP)	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	11.2	2.5	4.0	19.6	11.0	4.6
Export of goods (f.o.b.)	41.7	30.6	34.4	50.2	45.5	39.8
Imports of goods (f.o.b.)	-30.6	-28.1	-30.3	-30.6	-34.5	-35.2
Services balance	-10.5	-7.1	-8.2	-8.6		
Factor income	-7.9	-8.8	-10.0	-10.3		
Current transfers	2.6	4.6	4.7	4.2		
Current account balance	**-4.6**	**-8.7**	**-9.5**	**4.9**		

Source: Authors' estimates and predictions based on IMF data.

from 59.9 per cent in 1999 to 60.9 per cent in 2000; the share of consumer goods dropped by 1.2 percentage points to 38.8 per cent over the same period. The gain in the trade balance translated into the strong performance in the current account as other components of the current account stabilised on their 1999 levels. The trade balance is expected to remain in surplus in both 2001 and 2002, though at reduced levels from 2000. This would derive from reduced levels of exports.

Nigeria is carrying a large external debt overhang, which was estimated at end-1999 at 29.36 billion, or the equivalent of about 93 per cent of GNP for the year. The distribution of the debt by creditor showed that the bilateral creditors held the largest share of 57 per cent, followed by private creditors with 26 per cent and multilateral institutions with 17 per cent. Nigeria is not eligible for debt relief under the Enhanced HIPC Initiative. Nigeria obtained a non-concessional rescheduling of its debt in an agreement with the Paris Club creditors on 13 December 2000. The Agreement consolidated Nigeria's arrears at end-July 2000 amounting to $21.3 billion and maturities falling due during the IMF stand-by Agreement (August 2000-July 2001) of $300 million, fully capitalised moratorium interest on the rescheduling amounting to $1.4 billion and deferred post-cut-off date arrears as of end-2000 of $616 million. As a result of this agreement, Nigeria

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

obtained savings of cash payments estimated at $1.6 billion in 2000 and $970 million for the first half of 2001, on the basis of the payment due during January-July 2001. Nigeria currently uses the Debt Conversion Programme (DCP) as part of its debt management strategy. At end-December 2000, external debts valued at $56.7 million were redeemed under the auction system, while $1.2 million were cancelled under the out-of-auction arrangements. The government also currently updates the debt database regularly to ensure close monitoring of all outstanding obligations. A Debt Management Office (DMO) has been established to ensure that debt service obligations are met in a timely manner.

Structural Issues

Nigeria continues to carry out reforms to attract investment into its known areas of comparative advantage, as well as into other areas towards the diversification of the economy. Nigeria is well endowed with natural resources that include vast amounts of arable land, rich forests, relatively well-educated labour force, petroleum resources and natural gas, and other mineral resources. However, the country has a clear comparative advantage in the vast amount of energy resources. The country has proven crude oil reserves estimated at 3.2 billion tons or 22.5 billion barrels. Proven gas reserves, both associated and non-associated with oil, are currently estimated at about 3.4 trillion cubic metres, which is equivalent to 3 billion tons of oil. Additional reserves of more than 25 trillion cubic metres are estimated to exist in the country. In addition, the country's rivers can potentially generate 10 000 MW of electricity annually. There is also a known vast reserve of coal in the country. Nigeria continues to carry out reforms to press home its comparative advantages to enhance growth in the country.

Nigeria has been carrying out a three-phase privatisation programme since July 1999, which is progressing though at a very slow pace. The first phase of the privatisation programme, which involved the sale of the government's shareholdings in a dozen commercially viable enterprises, including banks and petroleum marketing, cement and insurance companies, had largely been completed at end-2000. The second phase, which was scheduled to be completed in 2000, rather began in 2001. Progress has been made towards the privatisation of the telecommunications sector, a key item in the second phase. The government successfully auctioned in February 2001 three GSM licences. The government also got expressions of interest from strategic investors in the Nigeria Telecommunications Company (NITEL); it is expected that the government's majority shareholding in NITEL will be sold by end-2001. Further, the government had reached agreement on a privatisation support credit with the World Bank that would enable the bank to intensify its support for privatisation in Nigeria. Thus far, privatisation in Nigeria's economic reforms has a long way to go to remove structural bottlenecks to growth and improve allocation of budgetary resources. The 2001 budget, for example, made injections of large amounts of public funds into a number of large enterprises in aluminium, fertiliser, steel and others that had been scheduled to be sold by then. In the energy sector, it is believed unreliability in electricity supply compelled up to 90 per cent of commercial enterprises to rely on expensive backup that adds as much as 25 per cent to total costs. The privatisation of the Nigerian Electric Power Agency (NEPA) is now scheduled from 2002, as the severe disruptions in power supply continue unabated. Besides, the government was forced to maintain price distortion in the petroleum sector as public pressure forced an almost complete rollback of the 50 per cent hike in retail prices of petroleum prices in July 2000 that would have removed the petroleum subsidy to avert the perennial shortages.

Compared with other countries in the sub-region, Nigeria has a well-developed and diversified financial sector. In addition to banks and non-banking institutions Nigeria has an active stock exchange. Liberalisation of the financial system continued in 2000 with the licensing of a new bank, the Regent Bank Limited, bringing to two the number of new banks licensed since 1999. Also in 2000, the effort to weed out distressed institutions culminated in the revocation of the operating licences of three banks and the re-capitalisation of eight others. Six development financial institutions (DFIs) were merged and restructured into two, while the operating licences of 790 non-bank financial institutions were withdrawn. Following these developments, the aggregate number of banks in operation declined to 88 in 2000 from 90 in 1999.

The Nigerian Stock Exchange (NSE) staged a dramatic recovery in 2000, after three years of sluggish growth. The all-share NSE index recorded a 60.6 per cent increase in 2000 and has recorded a further 34 per cent increase during the first half of 2001. The relatively strong performance of the capital market reflected the positive trend in equity prices and the improved confidence in the market following the return to democratic rule. The NSE also intensified its efforts at internationalisation of the capital market in 2000, by signing a memorandum of understanding (MOU) with the Nairobi Stock Exchange to facilitate cross border listing of securities. The NSE had earlier signed a similar MOU with the Ghana Stock Exchange and the Johannesburg Stock Exchange. The MOU with the Johannesburg Stock Exchange in 1999 had brought, for the first time, non-Nigerian companies to the NSE: two South African companies, Electronic Media Network (M-Net) and Supersport International Holdings, became the first securities to be listed in the foreign companies sector of the NSE.

Political and Social Context

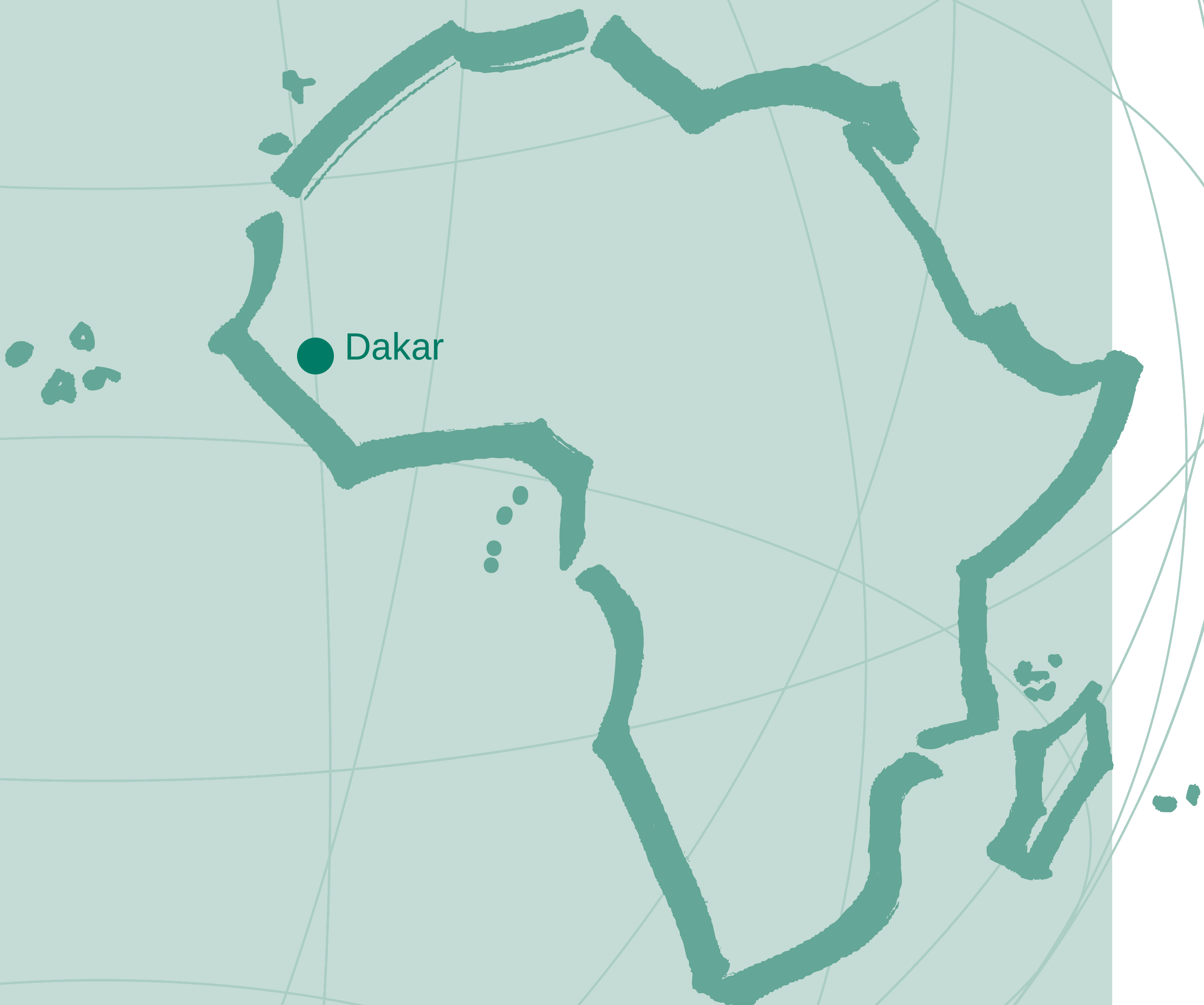
Nigeria has re-established the democratic process since 1999, and popular participation and the multi-party democracy is functioning. The Obasanjo Administration is now well entrenched after an initial bitter political battle with the national assembly – in essence to delineate the boundaries of their respective authorities under the new democracy. The rule of law has been restored and the special extra-judicial tribunals, which were created during military rule to handle certain cases, have been abolished. The courts are enforcing fundamental human rights, including freedom of speech and association. The independent news media have regained their freedom and vibrancy. However, concern remains about the strong ethnic and religious tensions that surfaced with the cessation of military rule. These have claimed many lives and, at times, threatened national unity. Although these tensions appear to have eased, the undercurrent of these conflicts continues to haunt the nation. In addition to the ethnic tensions, insecurity, criminality, and corruption continue to be major problems both at home and abroad. However, since 1999 public accountability and transparency have been significantly enhanced. The government has taken steps to improve accountability and transparency in such areas as oil transactions and government expenditures. In line with these, a recent review conducted of some 4 000 public contracts withdrew all 31 oil exploration and production licences issued in early 1999. Anti-corruption legislation was passed by the National Assembly in June 2000 and has been promulgated into law. Also, an independent Anti-Corruption Commission has been created. However, there appears to be a sense of disappointment among the Nigerian populace and the international community that corrupt practices continued to be widespread throughout public institutions in Nigeria. Nigerian authorities now argue that the often-cited Transparency International (TI) Corruption Index, which ranks Nigeria at the bottom, was based on a survey taken before the present administration took over. However, President Obasanjo (himself a member of the Advisory Council of TI) has been in power since May 1999, while the June 2001 TI index puts Nigeria second from bottom. Nigeria's own preliminary interim reports of the value-for-money audit of government expenditures in 2000 showed frequent neglect of the established procedures governing the use of public resources.

The proportion of Nigerians living below the poverty line of one dollar a day has increased dramatically during the last two decades. In 2000, 56 per cent of Nigerians were estimated to be living below the internationally defined poverty line. In 2000, both per capita income and per capita private consumption were lower than in the early 1970s. Per capita income fell from $1600 in 1980 to $270 in 2000 putting Nigeria among the 20 poorest countries in the world. Poverty in Nigeria is both state- and sector-based. Poverty is more widespread in the northern part of the country. Two northern states, Kano and Kogi, account for nearly one-third of the poorest 20 per cent of the population. Almost 90 per cent of Nigeria's core poor were engaged in agriculture, while 58 per cent of the urban population were living in poverty. Past poverty reduction programmes, including the Family Economic Advancement Programme, had a marginal impact on poverty, despite large budgetary allocations. These programmes failed to achieve their objectives because of poor design. The government has a new poverty reduction plan based on lessons learnt from the past. This aims to reduce the level of poverty from about 66 per cent to 20 per cent by 2010. In this direction, the 2000 budget appeared to make a shift in the poverty focus of public expenditures by placing more emphasis on education, health, rural water development in small communities and smallholder agriculture.

The performance of social services in Nigeria has remained unsatisfactory. In spite of increased budgetary allocations to the various sub-sectors, service delivery by key institutions and departments designed to mitigate the living conditions of the vulnerable groups was hampered by the continued deterioration of basic facilities and the high incidence of industrial strikes, especially in education and health. Nigeria has a well-defined health system supported by a national health policy and strategy. This strategy lays emphasis on primary health care as the pivotal strategy to ensure health services for all Nigerians. However, public financing and human resource capacity to provide a wider coverage of quality primary health care has deteriorated significantly in the past. At all levels of the health system, the physical state of health facilities and the morale of health workers have steadily deteriorated. Nigeria's health indicators have deteriorated with the weakening of the health service system at all levels. The HIV/AIDS pandemic has complicated the health problems of the country, with the estimated proportion of the adult (15-49 years) population infected rising from 1.8 per cent in 1992 to 5.4 per cent in 1999.

Nigeria continues to place emphasis in its education policy on universal basic education. The recent improvement in the performance of education in Nigeria was sustained in 2000 as enrolment in primary and secondary schools increased. Available figures show gross enrolment in primary school to have increased from 86.6 per cent in 1996 to 91 per cent in 2000; the female gross enrolment also increased from 76.5 per cent to 80.1 per cent. Similarly, the gross enrolment for secondary schools had improved from 34 per cent to 36 per cent, with the female ratio moving from 31.1 per cent to 33 per cent over the same period. Pupil/teacher ratios in both primary and secondary schools deteriorated slightly as both increased from 52 and 38 in 1999 to 54 and 41 respectively in 2000. The improving enrolment performance in the education sub-sector was attributed to enhanced government budgetary spending on education, which in 2000 increased by 104.1 per cent, accounting for 7.1 per cent of total expenditure and 1.4 per cent of GDP. However, Nigeria's budgetary outlay for education remains lower than the African average of 3.5 per cent of GDP.

Senegal



key figures

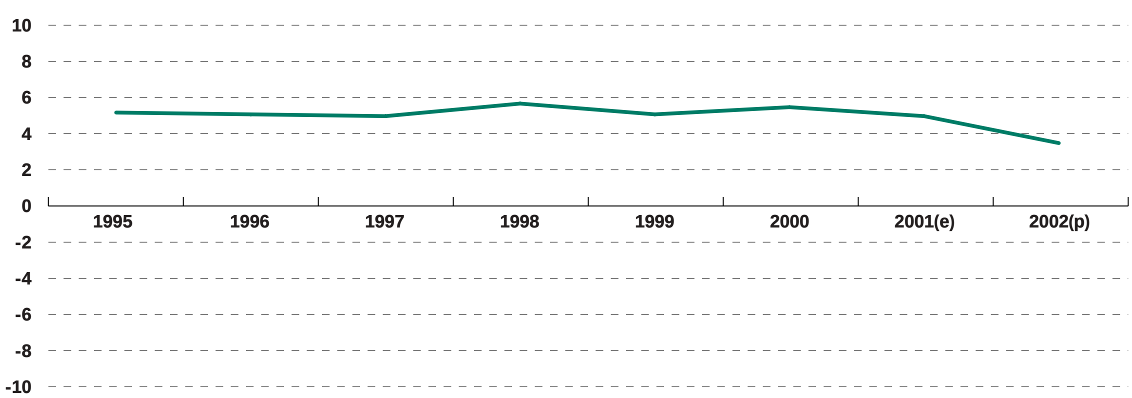
- Land area, thousands of km^2: 193
- Population, thousands (2000): 9 421
- GDP per capita, $ (2000): 464
- Life expectancy (1995-2000): 52.3
- Illiteracy rate (2001): 61.7

Senegal

SENEGAL'S ECONOMY HAS FORGED ahead since devaluation of the CFA franc in 1994. In this context of sustained growth, 2000 was a transition year, when a peaceful transfer of power boosted confidence in the future even as the changeover and electoral uncertainties affected economic decision-makers in the short term. But the landslide victory of the Democratic Party (PDS) at the April 2001 parliamentary elections, along with the lifting of some financial restrictions thanks to efforts in recent years to restore public finances, should give the government the necessary leeway to carry out major reforms needed for growth and fighting poverty. In the short term, sturdy export performances and very good investment inflow, helped by the successful political transition and a good relationship with international funding agencies, suggests GDP growth of 5.0 per cent in 2001. A return to normal in groundnut production in 2002 will probably mean slower growth of 3.5 per cent. A more energetic growth policy would destabilise public finances.

The peaceful transfer of political power boosted confidence in the future of Senegal

Figure 1 - Real GDP Growth



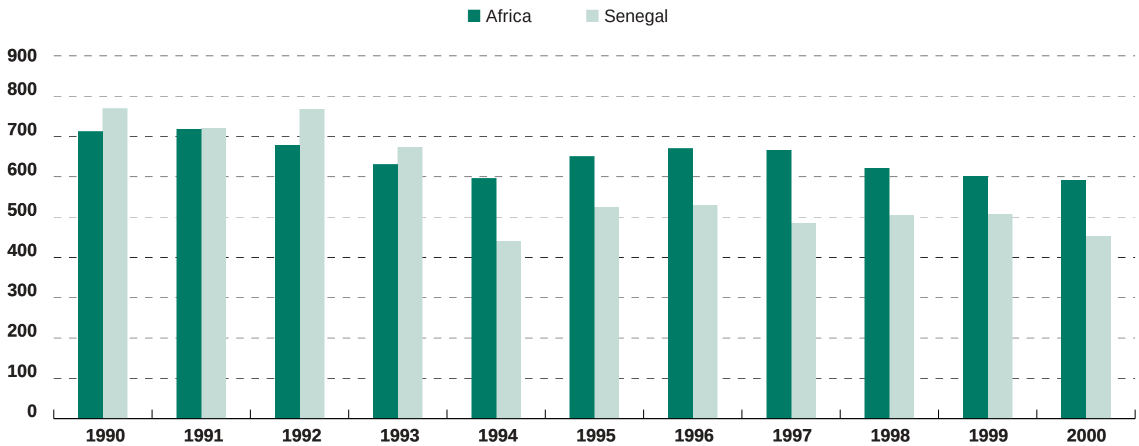
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Recent Economic Developments

Senegal has displayed great economic vigour since the 1994 devaluation, with annual GDP growth of around 5 per cent — a per capita growth of 2.5 per cent taking into account population increase of about 2.5 per cent over the period.

Since the early 1990s, the primary sector's share of GDP has shrunk significantly while remaining the source of income for three-quarters of the working population. It fell from 21 per cent at that time to 18 per cent in 2000, broadly reflecting the decline of the farm sector (from 11 per cent in 1990 to 8 in 2000). Agriculture, mostly subsistence crops and groundnuts, was hit by bad weather in 1997 and 1998 which good results in the livestock and fishing sectors did not make up for. However, well-distributed rainfall and more intensive use of fertiliser in 1999 and 2000 again turned farming into a motor of the economy and it contributed an estimated 1.8 percentage points of the 5.5 per cent volume GDP growth in 2000. But the sector still has problems that make for very erratic performances. Apart from dependence on the weather, these include groundnut marketing problems and policies that harm potentially profitable crops such as rice.

Figure 2 - GDP Per Capita in Senegal and in Africa ($ current)



Source: Authors' estimates based on IMF data.

The secondary sector has grown strongly in recent years and is now the second biggest GDP contributor at 20 per cent. Senegal's industrial base is more diverse than other sub-Saharan countries but is still mainly based on the processing of food and minerals, such as chemical phosphate plants, and is structurally outdated. From 1995 to 2000, the construction sub-sector provided a boost, driven by remittances by Senegalese abroad and expanding public investment. In 2000, government projects slowed down because of uncertainty about the PDS's chances of electoral victory and turnover in the sector's businesses fell by a third.

Senegal stands out in sub-Saharan Africa because of its dominant tertiary sector, which grew rapidly during the 1990s and now accounts for more than 60 per cent of GDP. It was fuelled by steady migration from the countryside and growth of small businesses arising from urbanisation. So the sector has an extensive informal side to it, though a relatively visible one because of being mostly organised into an association (Unacois) and paying a certain amount of taxes. Telecommunications, commerce and tourism grew strongly because of devaluation and the government's liberalisation measures. But the sector, along with industrial activity, slowed down sharply in 1999 and 2000 because of breaks in electricity supply, with some firms having to use private generators.

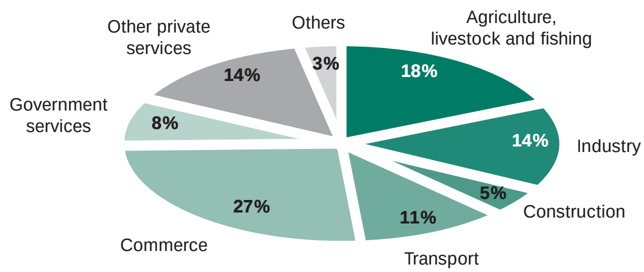
Public consumption fell from 15 per cent of GDP in 1990 to 12.5 in 1999 as investment rose from 4 per

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**16.7**	**19.9**	**19.3**	**19.9**	**20.9**	**21.1**
Public	4.4	8.1	8.3	7.4	8.4	8.5
Private	12.3	11.8	11.1	12.4	12.5	12.6
Consumption	**91.3**	**87.2**	**87.5**	**88.2**	**88.2**	**89.2**
Public	12.4	11.8	12.5	13.7	12.5	11.9
Private	79.0	75.4	74.9	74.5	75.7	77.4
External sector	**-8.0**	**-7.1**	**-6.8**	**-8.0**	**-9.1**	**-10.3**
Exports	32.2	30.0	29.8	30.9	28.5	25.9
Imports	-40.2	-37.1	-36.6	-38.9	-37.6	-36.1

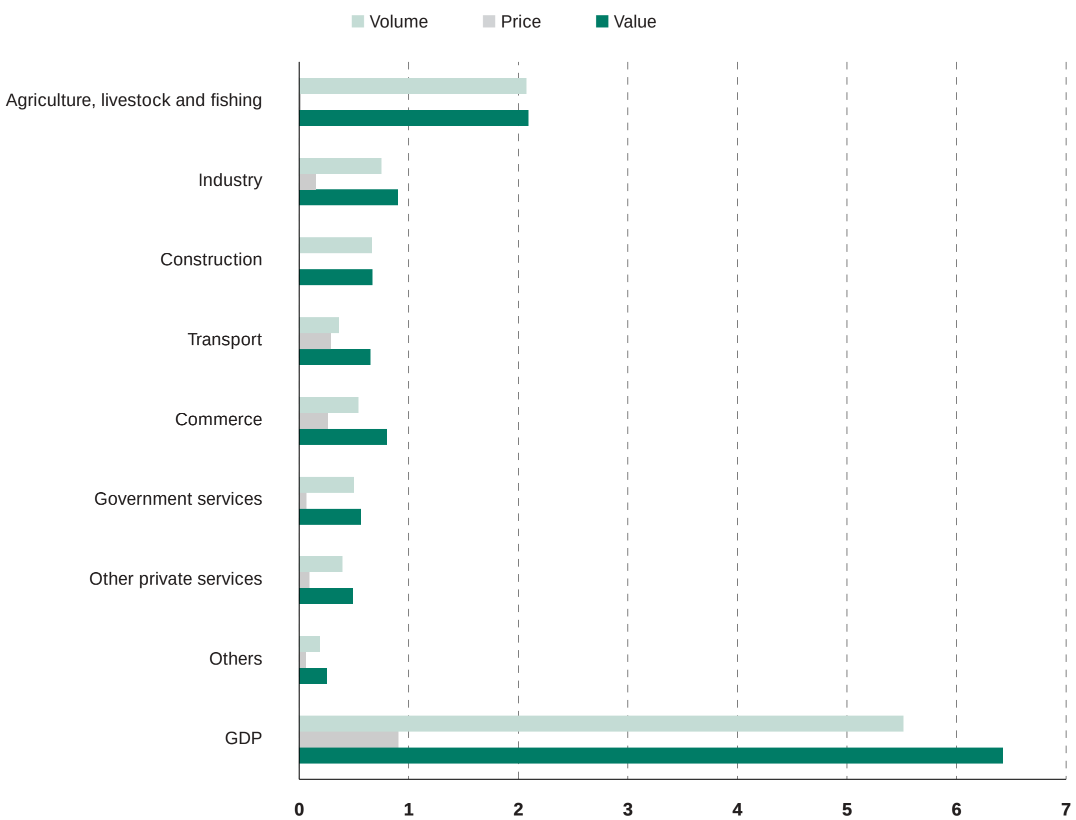
Source: Authors' estimates and predictions based on data from the *ministère de l'Économie et des Finances.*

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates based on data from the *Direction de la statistique.*

Figure 4 - Sectoral Contribution to GDP Growth in 2000



Source: Authors' estimates based on data from the *Direction de la statistique.*

cent (1990) to 7 per cent (1999). This was because wages and salaries were kept under control and public investment revived after devaluation. The budget balance allowed the government to spend more on investment, but private investment was affected by constraints on production, the fairly low domestic savings rate and the virtual absence of foreign direct investment. The relative stagnation gave way in 1998 to recovery as domestic savings conditions improved (the savings rate rose from 12.3 per cent in 1997 to 14.3 in 1999). In 2000, public investment was overtaken by private investment, which grew at 12 per cent that year.

Macroeconomic Policy

Budgetary and Monetary Policy

In February 2001, the IMF approved the third year of a poverty reduction and growth facility launched in 1998, evidence of the international funding agencies' satisfaction with Senegal's on-target macroeconomic performances and well-controlled budgets since 1995. After devaluation in 1994, the country began a period of budgetary restraint to restore balance to public finances and since 1998, the government has had no internal or external arrears. In 1998, to stabilise the tax structure of the budget, a common external tariff (TEC) was introduced at the behest of UEMOA and the oil price stabilisation mechanism was replaced by indirect taxes. Thanks to a strong showing by the value-added tax, loss of revenue from the lower customs duties was not as great as expected. But the oil bill continued to be a burden on the budget in 2000 because of the new government's bigger subsidies to head off higher pump prices. However, the same budget showed a healthy increase in tax revenue — which reached 17 per cent of GDP for the first time — due to greater efficiency by tax and customs officials. Expenditure also slowed, but to the detriment of public investment.

Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[a]	**19.7**	**19.8**	**19.4**	**19.8**	**19.7**	**19.7**
Taxes	14.8	16.0	16.8	17.3	17.3	17.3
Grants	3.3	3.0	2.1	1.7	1.9	1.8
Total expenditure and net lending[a]	**19.9**	**20.1**	**20.8**	**20.0**		
Current expenditure	14.2	11.3	12.0	13.2		
Excluding interest	*11.3*	*10.0*	*10.5*	*11.7*	*11.0*	*10.4*
Wages and salaries	7.1	5.8	5.7	5.6	5.4	5.1
Interest payments	2.9	1.3	1.5	1.5		
Capital expenditure	5.3	7.2	8.3	6.2	7.0	7.0
Primary balance	**2.7**	**1.0**	**0.1**	**1.2**	**-3.1**	**0.9**
Overall balance	**-0.2**	**-0.3**	**-1.4**	**-0.2**		

a. Only major items are reported.
Source: Authors' estimates and predictions based on IMF data.

The government plans to encourage these trends in 2001 and 2002 by continuing to reform the tax administration. Efforts to fiscalise some of the informal sector have included a new 5 per cent levelling tax on imported goods used mainly in the informal economy, issuing a single identification number and opening advice centres to help firms do basic accounting. The country also adopted a single VAT of 18 per cent in September 2001 under an UEMOA agreement.

The 2001 budget has been affected by several special events. Three elections were to be held in 2001/02, which, apart from the cost of staging them, included the danger of budgetary excesses (though this did not happen with the parliamentary election in April at least). The renationalisation of the electricity company Senelec, whose privatisation had run into problems, cost 40 billion CFA francs ($56 million) in the first quarter. The government planned to absorb the reimbursement during the year using revenue surpluses and leftover proceeds of earlier privatisations. The IMF strongly criticised the management of some public enterprises whose accumulated deficits could be a considerable burden on the state. By the end of June 2001, the energy sector had built up a shortfall of about 40 billion CFA francs ($56 million), mainly from the freeze in petrol and electricity prices, and the groundnut sector owed about 60 million CFA francs ($84 million), partly because prices to the farmer were pegged at 145 CFA francs ($0.20) per kg.

The combined increase in revenue and expenditure is expected to keep public finances steady, and perhaps slightly improve them, in 2001 and 2002. Deterioration of the current deficit and overspending by state firms could be a problem however.

The 2001 budget takes a very vigorous approach to fighting poverty, with 26 per cent more for education and an extra 2.5 billion CFA francs ($3.5 million) for health care. Money to fight HIV/AIDS and malaria has been further increased. The goal is to be spending 2.9 per cent of GDP on health care by 2002 and to achieve full school enrolment by 2010.

Like other UEMOA countries, Senegal's currency is pegged to the French franc and its monetary policy is conducted by the BCEAO, which leaves budget policy as the government's main economic instrument. Since devaluation, inflation has been kept below 3 per cent. A rate of 3.6 per cent is however expected in 2001 before inflation recedes around 3 in 2002.

External Position

Senegal's trade is more diverse than its neighbours. At the end of the 1980s, fishing products replaced groundnuts as the country's main export, with phosphates and chemicals extracted from them in second place. These three headings account for just over half of all exports. Re-exports are also important (11 per cent of total exports) and go mainly to West Africa, illustrating Senegal's role as a transit point in the sub-region. Since 1995, some trade has shifted away from European Union countries towards Africa (with Mali becoming the third biggest partner, taking 8 per cent of Senegal's exports) and Asia. Over 80 per cent of imports are food products, semi-processed consumer goods or oil products, mainly from Europe (including France, which supplies a third of all imports).

Senegal's trade pattern makes it vulnerable (though less so than its neighbours) to ups and downs in the three major export sectors, which in recent years have suffered from a shrinking European market and internal problems with outdated infrastructure and dwindling raw materials. This gives Senegal a structural deficit in its trade and current account balances. In addition, the trade balance deteriorated between 1997 and 2000 as imports grew faster than exports and terms of trade sharply declined. Predicted growth in 2001 and 2002, as well as an expected big fall in groundnut exports, should accentuate this trend.

A third of the Senegalese economy's funding needs are met by aid to projects from bilateral and multilateral sources, with the rest coming from long-term soft loans. Private sector lending and foreign direct investments are on the up, encouraged by the government's privatisations[1] and the country's political and economic stability.

The external debt in 1999 was 78.3 per cent of GDP at nominal value (47.4 per cent NPV because of the large number of soft loans). In 1998, the debt to public

Table 3 - Current Account (percentage of GDP)

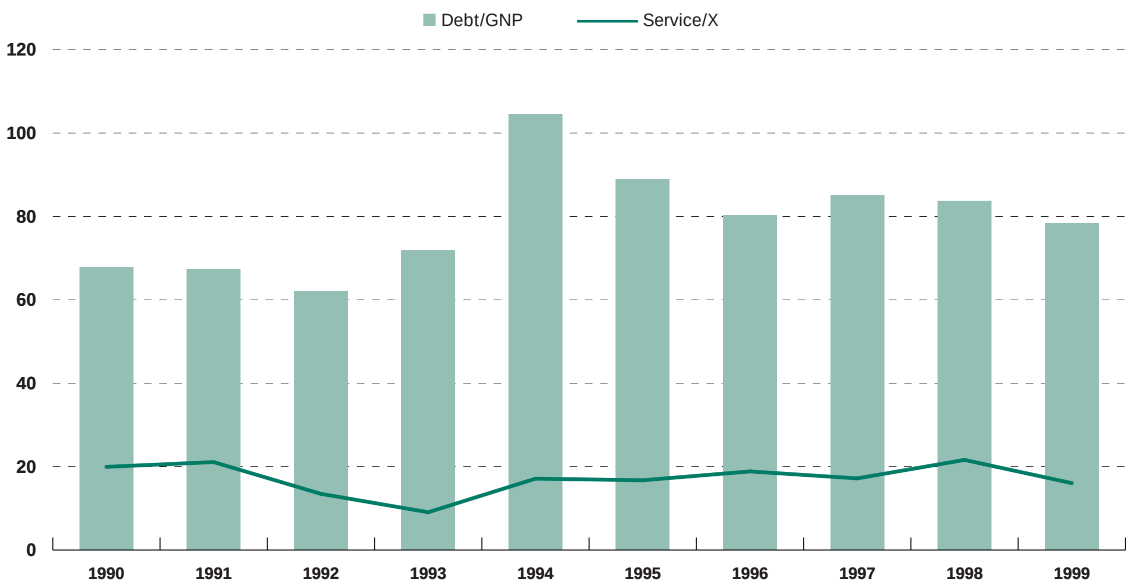
	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-5.6	-6.7	-7.3	-8.7	-9.0	-9.8
Exports of goods	21.6	20.8	21.6	21.9	20.7	18.8
Imports of goods	-27.2	-27.6	-28.9	-30.6	-29.7	-28.5
Services balance	-0.5	-0.2	-1.0	-0.9		
Factor income	-3.1	-1.3	-1.2	-1.4		
Current transfers	3.8	3.7	3.3	4.5		
Current account balance	**-5.3**	**-4.6**	**-6.1**	**-6.5**		

Source: Authors' estimates and predictions based on IMF data.

1. 2000 should however register a net capital outflow as a result of the renationalisation of Senelec.

revenue ratio was 305.3 per cent NPV, inside the range for eligibility for the Heavily Indebted Poor Countries (HIPC) Initiative[2]. Senegal should start getting debt relief under this scheme in December 2001 if it submits its written plan for poverty reduction by then[3]. This will trigger the right to relief of $800 million (450 million NPV). The country has already had debt relief even before completion point from the Paris Club (after a dozen reschedulings between 1987 and 1998, the terms of the Naples Agreement were applied in June 1998) and through bilateral agreements with creditors. The commercial debt was entirely paid off in early 1997 with the help of the World Bank through the International Development Association.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

Structural Issues

Senegal has worked with the IMF and the World Bank since 1980 to implement structural adjustment programmes. In 1994, the country began a three-year poverty reduction and growth programme (renewed in 1998) and pledged to liberalise domestic prices, foreign trade and the labour market. Plans for agricultural reform and privatisation were also drawn up. The World Bank and the IMF expressed their general approval, although privatisation continues to stir up much political debate in Senegal.

The government began privatising in 1987, starting with trade and moving on by 1995 to infrastructures. Water supply was privatised in 1996, although the water and equipment remained state property. In 1997, the national telecommunications authority, Sonatel, was put on the regional stock exchange, where it is one of the most robust stocks. Fifty-one per cent of Air Senegal was bought by Royal Air Maroc in January 2000. The first companies privatised were those in healthy condition, in which the government had invested to make them more attractive, so they were a success.

2. In the case of Senegal, debt reduction is based on the ratio over public revenue rather than the ratio over exports, which would allow less relief.

3. A household survey is being done to evaluate the efforts made to reduce poverty and work out suitable goals.

However the government's holdings, of which a full inventory has not yet been made, include problem firms such as the electricity company Senelec, whose privatisation was abandoned by both parties involved (the government and Hydro-Quebec/Elyo), and is back on the market. A new call for tenders on 10 July 2001 drew eight bidders in ten days. The new opening of bids was set for 1 October the same year. Privatisation of the vegetable oil marketing body Sonacos, has been suspended for lack of a buyer. These firms are hampered by lax accounting and very antiquated structures, mostly due to lack of public investment. The government has also been vague about its privatisation strategy and the private sector has been wary, especially of foreign investors seeking shares in the privatised firms. As well as these privatisations, begun in 1999 and not yet complete, the government plans shortly to sell off the port of Dakar, the city's airport, the company running the Dakar-Bamako railway line and the textile firm Sodefitex.

Senegal's banking system has much improved since structural reforms in 1989 and 1990[4]. The financial sector also benefited from adoption by the UEMOA council of a new set of prudential ratios effective from January 2000. But the sector's performance is still mixed. Its loans are more diverse than in neighbouring countries, where all funding goes to the country's main product (cotton in Mali and Burkina Faso and cocoa in Côte d'Ivoire). The sector is also considered fairly healthy since, encouraged by the BCEAO, the number of non-performing loans has fallen dramatically[5] while the banks have increased their own funds.

However, the financial sector is still mostly under-developed considering the economy's need for funding. Many economic operators continue to cite the difficulty of obtaining credit as the main obstacle to private initiative. The banks complain about the level of debt — especially with rural loans and the effect of related political decisions — which encourages them to increase their profit margins and so exclude some potential customers. Only large firms in the modern sector of the economy have the means and credibility to get loan bargains by making banks compete for their business. To cater for the rest of the economy, a parallel system has grown up of mutual benefit societies providing small short-term loans, but there are no such facilities for medium-sized firms.

Senegal is geographically better disposed than other West African countries and its infrastructure is quite developed. Most roads and railways converge on the port of Dakar with its advantage of being the westernmost point of Africa and a transit point for the entire region. The rest of the country has quite good roads serving the groundnut-farming regions, but generally the network is unevenly distributed and badly maintained, so many regions are still isolated and links with neighbouring countries virtually inexistent. The antiquated port of Dakar and the decrepitude of the Dakar-Bamako rail link are persistent problems the government hopes to solve through privatisation. With a World Bank loan, the government adopted a road, rail, sea and air transport development plan in January 1999. Most public investment projects were suspended in 2000 but were expected to resume as soon as the series of elections had taken place.

Political and Social Context

Senegal was one of the first African countries to introduce a multiparty system, with the government recognising opposition parties in 1974. But there was no democratic change of power until March 2000, when the opposition Democratic Party (PDS) leader Abdoulaye Wade won elections and the presidency in place of the socialist Abdou Diouf, who was praised by all for organising the handover. Wade's election inspired great hopes among Senegalese, but the new head of state had little room for manoeuvre until April 2001 as his

4. These reforms led to closure of six banks, consolidation by the BCEAO of non-performing assets and the setting up in 1991 of a national debt-collection agency.
5. Although in June 1999 it was still more (at 19.8 per cent of all credits) than the 18.9 per cent average in other UEMOA countries.

party did not have a parliamentary majority. The uncertainty made all sides cautious. The government froze some public investments and major projects (such as the 20/20 Initiative) and firms slowed down their activities because the future was not clear. New government officials and post-election decisions meant the private sector lost their old contacts. The economic players have not yet taken to new bodies, such as the Apix agency (to promote investment and major works), which as a result have so far not been able to operate. The 29 April 2001 parliamentary elections clarified the situation by giving the president the majority he needed to end the uncertainty.

Relations with neighbouring countries are difficult and conflict is frequent between people on both sides of the border with Mauritania. These clashes led in 1989 to the deportation of 200 000 black Mauritanians to Senegal, which replied by expelling Mauritanian traders and taking over their shops. The southern border is also sensitive and separatists from Casamance province have taken refuge there. Since the 1980s, episodes of violence have erupted in Casamance, aggravated by land reform dating from the 1970s, but have died down since Senegalese troops destroyed the bases of the Casamance Movement of Democratic Forces (MFDC) in 1997 and 1998. Negotiations between President Diouf and the MFDC began in January 1999 and President Wade has said he is determined to end the conflict.

The Senegalese government pledged in 1998 to push for greater transparency and fight corruption. An anti-fraud plan was set up in the customs service and various audits were undertaken, including one of the Economic Promotion Fund. The legal system was strengthened with more training for judges and the government promised public opinion surveys to help make the public sector more efficient. Decentralisation was also begun in 1995, enabling better distribution of wealth and making institutions more democratic. These reforms show a gradual change in attitudes even though in practice little has changed.

Despite good economic performances since devaluation, Senegal's social indicators show persistent poverty and many deficiencies in the education and health care sectors. Infant mortality is lower than in neighbouring countries (57 per 1 000 compared with about 80 for the rest of the sub-region), but life expectancy is still less than 55 years. The percentage of the population vaccinated has fallen in recent years and is now only about 45 per cent. However, Senegal stands out from its neighbours on account of its fairly effective HIV/AIDS prevention programme, which has given it the lowest rate of the disease in the region.

Health care is a government priority, as shown by the modest but steady growth of its share in the budget, (from 6 per cent in 1997, to 6.3 in 1999 and 7 in 2000). The government hopes to reach the World Health Organisation target of 9 per cent by 2002. The state has also shown its commitment to the sector by helping to build new primary health care centres, whose number rose from 920 in 1996 to 1 200 in 1999, reducing the ratio of population to clinics from 8 236 to 7 694 (well within the WHO target of one clinic for every 10 000 people). The sector has also benefited greatly from the drop in the price of medicine through widespread adoption of generic drugs.

The education sector has serious shortcomings centred on low enrolment and literacy rates. Only 38.3 per cent of the population is literate, one of the lowest rates in West Africa, and gross primary school enrolment is 70 per cent , on a par with Côte d'Ivoire and Ghana, but well below the figure for much poorer countries such as Benin and Togo[6]. These bad performances are striking because Senegal spends much more on education than other sub-Saharan countries, but the poor result is because money is systematically channelled to university education to the detriment of primary education, which traditionally gets only about a third of the total education budget. The government's new education programme, drawn up with the schools themselves and with the international funding agencies, plans to

6. However, this is a significant improvement over the early 1990s, when gross primary enrolment was only 57 per cent .

increase primary education's share to 44 per cent by 2003 and eventually to 50 per cent.

As well as poor social indicators, Senegal has very sharp social inequalities visible in urban-rural differences and between Dakar and provincial towns. Nearly 80 per cent of people in the countryside live below the poverty line, compared with less than a third of those living in Dakar. These gaps are made worse by unequal distribution of infrastructure throughout the country and ineffective decentralisation. Provincial towns get very little public investment while skills and funding have still not been transferred by the central government to local authorities. This has speeded up rural migration to Dakar, which swells the ranks of the informal sector, where incomes are very much lower than in the formal sector. Poverty is expected to increase in the capital, mainly because infrastructure (housing, water supply, electricity and sewage) does not keep abreast of the growing population, and because of flaws in the education system, in the shape of newcomers to the informal sector who are young and among the least educated.

South Africa

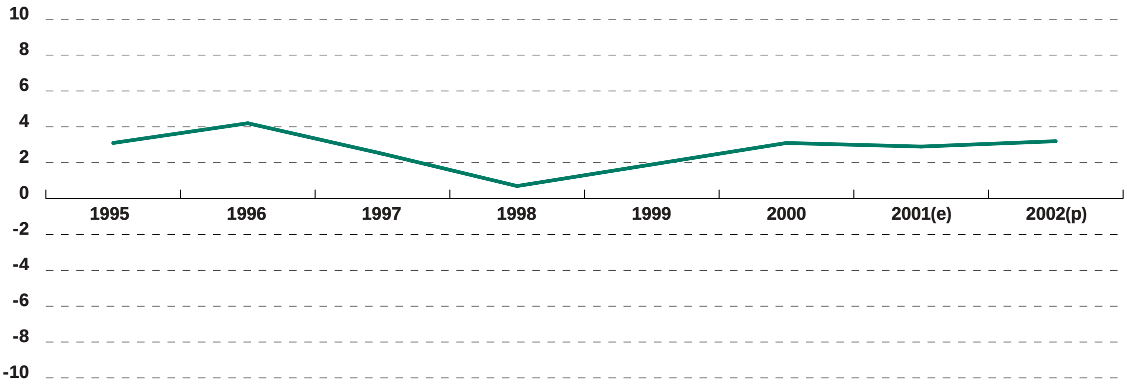
key figures

- Land area, thousands of km^2: 1 221
- Population, thousands (2000): 43 309
- GDP per capita, $ (2000): 2 907
- Life expectancy (1995-2000): 56.7
- Illiteracy rate (2001): 14.4

TEN YEARS AFTER APARTHEID ENDED, South Africa still faces the challenges of reducing inequality and enhancing growth performance. The policies implemented so far have had somewhat limited results. In terms of growth, South Africa is still rebounding from the 1998 slowdown with a growth rate at 3.1 per cent in 2000. The positive expectations remain precarious, however, as the downturn in economic activity during 2001 in the OECD area could have a negative impact on the South African economy. The rand is still depreciating but at a slower pace, which implies a slowdown of export growth. Given somewhat enhanced public capital expenditure programmes but moderate consumption dynamism, growth expectations for 2001 and 2002 are at 2.9 and 3.2 per cent. Momentum gathered during the last two years of expansion remains fragile while social cohesion remains a highly sensitive issue. High unemployment persists while the formal labour market records further job losses and informal activities develop.

Ten years after apartheid ended, South Africa still faces the challenges of reducing inequality and enhancing growth

Figure 1 - Real GDP Growth



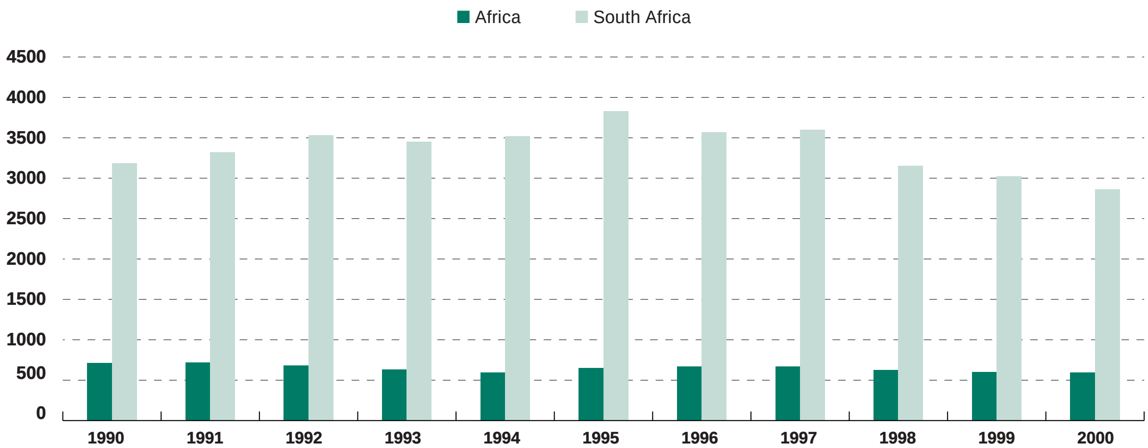
Source: Authors' estimates and predictions based on South Africa Reserve Bank data.

Recent Economic Developments

The South African economy has slowly recovered through 1999 and 2000 after the contagion effect of the Asian crisis and the turmoil in the financial markets that hit the country during 1997 and 1998. Growth performance of 2000 can be explained by the steady increases of both the manufacturing and services sectors. The ongoing depreciation of the rand has boosted the manufacturing output that grew by 3.6 per cent in 2000. The tertiary sector expanded throughout 2000 buoyed by continuous expansion of financial intermediation and transport and communications sectors and by the sustained growth of retail trade after three years of moderate growth.

Output growth in the secondary sectors firmed in 2000. Manufacturing in particular has recovered thanks to net improvement in demand conditions, both at the domestic level and in terms of export demand. As a result of continuous rand depreciation in the last decade, the export oriented industries — mainly chemicals, basic metals and transport equipment — have gained momentum and in ten years their share in the manufacturing sector has risen by around 10 per cent.

Figure 2 - GDP Per Capita in South Africa and in Africa ($ current)



Source: Authors' estimates based on IMF data.

However, with an average rate of growth of 2 per cent in the period 1995-2000 the manufacturing sector has not performed as expected. Structural issues such as the regulatory framework in the labour and product market have hampered the sector's growth. Moreover, skill shortages — fuelled by the brain drain that has hit the country in recent years — has constrained the expansion of the industrial sector.

The tertiary sectors continued to expand significantly all through 2000. The buoyancy of the commercial sector, helped by a boost in household disposable income, made a solid contribution to such growth. This trend was further enhanced by the dynamism in tourist activities and the expansion of telecommunications, the cellular telephone and Internet networks in particular. Services have been the major impetus of the modest growth that has taken place in the South African economy in the last five years. Average growth has been equal to 3.4 per cent and sub-sectors such as transport and communications as well as financial intermediation have expanded at a higher pace. Prospects for 2002 are encouraging since the government decision to allow a second fixed line operator for 2002 in the telecoms sector could further expand the dynamism of the sector.

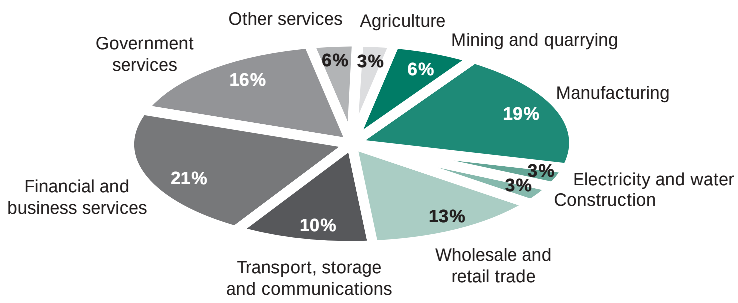
Real output in the agriculture sector increased markedly during 2000 thanks both to a prolific (even though late) harvest of the maize crop, which amounted to one-third more than the previous year (10.9 million tons instead of 7.9), and to solid progress in livestock and horticultural farming. Wheat production contributed as well with a volume increase of 24 per

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**18.1**	**15.8**	**14.8**	**15.3**	**17.0**	**18.5**
Public	4.3	5.3	4.6	4.1	5.2	6.0
Private	13.8	10.4	10.3	11.2	11.8	12.5
Consumption	**81.0**	**83.1**	**82.4**	**81.8**	**80.2**	**79.1**
Public	18.4	19.8	19.2	18.3	17.1	16.3
Private	62.6	63.2	63.2	63.5	63.1	62.8
External sector	**0.9**	**1.2**	**2.7**	**3.0**	**2.7**	**2.4**
Exports	23.0	25.9	25.9	29.1	28.1	27.2
Imports	-22.1	-24.7	-23.1	-26.1	-25.4	-24.7

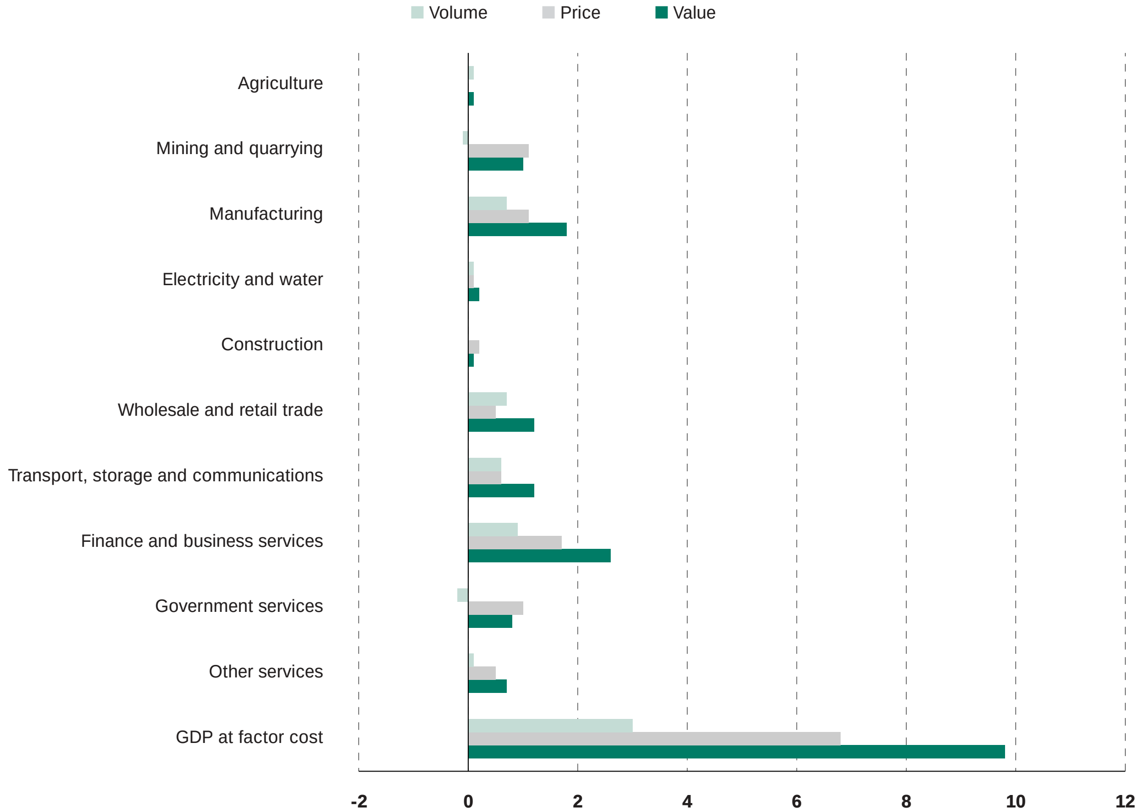
Source: Authors' estimates and predictions based on South Africa Reserve Bank data.

Figure 3 - GDP by Sector in 2000



Source: Authors' estimates based on South Africa Reserve Bank data.

Figure 4 - Sectoral Contribution to GDP Growth in 2000



Source: Authors' estimates based on South Africa Reserve Bank data.

cent with respect to 1999. The shrinking of the mining output (-1.8 per cent in 2000) did not offset this good performance in agriculture. Gold production fell the most, counter-balancing increases in other sectors — notably platinum — of the mining industry.

After experiencing an almost flat trend in 1999, real gross domestic expenditure picked up again in 2000, taking over from exports to lead growth. All components of domestic expenditure contributed to this higher path.

Gross capital formation displayed a growth rate of 2.7 per cent during 2000 after a steep decline due to the 1998 slowdown. Both private and public sectors contributed to this moderate upsurge of investment. Nevertheless — compared to other emerging economies — South Africa is still characterised by relatively low levels of investment. Indeed, during the second half of the 1990s, investment languished at around 17 per cent of GDP. Public sector investment, in particular, has not grown at a high pace in the last five years despite government emphasis on the need for public investment as a boost to economic growth. Since 1995, the growth of general government investment has been on average 1.5 per cent and in 2000 it has been only 0.1 per cent (-7.4 if parastatals are included). The trend is again positive in 2001 and 2002, with public investment (including parastatals) growing at a higher pace in 2001 and 2002.

Private consumption continued to expand, recovering further from the 1998 downturn and reflecting the optimistic attitude of consumers. Even if all major categories contributed to this higher path, durable and semi-durable goods have been the liveliest components. The expansion in household spending was largely grounded by the tax cuts and the decline in bank lending rates that occurred all along 1999. As a consequence, debt-servicing cost of households has diminished and real disposable income has risen by 3.5 per cent in 2000 compared with 0.5 per cent in 1999. Real government consumption continues its negative trend started in 1998, reflecting the successful government policy to restrain spending and reduce the budget deficit. The reduction of government spending is nevertheless achieved through a decrease of spending for goods and non-labour services. Therefore, a proportional increase of compensation for employees has occurred.

Macroeconomic Policy

Fiscal and Monetary Policies

The macroeconomic policy of the South African government was first defined in the Growth, Employment And Redistribution (GEAR) strategy that was adopted in June 1996. One of the major objectives of GEAR was to enhance the credibility of the South African government by signalling to the international investor community South Africa's commitment to a stable macro policy. Moreover, the fiscal policy was designed to solve the employment crisis through significant growth increases. Social and physical infrastructure was considered as a main pillar for boosting economic growth and employment. An integrated policy aiming at containing real increases in public salaries to 1 per cent per annum and increasing public capital expenditure by 7.4 per annum was envisaged in order to fund substantial housing, land reform and infrastructural development programmes. In contrast with the GEAR proposals, the government met its targets on fiscal deficit keeping a planned level of expenditure with increasing spending on the government wage bill at the expense of capital expenditure. Despite the fact that GEAR has been successful on fiscal balance target and inflation control, growth has remained low while unemployment has continued to grow.

This has led to a major re-evaluation of government growth strategy. In February 2001, President Thabo Mbeki argued in his state-of-the-nation address that major emphasis will be on creating the right environment to expand the economy. Over the next three years, government spending is presumed to grow in real terms. In particular, a R7.8 billion ($1.1 billion at the average exchange rate of 7 Rand per $) spending is expected on investment in infrastructure. Additional R16 billion ($2.3 billion) will be spent in favour of people suffering from HIV/AIDS. R4 billion ($576 million) will be devoted to improving efficiency of the criminal justice system. On revenues, a tax cut of R8.3 billion ($1.2 billion) is scheduled through a restructuring of personal income taxes affecting particularly the middle income class. Nevertheless, the government has remained committed to fiscal discipline. Indeed, privatisation receipts — expected at R18 billion ($2.6 billion) for 2001-02 — will be used to pay long-term domestic bond debt. Beside these budget measures, the government has renewed focus on microeconomic and structural reforms as a major tool to increase

Table 2 - Public Finances[a] (percentage of GDP)

	1995/96	1998/99	1999/00	2000/01	2001/02(e)	2002/03(p)
Total revenue and grants[b]	**22.5**	**25.1**	**25.9**	**25.1**	**25.0**	**24.9**
Tax revenue	22.0	24.5	24.6	24.5	24.3	24.3
Total expenditure and net lending[b]	**27.5**	**27.6**	**27.7**	**27.1**		
Current expenditure	25.4	26.8	26.5	26.1		
Excluding interest	*20.1*	*21.1*	*21.1*	*21.0*	*21.3*	*21.7*
Wages and salaries	10.3	11.0	10.6	9.9[c]	9.9	9.9
Interest on public debt	5.2	5.7	5.4	5.2		
Capital expenditure	2.4	1.2	1.3	1.0	1.3	1.5
Primary balance	**0.2**	**3.2**	**3.7**	**3.1**	**2.4**	**1.7**
Overall balance	**-5.0**	**-2.5**	**-1.8**	**-2.0**		

a. Fiscal year begins 1 April.
b. Only major items are reported.
c. OECD estimates.
Source: Authors' estimates and predictions based on South Africa Reserve Bank and IMF data.

competitiveness and a managed liberalisation for the energy, transport and telecommunications sectors is expected. However, it should be stressed that a potential problem arises with the strategy proposed by the government: much of the spending — R16 billion ($2.3 billion) for social deliveries and investment on infrastructure — will be channelled through provincial and municipal governments that have not been efficient and accountable so far.

The primary surplus may decline in 2001 and 2002 as a result of increased capital expenditure. Such an increase is not compensated on the revenue side owing to the lack of dynamism of domestic demand.

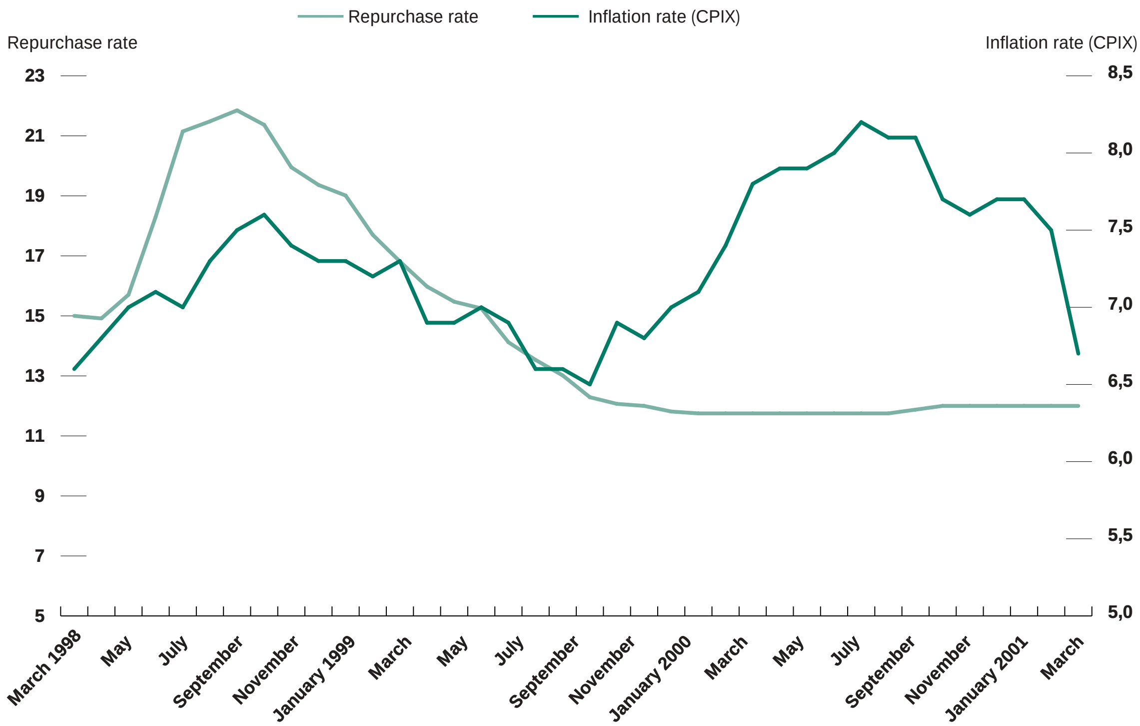
In South Africa, the exchange rate is flexible and therefore cannot be used by the national authorities for inflation control purposes. Instead, the South African Reserve Bank has adopted inflation targeting as its general monetary policy objective and uses interventions on the monetary market (i.e. indirect pressures on interest rates) to restrain inflationary trends.

South Africa is slowly emerging from a high interest rate period. Only improved market conditions developing since the fourth quarter of 1998 have allowed the authorities to relax significantly their tight monetary policy through 1999. However, South African yields, money aggregates and interest rates remain highly sensitive to international circumstances. Events in sub-Saharan Africa, variations in crude oil prices and evolution of the rand against the US dollar are all likely to affect the general perception, which prompts the Reserve Bank to remain cautious. Thus, after a year of constant decrease in interest rates in 1999, the Reserve Bank's Monetary Policy Committee decided to exert pressure on the money market to keep interest rates stable. In October 2000, the Committee even chose to invert the trend and allowed a rise in the repurchase rate from 11.75 to 12 per cent. The policy was aimed at restraining potential effects of the depreciation of the rand and the impact of increasing oil prices that had already generated a new acceleration in the rise of M3.

After the lowest growth rate of CPIX in 30 years displayed in 1999 (5.2 per cent), the steep rise in the price of imported crude oil and the depreciation of the rand that developed through 1999 and 2000 reactivated fear of potential inflation. Inflation has nevertheless been contained to 9.2 per cent largely as a result of the tight monetary policy carried out by the South African Reserve Bank in 2000. Indeed, according to the South Africa Reserve Bank, taking aside the rise in food and oil prices, the annual rate of inflation for the past three years would have been unchanged at 4.9 per cent. This trend should be further enhanced by the net decrease in crude oil prices from December 2000. In 2001 and 2002, inflation should slow down to a pace of 5.4 per cent.

Considering the real effective exchange rate (REER) as calculated by the Reserve Bank, it has been observed

Figure 5 - Interest and Inflation Rates



Source: South Africa Reserve Bank.

that the REER has — since the mid-1980s — been declining, especially after 1992, implying that competitiveness has been enhanced. This decline is expected to slow down in 2002. Since export performance generally moves in line with the REER, this decline had translated into improved competitiveness and hence exports performance. For 2000 the relationship between REER and exports has been confirmed since a real effective depreciation of 3 per cent has been associated with export increases in real terms.

External Position

South Africa is a relatively open economy and its trade relationships are characterised by the high concentration of trade with high-income countries (the United Kingdom, Germany, Italy, the United States and Japan). Only Zimbabwe among low-income economies has a sizeable trade relationship — for exports only though — with South Africa. Recently South Africa has been diversifying its trade establishing relationships with new markets (such as China). Export earnings are still dominated by gold, notwithstanding the declining trend of its international price and the internal shrinking of production. Indeed, gold accounted for 15 per cent of total goods exports in 2000.

Although trade policy in recent years has been largely characterised by a gradual liberalisation process, there is some scope for faster reduction of tariffs in some areas. South Africa began liberalising its economy in the early 1990s and in the context of the multilateral liberalisation the country made a tariff offer phased over five years that took effect in January 1995. It consisted mainly of: *a)* a reduction in the number of tariff lines; *b)* a conversion of all quantitative restrictions on agricultural imports to bound ad valorem rates; *c)* a simplification of the tariff regime for industrial products; *d)* the liberalisation of the sensitive industries within eight years. Moreover, South Africa has committed itself to a reduction of its import-weighted average tariffs in manufacturing of five percentage points. Average tariffs fell from 28 per cent to 10 per cent, the

Table 3 - Current Account (percentage of GDP)	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	1.8	1.4	3.2	3.4	3.2	2.9
Exports of goods (f.o.b.)	19.9	21.9	22.0	25.0	24.2	23.4
Imports of goods (f.o.b.)	-18.1	-20.5	-18.8	-21.6	-21.1	-20.5
Services	-0.9	-0.3	-0.4	-0.4		
Factor income	-1.9	-2.4	-2.5	-2.6		
Current transfers	-0.4	-0.6	-0.7	-0.7		
Current account balance	**-1.5**	**-1.8**	**-0.4**	**-0.3**		

Source: Authors' estimates and predictions based on South Africa Reserve Bank data.

average manufacturing tariff dropped from 30 per cent to 16 per cent in the 1990s. Despite these developments, South Africa's tariff system still remains cumbersome with over 7 000 tariff lines. Tariff peaks still exist for a number of broad categories of commodities such as processed foods, vehicles and components, rubber products and clothing and textiles.

Beside a trade policy oriented at simplifying and enhancing multilateral trade, South Africa has strengthened its role in regional and bilateral agreements motivated not only by economic considerations but by traditional, political and cultural links with partner countries. So far, the main trade agreements involve the EU and southern African countries (SADC and SACU). The EU-SA agreement was enforced in January 2000, setting a principle of asymmetry in bilateral liberalisation, with the EU liberalising at a faster pace (three years compared to 12 years for South Africa) and more broadly in terms of coverage (95 per cent of all imports with respect of 86 per cent for SA). In 1994 South Africa joined the SADC, which was officially relaunched on 1 September 2000. The agreement covers all SADC members except Angola, Democratic Republic of Congo and Seychelles. South Africa offered its partners asymmetric liberalisation: according to the Trade and Industry Minister, by 2005, 99 per cent of tariff lines should qualify for duty-free access.

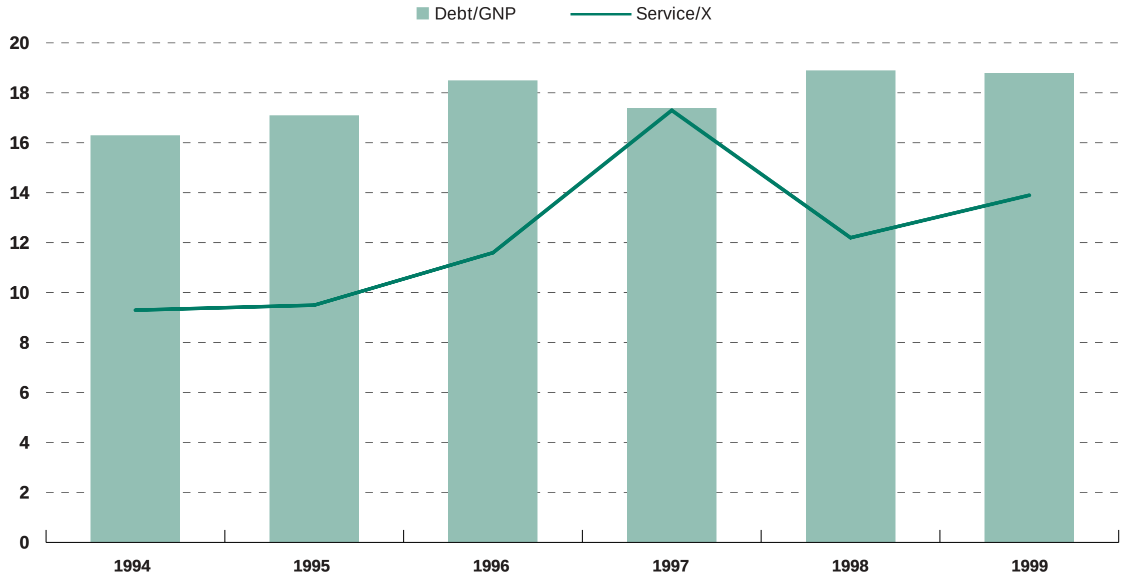
The external position of South Africa has been largely influenced by historical developments. Before 1994, the balance of payments was managed mainly with the objective of compensating for the weakness of financial inflows due to a hostile international environment. As a result, South Africa was led to produce trade surpluses in order to generate foreign currency. After 1994, the turnaround of capital flows changed dramatically the need for a positive current account. The positive trade balance consequently narrowed and the service, income and current account transfer balance increased its negative impact on the current account.

Since 1999, thanks to the rand depreciation, the trade balance has improved to an average 3.2 per cent of GDP, with both trade volumes increasing markedly. In 2000, the 9.1 per cent increase in exports reflected the good performance of the agriculture sector coupled with the output growth of the secondary sector. Platinum exports within the mining sector have been boosted by strong price increases and car manufacturers have particularly benefited from the rise of global demand in the latter part of the year. Imports increased by 10.1 per cent in response to stronger growth and rising international oil prices. Consequently, the trade balance has remained roughly stable through 1999 and 2000 (at 3.2 and 3.4 per cent of GDP) and should be comparable in 2001 and 2002.

The capital flows were nearly in balance in 2000, amounting to a $1.4 billion deficit. This is rather different from the capital flows of the previous years where large portfolio inflows dominated the balance on financial account generating large capital surpluses.

Foreign direct investment in South Africa represents a small share of the financial account and more importantly is less than 10 per cent of total gross investment. In 2000, both inflows and outflows have retrenched in volumes and the turnaround from net

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

outflows to inflows can be considered as an outcome of net assets' divestiture of South African companies abroad.

The portfolio investment flows in 2000 were dominated by a sharp contraction of inflows which passed from $12.1 billion to $1.7 billion. As a result in 2000 portfolio net flows were negative after a long period of portfolio inflows, a change in the attitudes by international investors towards risk-taking in South Africa.

Total foreign debt in 2000 totalled nearly $38 billion (29.6 per cent of GNP). Foreign currency denominated debt has slightly increased *vis-à-vis* rand-denominated share and in 1999 account for $24.1 billion.

Structural Issues

Issues of corporate governance and regulation have gained increasing prominence in policy discussions in South Africa today. The government has emphasised that a major area of focus is that of microeconomic reforms specifically creating more accountability in economic institutions as well as more competition in the economy. Specific attention is given to privatisation and deregulation of services and utilities, and to competition policy.

The South African financial sector is the most developed in sub-Saharan Africa. Considerable regulatory changes have taken place in South Africa's financial sector, particularly in opening up the sector to foreign investment. The banking system is facing increasing competition with international banks settling down locally (e.g. Citibank) in specific market segments. With gradual exchange rate liberalisation, domestic institutions are now allowed to invest up to 15 per cent of their balance sheet assets offshore. The Insider Trading Act came into force in January 1999 as the legal infrastructure dealing with insider trading. It was enforced by the Financial Services Board (FSB), which has the investigative power and access to surveillance information, as well as the right to pursue civil actions against suspected insider dealers.

Major developments have taken root in the stock market as well. The Johannesburg Securities Exchange (JSE) — the largest and the most sophisticated African equity market — has sharply increased its foreign participation since 1994. Consequently, non-residents own about 9 per cent of the market and account for 30 per cent of trading. Furthermore, electronic trading was introduced in March 1996.

In a document published at the end of August 2000 the government indicated its willingness to push ahead on privatisation. It is seen as both an essential source of income for government and a tool of competition policy aimed at improving productivity in the former state-owned enterprises (SOEs). The major SOEs are still today ESKOM (energy sector), TRANSNET (transport sector), TELKOM (telecommunications sector) and DENEL (defence industry) with each dominating its sector. They also comprise 91 per cent of estimated total state assets and 77 per cent of all employees in the top 30 SOEs. To date, none of these institutions has been privatised, nor has market structure in these sectors changed in any significant way. Some enterprises like Telkom and South African Airways have, however, opened up to minority equity stakes.

Privatisation should be implemented on a four-year basis according to the following patterns (given by the government blueprint): in 2001, transport companies should be under focus. In 2002, it will be the turn of telecommunications. The government has taken a decision to allow a second fixed line operator to enter the industry in May 2002 effectively constituting a duopoly. The positive spin-offs of a duopoly relative to the case of a monopoly will depend on the effectiveness of the regulator, the Independent Communications Authority of South Africa (ICASA). By the end of 2003, PORTNET — a TRANSNET subsidiary — which controls South African harbours and ports, will be partly sold. In May 2002, ESKOM's exclusivity agreement will end, and in 2004 the company will in turn be for sale. However, the pace of the privatisation programme will be influenced by two factors. The first is political opposition, specifically from the African National Council's (ANC's) key ally, the Congress of South African Trade Unions (COSATU). The second is the concern that government should ensure that it has sufficient regulatory capacity in the post-privatisation environment.

South Africa has made considerable progress in competition policy. Indeed the country has embraced an interventionist approach similar to that of the United States. It relies on the outlawing of three core practices: monopolisation, attempts to monopolise and conspiracies to monopolise as opposed to the European models based on restrictive practices and abuses of dominance. The legal framework is given by the Competition Act No. 89 of 1998, which came into effect on 1 September 1999. There are three institutional bodies established by the Act: the Competition Commission, the Competition Tribunal, and the Competition Appeal Court. This represents an important departure from the past where the government is now more accountable for rulings or decisions made.

Communications infrastructure, as the general economic and social structures in South Africa, has largely been inherited from apartheid and are therefore characterised by marked inequalities. Thus, although the South African transport infrastructure is certainly the best in Africa, its distribution is highly unequal across regions. On the one hand, international and inter-city connections are good; on the other, rural networks as well as links with former black homelands areas are largely insufficient. Telecommunications follow the same patterns, with 60 per cent of the white population having access to telephones compared with only 1 per cent of blacks.

In order to remedy such a situation, the government has undertaken a programme of Spatial Development Initiatives (SDIs) within GEAR. The programme consists of initiatives and industrial development zones that aim at improving the infrastructure and the institutional environment in order to attract local and international investors. By the end of June 2000, 12 SDIs had been listed by the Department of Trade and Industry (DTI). Most advanced was the Maputo Development Corridor, which comprised a toll road between Witbank and Maputo entirely financed by private funds.

Land reform is seen in South Africa as both a necessity and a serious potential risk for social cohesion.

South Africa has inherited an unequal agricultural system, with 67 000 white farmers owning 86 per cent of farmland and 12 million Africans living on the remaining 14 per cent (the homelands) in 1991. In 1994, the ANC aimed to transfer 30 per cent of farmland to black farmers by 1999 as one of its priorities. However, as a result of the market-led policy adopted by the government, the redistribution evolved far more slowly than expected. The government rejected the use of expropriation and relied on three pillars: redistribution (mainly reallocation of state-owned land and sales of indebted white farmers' land), land restitution (through land claims that had to be addressed before the end of 1998) and land tenure reform. Even though a significant number of projects have emerged since 1997, the target of 30 per cent set by ANC is far from being reached and only 1 per cent of white-owned land is believed to have changed hands.

Furthermore, the relations on farms deteriorated when the government introduced the Security of Tenure bill in order to guarantee the rights of farm workers. Many farmers reacted by replacing their workers with illegal foreign labourers, inducing a dramatic fall in registered farm workers from 1.4 million in 1994 to 600 000 in 1997.

Political and Social Context

The local government elections on 5 December 2000 suggest that democracy has taken root in South Africa. The African National Congress (ANC) won 62 per cent of the vote but the Democratic Alliance (DA) still managed to secure 22.5 per cent of the polls. However it is highly unlikely that the DA will ever become a serious threat to the ANC given the whites-only orientation of this party. The danger is more likely to come from within the coalition with tensions intensifying between the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP), or from outside with social and political conflict spilling over from Zimbabwe.

Although South Africa enjoys an increasing respectability at the international level, the crisis in Zimbabwe has had a bad effect on its image for two reasons. First it has driven the international community to picture the whole region as highly unstable. The economic consequences were serious, starting from damaged foreign investor confidence that did not help the already poor FDI record of the country. It also directly affected President Mbeki's reputation, as he seemed indecisive on whether to support his neighbour.

South Africa has inherited from apartheid a highly unequal economic and social system that threatens social cohesion. Both education and health profiles reflect the impact of segregation. While the white population displays life expectancy and education statistics close to those recorded in OECD countries, the African population is characterised by both poor records on education and high mortality rates. Simultaneously, South Africa exhibits one of the most unequal income distributions in the world. According to the World Development Report 2000, South Africa displayed a Gini index of 59.3 in 1994, which put it in line with Brazil, Central African Republic, Guatemala, Namibia and Sierra Leone at the forefront in terms of inequalities.

In 1994, the government chose to address the aftermath of segregation through the Reconstruction and Development Programme. The results were however disappointing, or at least slow to reveal themselves. It generated discontent in the population and threatened the initial aura brought by the ANC's accession to power. As a result of segregation and discontent, South Africa has faced intensification in crime and reached one of the highest murder rates in the World (WHO). It has also recently experienced a massive emigration of skilled workers, impeding economic activity in the long run. Both characteristics constitute major deterrents to potential investors. They also have serious consequences on the labour market.

Despite economic recovery, employment growth remains the Achilles heel of South Africa. According to Statistics South Africa, employment in the formal private non-agricultural sector fell by 10.5 per cent between 1995 and 1999 while in the public sector it shrank by a further 1.9 per cent. Both low growth and structural problems account for this pattern. South Africa has more of a skilled-labour supply problem. There are jobs in the economy that cannot be filled by the current unemployed because of lack of skills.

Between 1995 and 1998 most of the labour laws were rewritten in order to correct the segregation orientation. They were designed as such to stimulate employment as well as to redress obvious anomalies on the labour market. However, job conditions have remained highly different across race, gender and regions in South Africa. The changes in the sectoral composition of the South African economy, with the decrease in primary and secondary sectors and the stark rise of tertiary and more knowledge-intensive activities, have emphasised the skills shortage which was fuelled by segregation. As a consequence, the capital-to-labour ratio — particularly in the secondary sector — has increased, leading to both falls in employment levels and increases in labour productivity.

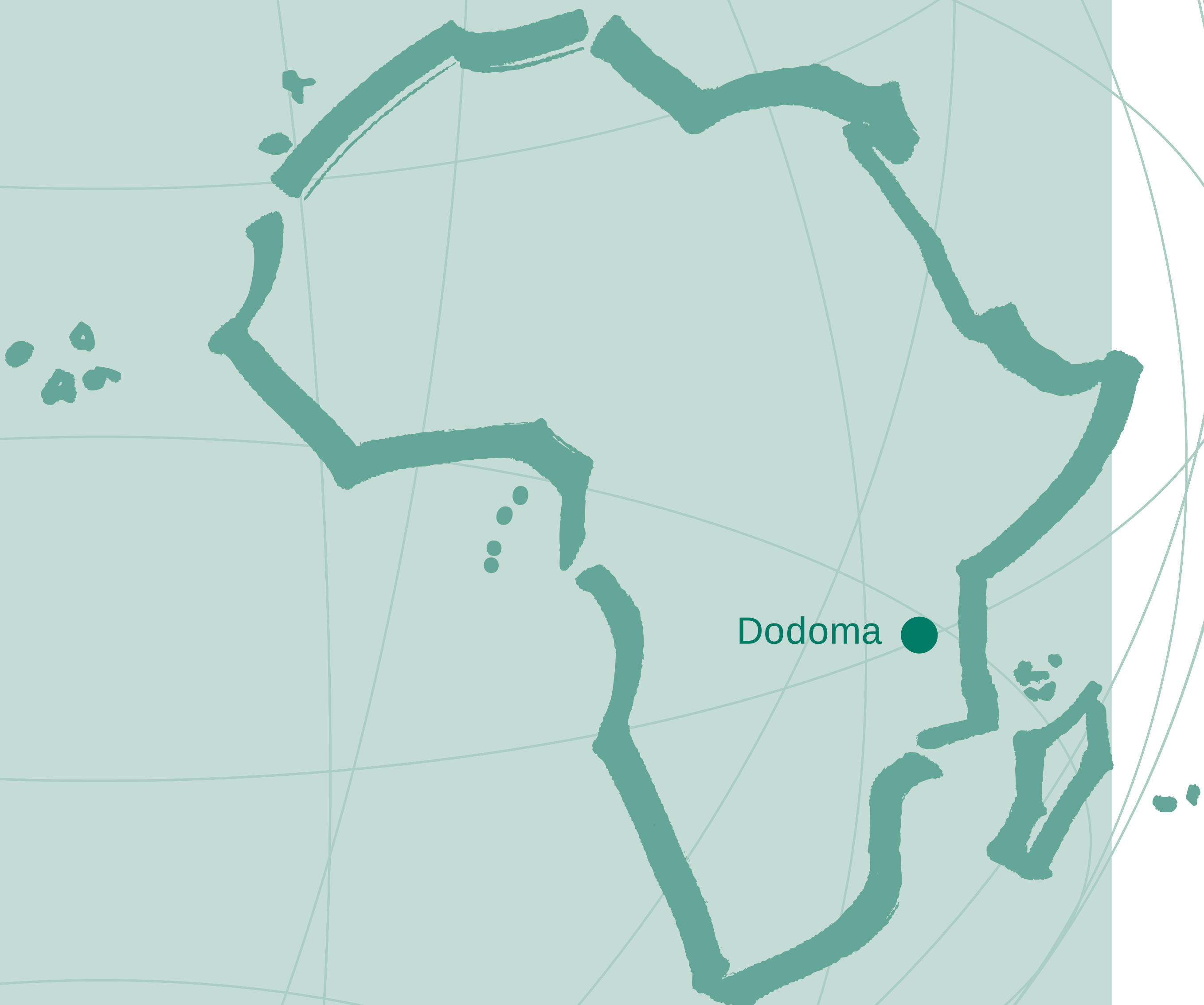
Moreover the predictions concerning employment are rather bleak. South Africa displays a strikingly low ratio of employed to total population (21 per cent), reflecting both a high level of unemployment and a skewed age distribution towards the young. A key challenge is, how can government stimulate job creation for unskilled labour? The one area that requires attention is that of labour regulation, specifically simplifying procedures around the cost of hiring and firing. Positive development have been the nominal wage restraint and declining real unit labour costs occurred in recent years.

In the last ten years South Africa has also been seriously struck by a new worry, which has put the economy and the society under serious strains: HIV/AIDS. According to UNAIDS, South Africa displayed in 2000 one of the largest infected populations in the world (after Botswana, Swaziland and Zimbabwe) with almost 20 per cent of adults (defined as 15-49 years olds) carrying the disease. Unfortunately, the South African economic structure is also particularly conducive to rapid contagion with many workers engaging in seasonal work (agriculture, mining) or in the transport sector, implying long-distance commuting.

The disease is a threat for social cohesion and economic performance for several reasons. Aside from the human aspects, AIDS entails dramatic demographic and labour market costs. Between 2000 and 2005, life expectancy will decrease from 65.8 years to 47.4 years as a result of HIV/AIDS. The loss in terms of human capital will be equally serious, especially with skilled workers being the most affected by the virus.

The profile of education in South Africa is highly influenced by the legacy of apartheid. The school system, divided along racial lines during the apartheid regime, has produced a society where 24 per cent of African adults (over 20 years) have had no access to schooling compared to 1.4 per cent of the white population. As a result 7.9 million adults — 29 per cent of the adult population — is functionally illiterate. World Bank data suggest that, with primary and secondary gross enrolment ratios of 131 per cent and 94 per cent respectively, school attainment is remarkable compared to most African countries. Since 1994 education policy has been at the top of the government agenda and in 2000 it was the largest spending category with 21.5 per cent of total expenditure. A national policy bill was published in 1995 setting out a unitary education system. So far the achievements are mixed: according to a joint 2000 UNESCO-UNICEF survey, nine-year-old children in South Africa have among the worst literacy and numeracy skills in Africa. Alongside the rather bleak picture of the primary and secondary school system due to its poor quality, tertiary education — with 36 universities and *techikons* — is the best developed on the African continent.

Tanzania



key figures

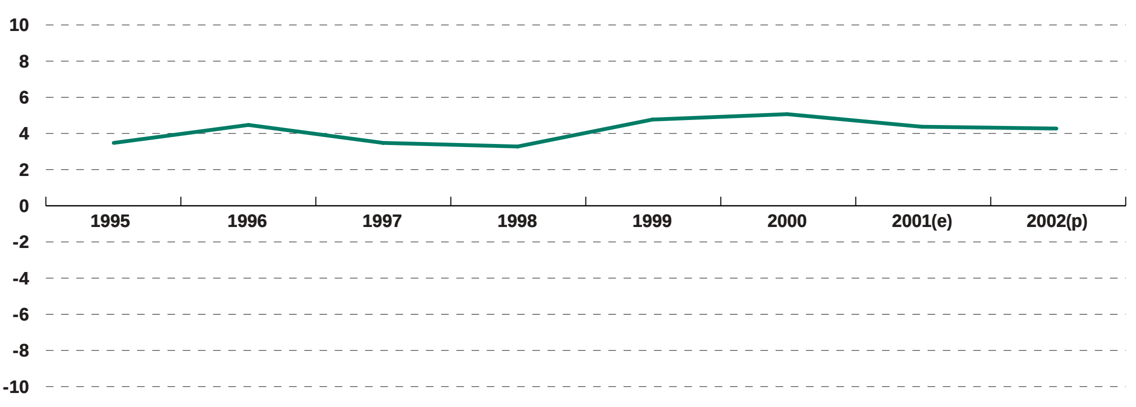
- Land area, thousands of km²: 884
- Population, thousands (2000): 35 119
- GDP per capita, $ (2000): 258
- Life expectancy (1995-2000): 51.1
- Illiteracy rate (2001): 23.2

Tanzania

TANZANIA'S PROGRESS IN ECONOMIC reforms has resulted in the restoration of macroeconomic stability. Improvements in the fiscal situation and prudent monetary policies have contributed to declining inflation, declining cost of borrowing and relatively stable foreign exchanges. However, the external position of the country remains weak owing to poor export performance. Economic growth has responded positively to the improving macroeconomic situation. In 2000 real GDP growth rose to 5.1 per cent. The outlook on growth is for moderation with real GDP growth estimated at 4.4 per cent in 2001, and projected at 4.3 per cent in 2002, as Tanzania seeks to consolidate its macroeconomic stability. Tanzania is one of the poorest countries in the world. The poverty situation is reflected in declining social indicators with Tanzanians having low life expectancy, compounded by HIV/AIDS, low primary school enrolment ratio and one of the lowest secondary school enrolment ratios in Africa. Tanzania's young democracy is functioning well. However, there are concerns with governance issues and corruption. Tanzania continues to make progress in financial sector reforms, privatisation and in other areas. Though the privatisation process has been slow, Tanzania enjoys some comparative advantages in the mining and tourism sectors that could attract international investors to boost the structural transformation process.

Tanzania enjoys some comparative advantages in the mining and tourism sectors that could attract international investors

Figure 1 - Real GDP Growth

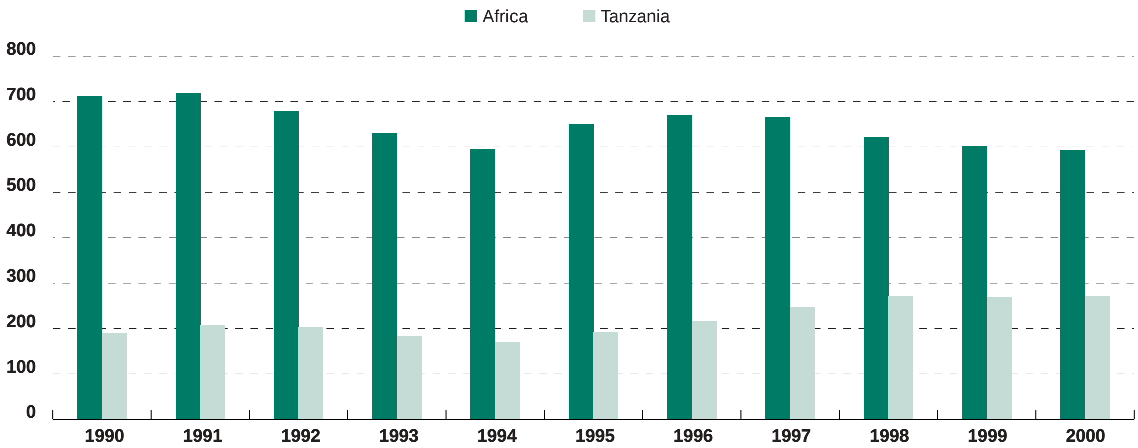


Source: Authors' estimates and predictions based on IMF data.

Recent Economic Developments

The growth performance of Tanzania has strengthened, although growth rates have fluctuated from year to year reflecting the vulnerability of the economy to external shocks. Real GDP growth recorded 5.1 per cent in 2000 compared with 4.8 per cent in 1999 and 3.3 per cent in 1998. The major factor behind the better growth performance is the improvement of weather conditions following the El Niño floods of 1998, which destroyed crops and damaged roads thereby disrupting internal movements of agricultural commodities as well as export shipments. Growth is estimated lower at 4.4 per cent in 2001 and is projected at 4.3 per cent in 2002, as Tanzania consolidates its macroeconomic stability.

Figure 2 - GDP Per Capita in Tanzania and in Africa (current $)

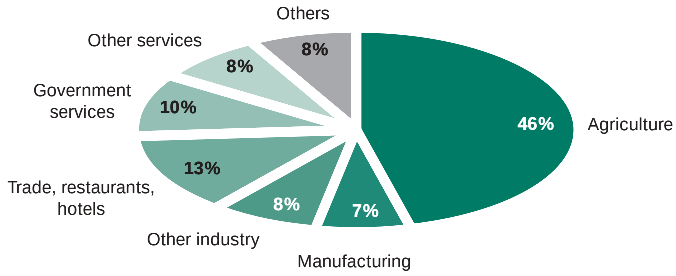


Source: Authors' estimates based on IMF data.

The structure of the Tanzanian economy has remained much the same in the recent past with agriculture as the mainstay of the economy, providing livelihood for over 80 per cent of the population and accounting for at least 50 per cent of export earnings. In 2000, the agricultural sector contributed about 48.1 per cent of GDP, with the services sector and the industrial sector accounting for 36 per cent and 15.9 per cent respectively. In 2000, growth in the agricultural sector bucked the overall GDP growth trend by recording lower growth of 3 per cent compared with 4.6 per cent in 1999. All the major sub-sectors recorded lower growth rates in 2000. The output of crops grew by 3 per cent compared with 4.6 per cent in 1999. The decline in the rate of growth in the output of crops was due to a decline in cash crop production. Food crops output improved with increased production of the main staples — maize, rice, wheat and pulses: maize output increased from 2.1 million tons in 1999 to 2.24 million tons in 2000; rice output increased from 865 000 tons to 990 000 tons; while the output of wheat rose from 69 000 tons to 120 000 tons over the same period. However, the improvement in food production was not nation-wide. In the central and north-eastern parts of the country there was drought, leading to severe food shortages. The World Food Programme estimated that over one million Tanzanians were affected. The smuggling of grain to Kenya in search of higher prices worsened the situation. However, the biggest problem was the inability of the authorities to transport maize within Tanzania from areas of surfeit to areas of deficit. In cash crop production, cotton, tea, cashew nuts and tobacco recorded increased outputs, while sisal and coffee recorded output declines: the production of coffee decreased from 58 000 tons in 1999 to 48 000 tons in 2000. The outlook for coffee production remains bleak with the main problem being the old age of most of the coffee trees in Tanzania due to long-standing neglect and lack of major replanting. The livestock sub-sector did not fare well in 2000. Tanzania remains one of Africa's largest cattle producers, but epidemics of lung disease and rinderpest threatened stock levels in the mid-1990s. The national herd has not fully recovered, being estimated at 13.8 million in 2000, down from 14.0 million in 1999.

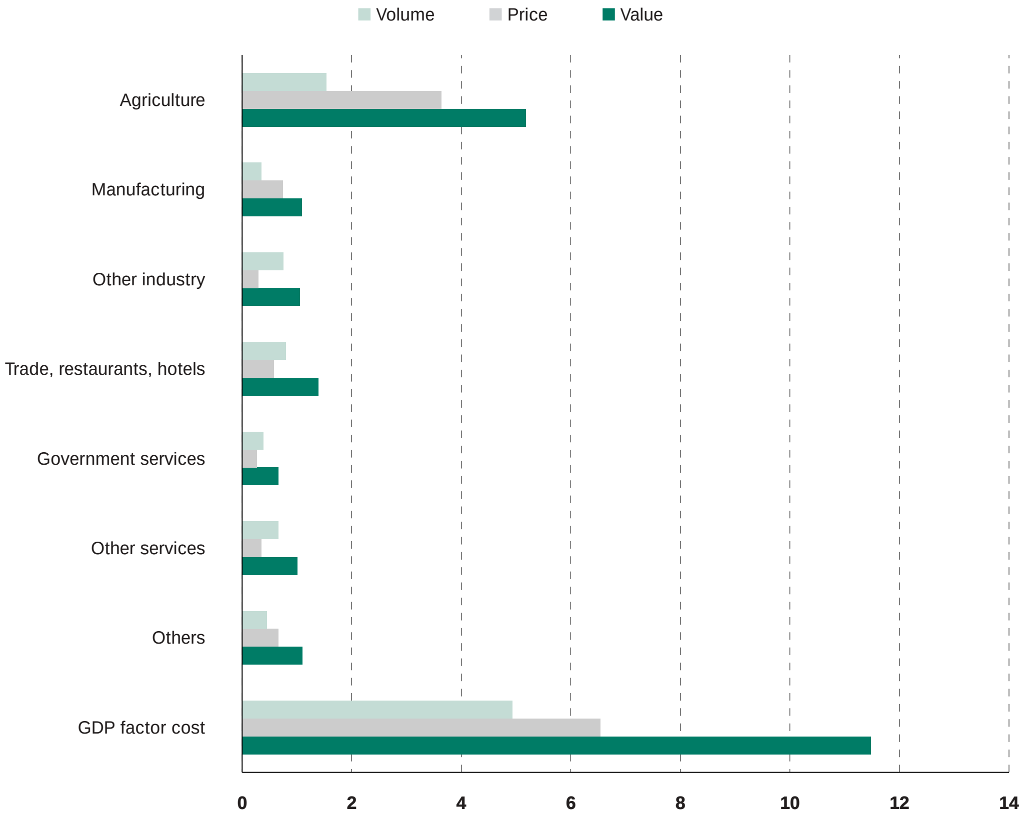
Growth in the industrial sector was stronger in 2000 at 6.7 per cent compared with 5.5 per cent in 1999. All the industrial sub-sectors shared in the higher growth, especially mining which saw strong recoveries in diamonds from 235 carats in 1999 to 354.4 carats in 2000, as well as in gold from 4 767 kg in 1999 to 15 060 kg in 2000 as the Ashanti Goldfields (T) Ltd commenced gold-mining operations in the country. Manufacturing output increased by 4.8 per cent in 2000 compared with 3.6 per cent in 1999, with the growth coming from food and beverage industries while output from other industries such as chemicals fell.

Figure 3 - GDP by Sector in 1999/2000



Source: Authors' estimates based on domestic authorities' data.

Figure 4 - Sectoral Contribution to GDP Growth, 1999/2000



Source: Authors' estimates based on domestic authorities' data.

The services sector grew by 6.4 per cent in 2000 compared with 1.8 per cent in 1999. The gains were in financial and business services while other sub-sectors including hotels and restaurants, transport and communications were flat on their 1999 levels.

The composition of demand is characterised by two striking features: first, the growth performance is characterised by high consumption, which inevitably implies low domestic savings and a high dependence on foreign savings; second, the public sector seemed

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**19.8**	**16.5**	**14.8**	**15.5**	**15.0**	**14.4**
Public	2.8	3.4	2.7	2.6	2.6	2.6
Private	16.9	13.1	12.0	13.0	12.5	11.8
Consumption	**96.7**	**98.1**	**96.7**	**95.0**	**97.2**	**98.3**
Public	15.3	11.6	8.7	9.5	9.4	9.1
Private	81.4	86.5	88.0	85.5	87.8	89.1
External sector	**-16.5**	**-14.6**	**-11.5**	**-10.5**	**-12.2**	**-12.7**
Exports	20.6	14.9	13.8	14.1	14.2	13.5
Imports	-37.1	-29.4	-25.3	-24.6	-26.4	-26.2

Source: Authors' estimates and predictions based on domestic authorities' data.

to have taken a back seat with respect to domestic investment. The situation appeared to reflect Tanzania's break with its socialist past where the public sector played the lead role in economic production. The outlook on the structure of the demand composition of GDP is stability with similar levels of consumption and investment expected in 2001 and 2002.

Macroeconomic Policy

Fiscal and Monetary Policies

Tanzania's fiscal performance has improved significantly since the country adopted the cash budget system, matching expenditures with available resources, in 1995/96. Rigorous implementation of the cash budget system, while at the same time implementing revenue-enhancing measures, helped to restore fiscal discipline within two years, which was subsequently sustained.

On the revenue side, introduction of new policies broadened the tax base, streamlined the tax system and strengthened tax administration. At June 2000, a number of tax reforms had been implemented including the operationalisation of the Tax Appeals Court, the introduction of VAT, and the introduction of Tax Identification Numbers (TIN). The fiscal consolidation efforts have been successful in maintaining fiscal stability. Tanzania has enjoyed a significant level of foreign grants. In 1999/2000, the level of grants increased to 4.5 per cent of GDP compared with 4.0 per cent of GDP in 1998/99. This increase in grants largely explained the increase in total revenues from 14 per cent of GDP in 1998/99 to 15.3 per cent of GDP in 1999/2000 as tax revenue fell in 1999/2000.

Total expenditure also rose from 15.2 per cent of GDP in 1998/99 to 17 per cent of GDP in 1999/2000. However, wages and salaries fell in 1999/2000 as the government continued with its civil service reforms, which have seen the size of the civil service reduced from 355 000 in 1992/93 to 260 000 at the end of 1999/2000. Also, the wage bill gained from the strengthening of its control through the establishment of a centralised personnel database and a computerised pay roll system. At the same time, capital expenditure rose significantly in 1999/2000, as the government took advantage of the increase in grants to increase capital spending in the key social services of education and health. These expenditures led to the primary balance falling to 0.3 per cent of GDP in 1999/2000.

In 1999/2000 the Tanzanian government continued its policy of not borrowing from the banking system to finance the budget deficit, relying instead on foreign savings. The outlook on the government fiscal operations is for stability in 2000/01 and 2001/02. The primary deficit is expected to remain modest at around 0.3 per cent of GDP in 2000/01 and 0.5 per cent in 2001/02 as Tanzania is expected to keep faith with its cash budget system and continue to enjoy the support of international donors.

Table 2 - Public Finances[a] (percentage of GDP)	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Total revenue and grants[b]	**14.7**	**14.2**	**14.0**	**15.3**	**15.3**	**15.2**
Tax revenue	11.3	10.9	10.1	9.9	10.1	10.3
Total expenditure and net lending[b]	**16.5**	**16.4**	**15.2**	**17.0**		
Current expenditure	15.3	12.9	12.9	11.7		
Excluding interest	*11.9*	*8.5*	*9.6*	*9.9*	*9.7*	*9.5*
Wages and salaries	4.3	5.0	4.3	3.9	3.8	3.7
Interest on public debt	3.4	4.4	3.3	1.9		
Capital expenditure	1.2	3.6	2.2	5.2	5.2	5.2
Primary balance	**1.6**	**2.1**	**2.2**	**0.3**	**0.3**	**0.5**
Overall balance	**-1.8**	**-2.3**	**-1.1**	**-1.6**		

a. Fiscal year begins 1 July.
b. Only major items are reported.
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Tanzania's monetary policy has been geared towards reducing inflation to single-digit figures. This objective required the maintenance of tight monetary stance by the Bank of Tanzania (BOT). In 2000, broad money (M3) supply decelerated from 18.6 per cent in 1999 to 14.8 per cent. The fall in the growth of money supply reflected mainly the decline in the government's borrowing from the banking system. The tight monetary policies of the Bank of Tanzania contributed to declines in inflation and in the cost of borrowing.

The rate of inflation remained stable in 2000 at 6.2 per cent from a level of 6.3 per cent in 1999. A major contributory factor behind the stability in inflation was the improvement in food supply arising from the good harvests in the country. The rate of inflation is expected to follow a downward trend as economic activity slows in 2001 and 2002. The average rate of inflation is estimated at 4.8 per cent in 2001 and is projected to fall to 4.6 per cent in 2002. The cost of credit also continued on a downward trend. The benchmark rate on the 91-day Treasury bill fell from 15 per cent at end-1999 to 4.5 per cent at end-2000 and had fallen to 4.2 per cent by June 2001. Commercial banks' interest rates also came down accordingly. However, the spread between the deposit and lending rates remained considerably large pointing to the limited competition and structural rigidities that existed in the banking system.

The foreign exchange market in Tanzania is market-determined with the BOT intervening in the market only to smooth large seasonal fluctuations. In 2000, in the absence of signs of a worsening of underlying inflationary pressure, monetary policy focused on avoiding a real appreciation of the Tanzanian shilling. The shilling remained stable depreciating in nominal terms by 7.5 per cent in 2000 to follow the same rate of depreciation in 1999.

External Position

Tanzania's trade policy is geared towards liberalisation and the country continues to implement trade reforms to enhance domestic production and the external sector. Recent reforms have been pursued within the framework of the Southern African Development Community (SADC) trade protocols and the East African Community Treaty. In 1999/2000, the government reduced the maximum tariff rate from 30 per cent to 25 per cent to yield a trade weighted average import tariff of 15 per cent. The import tax structure was also rationalised, with the rates based on the degree of processing of imports, with the lowest rate applicable to raw materials and investment goods. Tanzania continues to revise its trade regimes. The 2000/01 budget abolished excise duty on 46 items (that is, all items except cigarettes, alcoholic beverages, soft drinks, refined petroleum products, and motor vehicles with engine capacity above 2000cc) and harmonised the levels of withholding tax at 10 per cent on dividends and at 15 per cent on interest income.

Table 3 - Current Account (percentage of GDP)

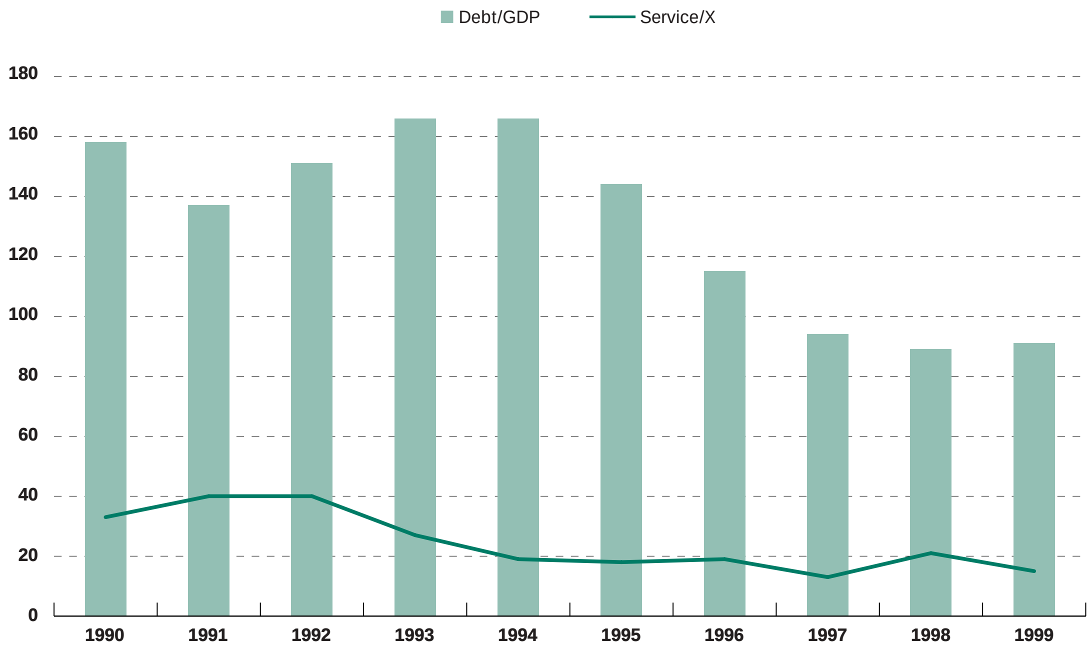
	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	-12.6	-9.8	-10.5	-10.5	-11.1	-11.2
Exports of goods (f.o.b.)	11.9	8.1	6.0	6.6	6.2	6.0
Imports of goods (f.o.b.)	-24.5	-18.0	-16.5	-17.1	-17.3	-17.1
Services	-3.9	-4.4	-0.9	-0.4		
Factor income	-2.5	-1.6	-0.9	-0.4		
Current transfers	n.d.	n.d.	8.8	8.9		
Current account balance	**n.d.**	**n.d.**	**-3.5**	**-2.5**		

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

The trade performance of Tanzania has remained weak owing to poor export performance. In 2000, the trade deficit remained at 10.5 per cent of GDP, as exports recovered marginally but imports increased in the same proportion. Although there was a 2.8 per cent reduction in the value of traditional exports owing to decreases in the volume of exports of sisal tobacco, cashew nuts and cloves, these effects were offset by increased mining revenue especially gold. With regard to imports, there was a 5 per cent drop in imports of capital and intermediate goods in 2000, due to a sharp decline in importation of machinery for the mining sector. The current account deficit fell from 3.5 per cent of GDP in 1999 to 2.5 per cent of GDP in 2000 as a result of improvement in services and factor income. The outlook on the external payments position is stability as no major changes are foreseen. The trade deficit is estimated at 11.1 per cent of GDP in 2001 and is projected to increase marginally to 11.2 per cent of GDP in 2002 on account of a weakening in export performance.

The total external debt of Tanzania stood at \$7.97 billion at end-1999. The structure of the debt by creditor showed that 49 per cent was owed to multilateral institutions, 47 per cent to bilateral creditors,

Figure 5 - Stock of Total External Debt (percentage of GDP)



Source: World Bank (2001), *Global Development Finance.*

while debt to private creditors accounted for 4 per cent. Tanzania has remained current on its external debt obligations. Tanzania sought debt relief under the Paris Club Arrangement in 1997. As at mid-2001, Tanzania had signed bilateral agreements with nine of the Paris Club creditors under the 1997 Agreement, resulting in the cancellation of $197.3 million and the re-scheduling of $584.5 million debt. In addition, Tanzania had obtained debt relief from the Paris Club creditors in April 2000 under the Enhanced Highly Indebted Poor Countries (HIPC) initiative. Available information indicates that Tanzania had signed three bilateral agreements, another four are ready to be signed, and negotiations with the remaining five creditors have started on the April 2000 Agreement.

Tanzania reached the decision point in April 2000 with regard to the enhanced HIPC initiatives, thus coinciding with debt relief from its Paris Club creditors. Total debt relief from all of Tanzania's creditors is worth more than $2 billion in NPV terms, which is equivalent to more than half of the NPV of the total debt outstanding after the full use of traditional debt relief mechanisms. The debt reduction operations translate into debt service relief over time of $3 billion, or about one-half of Tanzania's debt service obligations during fiscal years 2001-2003 and about one-third of Tanzania's debt service obligations thereafter. As part of its debt management strategy Tanzania uses the Debt Buyback Scheme (DBS). The first closing of the DBS took place on 6 June 2001 and creditors were paid with effect from 14 June 2001. In the first closing, debts worth $155.7 million (principal and interest) were retired utilising grant funds from the German government. The second closing was expected to take place at end-October 2001.

Structural Issues

Tanzania has broadened its structural reforms to accelerate growth and lay the foundations for reducing the deep and pervasive poverty of the country. New reforms seek to enhance the role of the private sector in the economy; strengthen competition in the financial sector; remove remaining market distortions; improve efficiency in the allocation and use of public resources; and strengthen public service delivery. The reform process has, however, been slow partly because of weak implementation capacity.

The restructuring and privatisation of state enterprises have progressed, though at a slower pace. At end-2000, about half of the 400 enterprises earmarked for divestiture from 1995 were removed from government control through liquidation, share sale or asset sale. However, the rather tough agenda of privatising large infrastructure public enterprises had just begun in 2001. The major pending privatisation in infrastructure are railways, power and remaining port services. Based on past experience, the other areas of privatisation with good prospective interest are the national microfinance bank, the National Insurance Company, cashew nut factories, and some ranches and state farms. The government has committed itself to selling all public enterprises by 2004. However, the obstacle to privatisation remains that most of the enterprises on offer are technically insolvent, which has made it difficult to attract buyers. Also, since mid-1999 concerns have been expressed that the East African Community (EAC) and the impending creation of the EAC free trade area would result in a legalised influx of manufactured goods from Kenya, thereby weakening the less developed Tanzanian manufacturing sector. This concern, it was feared, would deter buyers. At the same time, access to a regional market wider than where there is access to only one national market could bring in investors if Tanzania got around the technical insolvency problem. Tanzania's tourism sector has aroused international interest since the privatisation programme began. Tanzania has set aside about one-quarter of its land area for 12 national parks, 17 game reserves, 50 controlled game areas and a conservation area. New investments have been channelled into the so-called "northern circuit", which centres on the Serengeti National Park, the Ngorongoro Crater and Mount Kilimanjaro. The government is encouraging development in the "southern circuit", which includes the Selous National Park, which had an estimated 87 000 visitors in the year to June 2000. The Selous National Park is expanding and upgrading its tourist facilities, in particular through an agreement with the Aga Khan Fund for Economic Development to build two new hotels (one of which was opened in March 1997), develop a tourism centre and repair historic buildings. Other areas of comparative advantage in which Tanzania hopes to attract foreign investment under the privatisation programme include the mining sector in general and, in particular, the extensive reserves of precious and semi-precious stones with new discoveries being continually made. The Longida ruby mine is the largest in the world, although growth in production has been slow. Also, the Umba River Valley yields rubies and sapphires, with particular interest in the gem market.

In the financial sector, efforts have focused on promoting greater competition and further strengthening bank supervision. With regard to banking supervision, the BOT issued in January 2001 its remaining banking regulations with regard to capital adequacy, concentration of credit and risk management. The banking regulations were considered an important element of the capital account liberalisation policy and the government requested technical assistance from the World Bank to develop further the policy by September 2001. The BOT is encouraging commercial banks to establish credit information bureaux as a way to reduce risks in extending credit.

In February 2000, a new Land Act was enacted to strengthen land ownership in Tanzania. However, the absence of guidelines was hindering the implementation of the new Act. The legal framework for doing business in Tanzania was strengthened with the establishment in September 1999 of the first commercial court in the country. In 2000, the BOT and the Danish government supported the commercial court through the financing of its premises with the Danish government also financing the recruitment and training of judges. The court started operations in 2000.

Political and Social Context

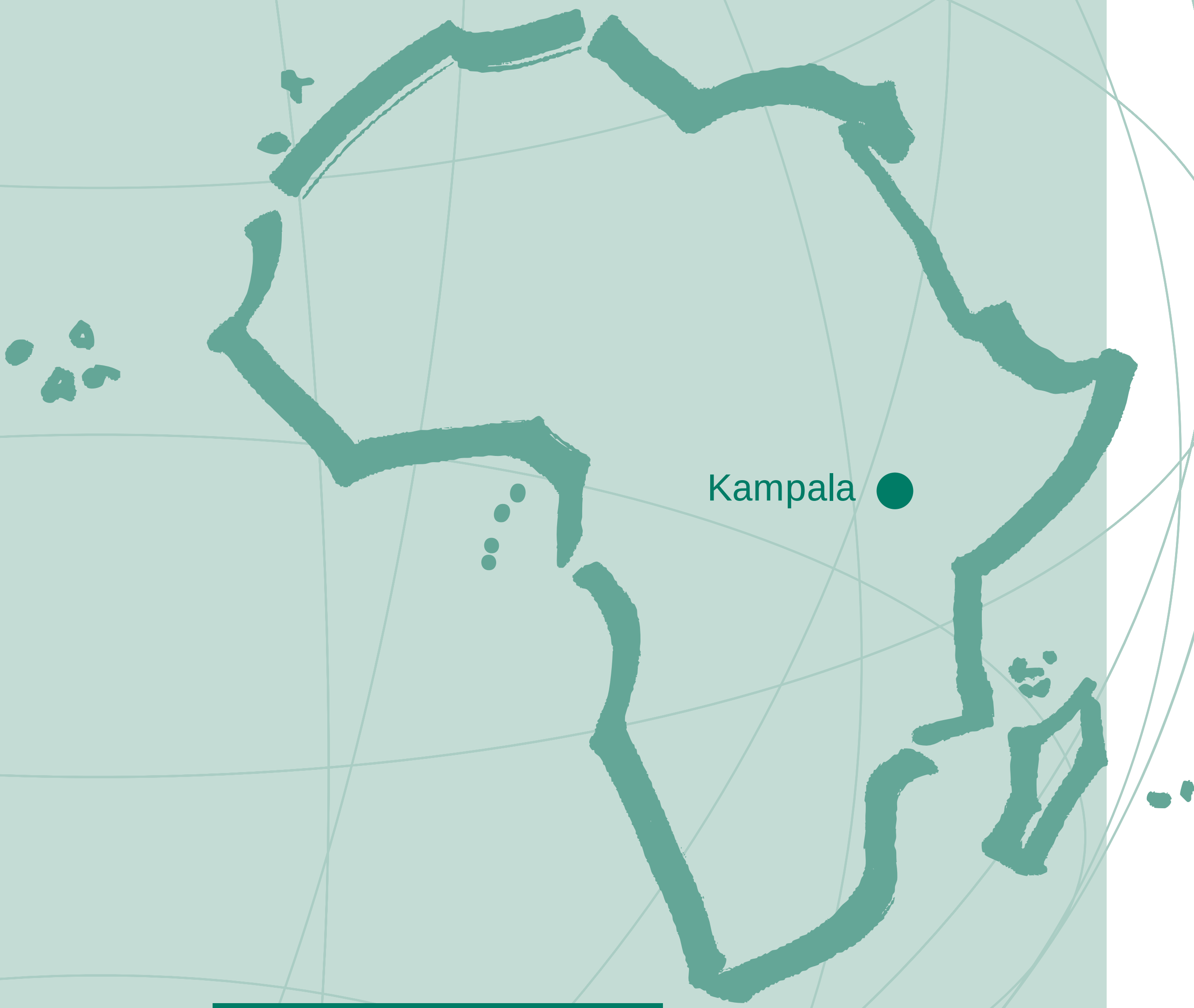
Tanzania is a functioning democracy. Multi-party legislative and presidential elections were held for the first time in October 1995. The elections brought President Mkapa to office, and he was returned in the October 2000 elections, though the opposition charged that the election procedures were designed to ensure that he and his party won. President Mkapa's re-election ensured that the economic and political status quo could continue. However, political stability is not yet assured. Political tensions in Zanzibar in August required the deployment of army troops. Tanzania's foreign relations with Uganda also remain touchy. In mid-2000, there was a border dispute between the two countries. However, it is widely believed that a peaceful settlement of the dispute will be reached. At home there are many areas of concern in governance policies and practices. These include weak public financial management, weak judiciary and legal framework and a highly centralised system of managing public services. These weak areas have been reflected in the high incidence of corruption in the country, which the government has appeared slow in tackling. Although the Warioba Commission of Inquiry was set up in 1996 to probe into the incidence of corruption in the country, a national anti-corruption strategy based on the Commission's recommendations was only formulated in 1999. At end-June 2001, the government had only completed its "diagnostic corruption surveys" based on the Commission's report; action plans are now to be made. However, in July 2000 the government, with the support of the World Bank, launched the Public Service Reform Programme, as an important part of efforts to reduce corruption. The government now plans to submit a new Public Service Bill to Parliament by end-2001, to boost the anti-corruption measures.

Tanzania ranks among the poorest countries in the world. The proportion of the population living below the internationally defined poverty line was estimated at 48 per cent in 2000. This proportion had fallen from 51 per cent in 1998 according to the government's interim-PRSP (2000). The majority of the poor in Tanzania live in rural areas and are engaged in agriculture, mostly subsistence farming. At the same time, the number of urban poor is growing, and includes the unemployed, low-income formal sector employees and the self-employed. Food insecurity is regarded as the major concern of the poor in Tanzania. The endorsement of Tanzania's PRSP offers new direction and commitment towards poverty alleviation in the country.

Tanzania's poverty is reflected in its low human development indicators. In health, owing to poor living conditions the majority of Tanzanians suffer from preventable diseases. The percentage of Tanzanians with access to health services (1998) was 42 compared with 64 in Africa. The average life expectancy in the country in 2000 was 49 years compared with the sub-Saharan African average of 51 years. The low level of life expectancy was partly attributed to the impact of HIV/AIDS. The percentage of adults (15-49 years) living with HIV/AIDS was estimated at 8.1 in Tanzania (UNAIDS 1999) compared with 6.5 in Africa. The government currently places emphasis on reducing morbidity, improving nutrition, and strengthening access to health services. Specific intervention by the government towards these objectives includes establishing revolving funds in all hospitals in the country as a means of improving the availability of drugs and medical supplies.

In education, primary schooling is officially compulsory and used to be provided free of charge, thanks to donor assistance to the education sector. Yet, the net primary school enrolment ratio in Tanzania was estimated in 2000 at 57 per cent. Tanzania also had Africa's lowest net secondary school enrolment ratio of 6 per cent in 2000. The adult illiteracy level in Tanzania is estimated at 27 per cent in 1999. The government's current education objectives include raising primary school enrolment, increasing the rate of transition from primary to secondary school, and expanding adult education programmes. Achievement of these objectives is linked directly to relief under HIPC, which will enable the government to implement specific policy objectives such as the abolition of primary school fees currently being charged.

Uganda



key figures

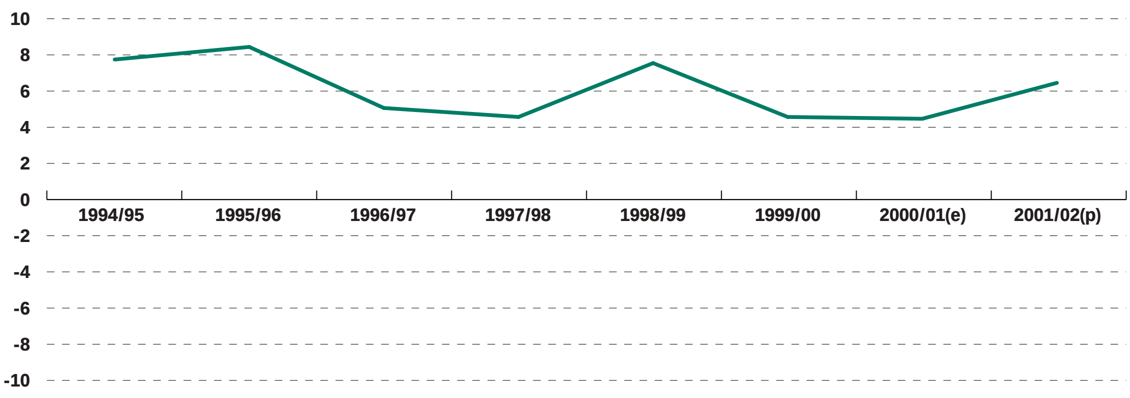
- Land area, thousands of km²: 200
- Population, thousands (2000): 23 300
- GDP per capita, $ (2000): 266
- Life expectancy (1995-2000): 41.9
- Illiteracy rate (2001): 31.9

Uganda

OVER THE PAST DECADE UGANDA has achieved a successful post-civil war rehabilitation and made substantial progress in macroeconomic stabilisation. Prudent fiscal and monetary policies yielded low inflation, low cost of borrowing and relative stability in foreign exchanges; economic growth responded strongly. However, owing to external shocks the country's strong economic growth moderated to 4.6 per cent in 1999/2000, and is expected to decline slightly to 4.5 per cent in 2000/01 before rebounding to 6.5 per cent in 2001/02. The recent macroeconomic achievements translated into poverty alleviation and other social gains, with Uganda achieving the unique success in Africa in reducing the spread of HIV/AIDS. However, many areas of poverty alleviation and social service delivery still require improvements. In addition, although Uganda continues to make progress in its structural transformation, the pace of progress is slow in areas such as privatisation. Also, though democracy appears to be functioning in the country, Uganda needs to make progress in strengthening its approaches to governance problems, including corruption which is reported as one of the highest in Africa.

Uganda has achieved a unique success in Africa in reducing the spread of HIV/AIDS

Figure 1 - Real GDP Growth



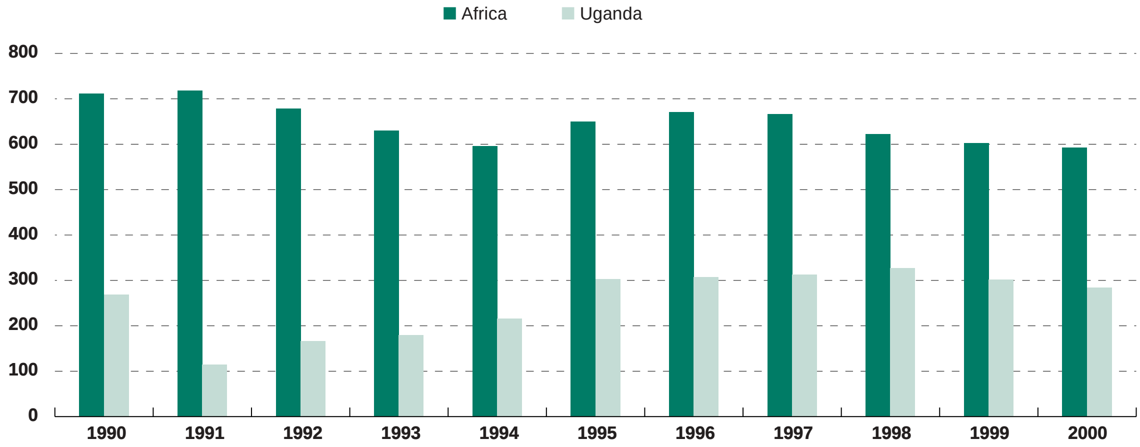
Source: Authors' estimates based on IMF and domestic authorities' data.

Recent Economic Developments

The Ugandan economy continued its robust growth though at a reduced rate in fiscal 1999/2000 with real GDP growth recording 4.6 per cent compared with 7.6 per cent in 1998/99. The slowdown in economic activity in 1999/2000 was largely attributable to the fall in the terms of trade, as the loss in income from the increase in oil prices and the decline in coffee prices exceeded the equivalent of 2 per cent of GDP. The continuation of the terms of trade deterioration is expected to lead to a fall in real GDP growth to 4.5 per cent in 2000/01 before growth rebounds to 6.5 per cent in 2001/02.

Industry and services have led the growth of the Ugandan economy over the past decade, although owing to slow structural transformation the country's comparative advantage remains in agriculture. In 1999/2000 the major sectors that contributed to growth were services, agriculture, construction and mining. The performance of the agricultural sector generally improved in 1999/2000 with a growth rate of 4.9 per cent compared with 4.2 per cent in 1998/99. All the

Figure 2 - GDP Per Capita in Uganda and in Africa (current $)



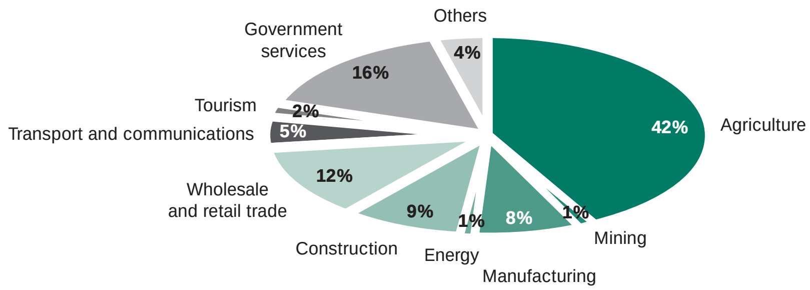
Source: Authors' estimates based on IMF and domestic authorities' data.

sub-sectors, except the cash crop sub-sector, experienced significant positive growth. Food crop production (plantain, sweet potatoes, maize, cassava, etc.) increased in 1999/2000 as rainfall was largely normal compared with the drought in the previous year. The good run in food production is expected to continue in 2000/01 as agro-meteorological data have indicated normal rains in the first quarter of 2001. Cash crop production fell in 1999/2000 owing to poor performance of coffee and tobacco. Coffee deliveries, which are a proxy for production, have declined since 1997/98. Deliveries have dropped from 222 000 tonnes in 1997/98 to 205 000 tonnes in 1998/99, with a further fall to 170 800 tonnes in 1999/2000. The prolonged drought and, to some extent, coffee wilt disease have negatively impacted on coffee deliveries. Tobacco purchases also declined from 23 500 tonnes in 1998/99 to 21 500 tonnes in 1999/2000. The prolonged drought up to 1999 in the West Nile area that affected production of the flue-cured Virginia crop is largely responsible for the lower yields. Similarly, cotton output fell from 117 000 bales in 1998/99 to 100 000 bales in 1999/2000 owing largely to a fall in world prices, which was a disincentive to cotton planting despite the availability of production inputs (seeds and chemicals). On the other hand, tea production has continued to improve slightly since 1998/99, with production of green leaf up in 1999/2000 to 139 500 tonnes compared with 136 300 tonnes in 1998/99. Prospects for tea production are higher given the Uganda tea industry's planting rehabilitation and productivity improvements.

The industrial sector achieved a growth rate of about 6 per cent in 1999/2000 which, though higher than the rate in 1998/99, constituted a decline compared with growth levels in 1997/98. The industrial sector in 1999/2000 was affected by the worsening terms of trade. With Ugandan industry catering mainly for the local market but relying heavily on imported inputs, the foreign exchange squeeze resulting from the terms of trade shock affected production. The manufacturing sub-sector suffered as its growth rate fell to 6 per cent in 1999/2000 compared with 9.5 per cent in 1998/99. However, growth in construction and mining continued to be robust with a growth rate of 8.5 per cent in 1999/2000. The growth was derived mainly from expansion in public road construction and private building construction. At the same time, expansion in construction created demand for sand and clay thereby expanding the mining and quarrying sector.

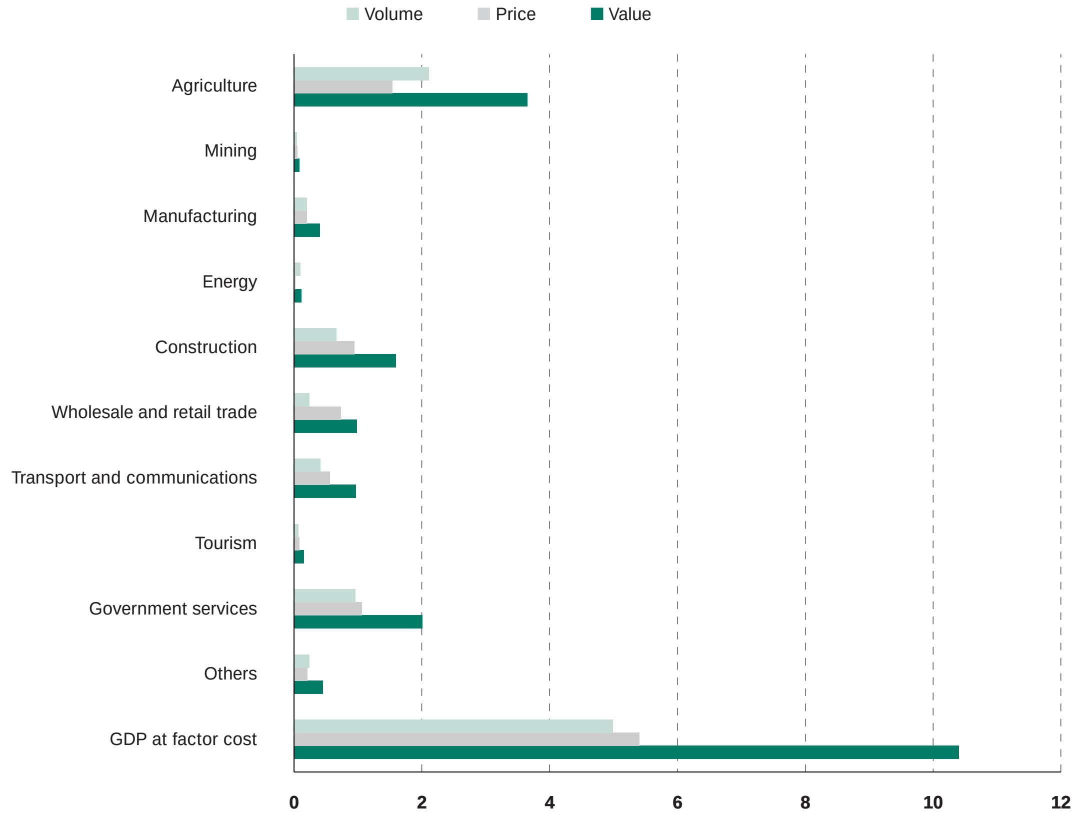
Growth in the services sector in 1999/2000 was accounted for mainly by the expansion in telecommunication services, although road transport services, commerce and trade services and community services also enjoyed moderate growth. Telecommunication services expanded by 35 per cent in 1999/2000 as a result of the continuous expansion in

Figure 3 - GDP by Sector in 2000/2001



Source: Authors' estimates based on IMF data.

Figure 4 - Sectoral Contribution to GDP Growth, 2000/2001



Source: Authors' estimates based on IMF data.

mobile, cellular, internet and fixed telephone services since 1996.

The direction of Uganda's growth performance appeared to depend on what happened to consumers, especially private consumers, as the growth performance has been characterised by the strong consumption of the private sector. However, in 1999/2000 total consumption came in at the previous year's level with private consumption falling from its highs. This was due to the impact of the external shock that reduced private incomes and thus reduced domestic consumption. The high share of consumption in total income is expected to continue in 2000/01 and 2001/02

Table 1 - Demand Composition (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Gross capital formation	**17.1**	**15.5**	**17.2**	**22.6**	**25.1**	**26.2**
Public	6.1	5.2	5.5	10.0	11.5	12.0
Private	11.1	10.3	11.8	12.6	13.6	14.2
Total consumption	**95.4**	**102.9**	**100.4**	**99.3**	**99.4**	**97.5**
Public	10.6	10.3	11.1	12.6	12.9	12.8
Private	84.8	92.6	89.2	86.7	86.6	84.7
External demand	**-12.5**	**-18.4**	**-17.6**	**-21.9**	**-24.5**	**-23.7**
Exports	11.7	9.4	11.4	10.1	8.5	9.1
Imports	-24.2	-27.8	-29.0	-32.0	-33.0	-32.8

Source: Authors' estimates and predictions based on domestic authorities' data.

as private consumption remains at high levels. At the same time Uganda is expected to maintain an even higher level of domestic investment in 2000/01 and 2001/02 owing to higher levels of foreign savings financing domestic investment.

Macroeconomic Policy

Fiscal and Monetary Policies

The implementation of the budget in 2000 posed major difficulties for the Ugandan government. The external shock that constrained real GDP growth contributed to poor domestic revenue performance. However, higher than anticipated levels of external grants, as donors moved to support Uganda's preparations for general and presidential elections, more than offset the shortfall in domestic revenue. Under the government's fiscal and monetary programme, any excess or shortfall of donor budget support leads to an increase/reduction in government savings, rather than a change in expenditure. Thus, the larger than expected level of resources arising from higher grants could not be used to increase spending because this would have widened the domestic fiscal deficit and reduced incentives for domestic resource mobilisation.

The overall tax revenue performance was poorer in 1999/2000 as it stabilised at the 1998/99 level of about 10.5 per cent of GDP. There were poor collections in corporate tax, excisable goods and fuel import duty, arising partly from the terms of trade shock. The poor

Table 2 - Public Finances[a] (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Total Revenue and grants[b]	**14.3**	**15.5**	**15.6**	**17.2**	**19.6**	**18.3**
Taxes	9.1	9.8	10.6	10.4	10.5	10.1
Grants	4.4	5.1	4.7	6.4	8.8	7.9
Total expenditure and net lending[b]	**16.8**	**15.9**	**17.3**	**19.9**		
Current expenditure	9.2	9.3	9.9	11.2		
Excluding interest	*8.2*	*8.3*	*9.1*	*10.4*	*10.6*	*10.6*
Wages and salaries	2.5	3.3	3.9	4.0	4.3	4.5
Interest on public debt	1.0	1.0	0.8	0.8		
Capital expenditure	7.4	6.6	7.3	8.7	10.0	10.4
Primary balance	**-1.6**	**0.5**	**-0.9**	**-2.0**	**-0.2**	**-2.7**
Overall balance	**-2.5**	**-0.4**	**-1.6**	**-2.8**		

a. Fiscal year begins 1 July.
b. Only major items are reported.
Source: Authors' estimates and predictions based on domestic authorities' data.

revenue performance persisted into 2000/01 as the negative terms of trade shock extended into the first half of 2001. Low receipts have been recorded from excise duty on locally produced goods owing to less than anticipated domestic demand, and on petroleum products owing to increases in international prices. Consequently, revenue projections for 2000/01 are being revised downwards.

The government had to restrain public expenditure to target levels in order to maintain its demand management policies during 1999/2000. Total government expenditure increased to about 20 per cent of GDP in 1999/2000 compared with 17.3 per cent of GDP in 1998/99. However, the higher expenditure levels in 1999/2000 were closer to the budget targets as the government implemented stricter cash budget rules, matching expenditures strictly with available resources. The expenditure restraints notwithstanding, the budget outturns represented deterioration in the fiscal performance as the primary balance moved from a deficit of 0.9 per cent of GDP in 1998/99 to a deficit of 2 per cent of GDP in 1999/2000. The primary deficit is expected to subside to 0.2 per cent of GDP in 2000/01 as donors continue to increase grants to Uganda after the successful completion of the democratic elections. The primary deficit is expected to widen to 2.7 per cent of GDP in 2001/02 following total revenue shortfalls as grant disbursements stabilise and total expenditure continues its moderate expansion.

Within the context of its broad monetary policy objective of containing money supply to levels consistent with price stability, monetary policy management in 2000 faced three challenges. First, preventing excess liquidity as a result of maturing promissory notes (PNs) that had been issued by the Bank of Uganda (BOU) to Ugandan Commercial Bank, Standard Chartered and Centenary Rural Development Bank with respect to their acquiring deposit liabilities of banks closed in 1999. Second, mopping up liquidity arising from government spending of donor aid. Third, differentiating the pressures on the exchange rate arising from the terms of trade shock from speculative activities in the foreign exchange market. Monetary policy was conducted mainly by varying the net issuance of Treasury bills and adjusting the policy margins on the rediscount rate and the bank rate. The BOU also introduced Repurchase Agreements (REPOs) in August 2000 as a flexible fine-tuning instrument. In addition, the base for the computation of commercial banks' reserve requirement was widened in September 2000, to include foreign currency deposits at the same ratio as local shilling deposits. Furthermore, from December 2000, reserve requirements on all deposits were adjusted upwards by one percentage point to 9 per cent and 10 per cent on time/savings and demand deposits respectively.

Following these developments, broad money (M3), which comprises currency in circulation plus bank deposits including foreign exchange accounts, grew by 16.1 per cent between June 1999 and June 2000, and by 13.6 per cent between June 2000 and March 2001. A breakdown of M3 into its components showed that the growth came mainly from foreign currency deposits, which grew by 18 per cent, and currency in circulation, which grew by 15 per cent. The higher growth in foreign currency deposits indicated a tendency towards the dollarisation of the economy. The BOU appeared to get around this problem with the implementation of uniform cash reserve ratio on both domestic and foreign deposit liabilities. This appeared to reduce the dollarisation problem as the foreign deposit/M3 ratio declined from about 27 per cent in September 2000 to 24 per cent in March 2001.

Consumer price inflation, which is primarily determined by trends in food prices, has remained relatively low in Uganda. The years of drought with drought-related declines in food production as in 1997 saw a rise in the rate of inflation, and as food production recovered, as in 1998, food prices fell and inflation also declined. With the drought in 1999 and its effect on food crops, the annual rate of inflation rose to 5.3 per cent. During 2000, inflation remained stable at 4.2 per cent in the first quarter, but rose to 6.1 per cent in November before falling back to 4.2 per cent in December. The depreciation of the exchange rate and the rise in oil prices were among the reasons for the building up of inflationary pressures during the year. The build-up of inflation is expected to continue with the annual average rate rising to 4.1 per cent in 2000/01 and further to 4.5 per cent in 2001/02, reflecting the strong demand conditions in the economy.

The Bank of Uganda emphasis on T-bills in meeting its monetary policy challenges in 2000 led to the rate of interest on the 91-day T-bills rising from 16.8 per cent at the beginning of July 2000 to a peak of 25.8 per cent by mid-January, 2001. The increase in T-bill rates reflected the sharp rise in the volume of T-bills issued and held by the commercial banks. The interest rates on the T-bills have since declined to 9.96 per cent in April 2001, as more aggressive sales of foreign currency by the BOU to the market enabled the BOU to place less emphasis on T-bills to control liquidity. In response to the declining rates on the T-bills, commercial banks have adjusted their prime lending rates downwards.

The Ugandan shilling is market-determined with the monetary authorities intervening as necessary to maintain stability in the foreign exchange market. The exchange rate of the shilling has followed a downward trend over the past five years. However, what was desirable in view of the need to maintain Uganda's export competitiveness was the depreciation of the real effective exchange rate of the shilling. During 1999, the nominal effective exchange rate (NEER) of the shilling depreciated by 16.4 per cent against the US dollar, as the dollar strengthened against world currencies generally. The real effective exchange rate (REER) depreciated by 13.4 per cent during the year. The shilling continued its slide in 2000 and into 2001, attributed largely to the deterioration in the terms of trade. The NEER and the REER are estimated to have depreciated by 7 per cent and 3.6 per cent respectively between June 2000 and March 2001.

The BOU's cautious intervention in the inter-bank foreign exchange market kept the foreign exchange market from experiencing major turbulence. Between June 2000 and March 2001, the BOU sold about $140 million to keep stability in the foreign exchange market. Stability in the market was also maintained by moral persuasion from the BOU with caution, followed by actions to convince commercial banks, *forex bureaux* and other agents that the shilling is not a one-way bet, and that those banks which speculate will suffer the consequences as the BOU is not a buyer of last resort. The BOU also made efforts to enhance transparency of transactions on the IFEM, by directing all authorised dealers in the market to connect to the Reuters system with effect from 1 July 2001. Indicative quotes will now be posted on Reuters as opposed to the current system of receiving quotations via the telephone. Intervention operations of the BOU will also be posted to Reuters.

External Position

Uganda continues to revise its trade regime in its annual budgets towards the liberalisation of its external trade. The maximum duty rate was reduced from 20 per cent to 15 per cent in 1998. In 1999, import bans on beer, soft drinks, and car batteries were lifted. In 2000, the government gave indications to eliminating the surcharge on beer, cigarettes and other tobacco products. Uganda has an outstanding issue in trade policy involving the elimination of the differential use of excise taxes for imports and domestic goods in the context of COMESA and the East African Community (EAC). On this issue, the government indicated in 2000 that existing discriminatory excises on selected imports will be phased out within the framework for trade liberalisation to be undertaken in the context of the EAC. These taxes were duly eliminated upon the approval of the 2001/02 budget in July 2001. The government has already removed the special protection accorded to textiles.

The external sector of Uganda has continued since 1999/2000 to operate under pressure owing to the deteriorating terms of trade and poor export performance. The terms of trade shock led to a widening of the trade deficit. Although the depreciation of the exchange rate dampened import demand somewhat, this was more than offset by a reduction in export earnings. Coffee exports, the main export earner, are estimated to contribute only about 27 per cent of total exports in 2000, down from 43 per cent in 1999. This reduction was due to a 4 per cent fall in volumes exported and, more importantly, a 37 per cent fall in international coffee prices compared with the previous year. The value of non-coffee exports — hides and

Table 3 - Current Account (percentage of GDP)

	1994/95	1997/98	1998/99	1999/00	2000/01(e)	2001/02(p)
Trade balance	-8.6	-14.2	-13.2	-17.3	-18.4	-17.8
Exports of goods (f.o.b.)	10.5	6.8	8.6	7.1	6.4	6.9
Imports of goods (f.o.b.)	-19.1	-21.0	-21.8	-24.4	-24.9	-24.7
Services balance	-4.0	-4.2	-4.4	-4.5		
Factor income	-1.0	-0.1	-0.2	-0.2		
Current transfers	7.5	13.2	10.7	14.0		
Current account balance	**-6.1**	**-5.2**	**-7.2**	**-8.1**		

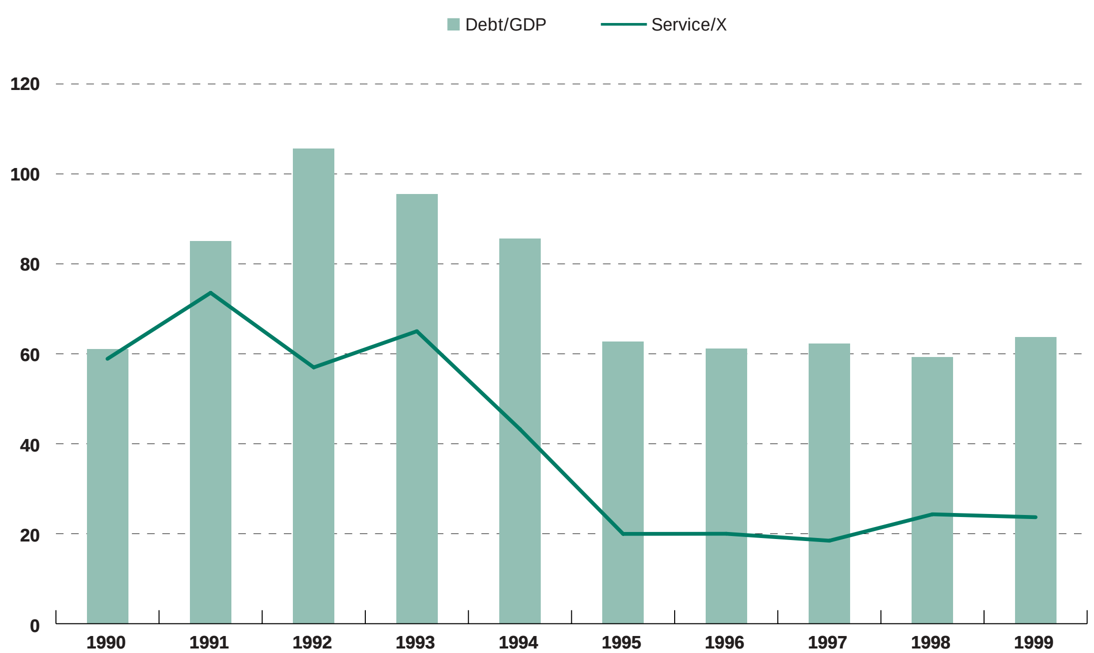
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

skins, fish and electricity — on the other hand increased by 18 per cent. Imports of goods are estimated to have increased by 8.6 per cent in 2000, mainly owing to the increased oil bill. Despite the 28 per cent increase in official transfers the current account deficit widened from 7.2 per cent of GDP in 1998/99 to 8.1 per cent in 1999/2000. With the expected continuation of the terms of trade deterioration, export performance is expected to remain poor in 2000/01 and 2001/02. Thus, the moderate increase in imports in both years will leave the trade deficit increasing on the level obtained in 1999/2000.

The external debt stock of Uganda was estimated at $4.08 billion at end-1999, representing 63.7 per cent of GNP of the year. The debt structure indicates that multilateral creditors accounted for about 72 per cent of the total debt; bilateral creditors accounted for 26 per cent; and private creditors accounted for the remaining 2 per cent.

Uganda's current debt situation is dominated by developments with the HIPC initiative. Uganda was the first country to benefit from the HIPC debt relief initiative in 1998 when it was granted debt relief of

Figure 5 - Stock of Total External Debt (percentage of GNP) **and Debt Service** (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance.*

$347 million in NPV terms (equivalent to 650 million in nominal terms), to be spread over a period of 30 years. Uganda was also the first country to qualify for debt relief under the Enhanced HIPC Initiative in May 2000. Uganda will thus receive $656 million in NPV terms over a period of 20 years (approximately $1.3 billion in nominal terms) in addition to the $347 million under the original HIPC.

Uganda's debt stock/GDP ratio and its debt service payments have declined significantly owing to HIPC debt relief. Uganda's HIPC relief has more than doubled over the last three years from $45 million in 1998, the first year in which Uganda was eligible for HIPC, to $91 million in 2000. As a result, Uganda's debt service ratio, once relief is taken into account, is less than half what it would be without relief. In addition to the HIPC debt relief, Uganda also became eligible for fast-disbursing resources under the Supplementary Financing Mechanism (SFM), which aims at helping the country to service the non-concessional debts owed to the African Development Bank Group. In parallel with the HIPC debt relief and SFM, Uganda has continued to implement a debt management strategy aimed at making the external debt sustainable. Under the strategy, Uganda contracts only concessional loans at IDA terms where it is unable to secure grants to finance development expenditure.

The outstanding debt relief issue for Uganda is its inability to reach agreement with most of its non-Paris Club creditors. Reflecting the lack of progress, the government postponed payments on outstanding maturities due to India, Libya and Nigeria. Among the non-Paris Club creditors, Uganda has, however, reached agreement with China. Also, Uganda has yet to reach agreement with two multilateral creditors, the OPEC Fund and the Islamic Development Bank, regarding the modalities of their assistance under the HIPC initiative.

Structural Issues

Uganda continues to implement reforms to liberalise and de-regulate the economy in order to attract investments into areas with high growth potential in which Uganda could have comparative advantage. In its privatisation programme, which slated 120 enterprises for privatisation from 1996, by end-2000 86 of the enterprises had been sold. Recent developments in the programme include the government's decision in April 2000 to move directly to privatise Uganda Railway Corporation via long-term concessions. This strategy eliminated the original proposal of putting in place a five-year operating lease before the concessions. The government has abolished the monopoly of Entebbe Handling Services in air cargo handling and has invited interested operators to apply for consideration. In June 2000, 51 per cent shares in Uganda Telecom Limited (UTL) were sold for $33.5 million to a consortium including Detecon, Telecel and Orascom. The buyers have taken over operations and have begun the rollover of cellular services. A third mobile phone operator, a subsidiary of UTL, began operations in January 2001. Also, the government proposed to privatise the generation and distribution assets of the Ugandan Electricity Board (UEB) through a long-term concession by end-2001. The UEB was restructured in March 2001 with the functions of electricity generation, transmission and distribution transferred to three companies respectively. The implementation of the privatisation programme suffered some setbacks. In response to allegations of lack of transparency and corruption, parliament temporarily suspended the programme in mid-August 1998 to permit investigation into specific divestiture cases. Also, the privatisation of the Ugandan Commercial Bank (UCB) unravelled owing to fraudulent behaviour on the part of the buyer, and BOU had to seize management control. In 2000, following the successful resolution under international arbitration, the government regained full control of UCB, and continued the process for re-privatisation. In October 2001, the Bank of Uganda awarded the winning bid to the Standard Bank Investment Corporation of South Africa. While there are still some issues to be settled, including opposition by some members of parliament, the sale is scheduled to be finalised be end-2001.

In the financial sector**,** the government has carried out several reforms including the re-capitalisation of BOU, which was provided with its own stock of tradable securities; and the restructuring of the Ugandan Development Bank (UDB) to enable it to provide long-term development finance. In addition, BOU has taken measures to strengthen its supervisory and regulatory role by increasing the number of on-site inspections, and strengthening off-site surveillance. The problem of insolvency in commercial banks has been addressed with the BOU enforcing a policy that requires banks failing to meet the capital adequacy ratio either to take remedial measures "leading to prompt recapitalisation" or face closure within a specified period of time. In this context, BOU closed the International Credit Bank in September 1998; the Greenland Bank in April 1999; and the Co-operative Bank in May 1999. The government announced in 2000 that problems had been encountered in the recovery of assets in the three banks liquidated, in part because the enforcement of the sale of mortgaged properties through the courts has moved slowly and because insider loans have been difficult to realise in the absence of collateral. These difficulties continued into 2001. In addition, liquidation costs have been very high.

Political and Social Context

Uganda has made progress in many areas of governance. Although gains in democracy in Uganda remain contested, at present the country's leaders are elected through adult suffrage. The government held a referendum on political parties during 2000 followed by presidential elections in March 2001 and parliamentary elections in June 2001. Amid claims of fraud, vote-rigging and intimidation of voters made by the opposition as well as by some foreign observers, President Yoweri Museveni was re-elected. Although the claims of fraud might dent Uganda's image as a democratic country, the re-election of President Museveni meant that political and economic policies would remain in line with those of recent years. With regard to stabilisation in the political process, there is the continual problem of insurgency in the North. Although the armed gangs have largely been controlled by government forces, greater vigilance is still required to prevent an armed rebellion that could threaten political stability.

In spite of the good intentions of the government in promoting accountability and transparency in public life, corruption remains a major social canker in Uganda. Many of the services that are most relevant for the poor (such as police and health care) are considered to be among the most corrupt, as are also other agencies in the judicial system, including the judicial and criminal courts. The 1998 National Integrity Survey found that 40 per cent of service users have to pay bribes to workers in key public services. Transparency International's latest index on corruption, which is based on the perception of businessmen, ranked Uganda 89 out of 91 countries. The average number of corruption-related complaints per month that the Inspector General of Government (IGG) receives rose from 143 in 1998 to 399 in the first half of 2000. In June 2000 the government published its strategy plan to fight corruption and build ethics and integrity in public office. However, the question remains as to how far the Plan can go given the current status quo in political and public life in Uganda.

Uganda has since 1992 conducted five nationally representative household surveys measuring living standards of the population. The results of these surveys indicate that economic growth in the 1990s has translated into increases in household consumption and a reduction in income poverty. Even during 1997-2000, when there was a slower pace of economic growth, the reduction in poverty appeared to continue. According to the household surveys' results, the proportion of the population living below the poverty line of $1 a day declined from 56 per cent in 1992 to 44 per cent in 1997, and then to 35 per cent in 2000 (a decline of 38 per cent since 1992). The 2000 survey indicates that while poverty has declined, inequality in Uganda has increased, especially after 1997. Consumption gains have been inequitably distributed across the population, with the richest decile having experienced the largest rise in living standards: it has seen its real consumption increase by 20 per cent since 1997, whereas consumption levels of the poorest decile has grown by only 8 per cent. In addition, regional inequality has widened, with the North and East of the country having the largest proportions of the poor. In particular, the poverty situation in the North has worsened since 1997, while poverty has declined in all other regions. Insecurity is the main reason behind the lack of progress in poverty alleviation in the North. The surveys also indicate that poverty in Uganda continues to be a rural phenomenon; the rural-urban gap has widened, with 96 per cent of the poor living in rural areas in 2000.

The government currently makes direct interventions towards poverty alleviation. These include most notably the Poverty Action Fund (PAF), financed by a combination of the HIPC debt relief savings, donor budget support and other government resources. The PAF resources have increased significantly from about Shs. 80 billion ($64 million) in 1998 to Shs. 167 billion ($114 million) in 1999 and to Shs. 330 billion ($189 million) in 2000. The resources are channelled to local government in the form of conditional grants to support key activities in the areas of rural roads, agricultural extension, primary healthcare, water and sanitation and primary education.

Uganda's Household Surveys indicate an improvement in the health status of the population between 1997 and 2000, across regions, urban and rural, male and female. The indicators of improvement are also suggested in child health. In pursuance of its Uganda National Minimum Health Care Package that concentrates on the control of communicable diseases, the government has started refurbishing the 6 000 outreach stations in the country and is drafting a plan for the revitalisation of the immunisation programmes. However, there is an acute shortage of qualified staff in the health sector. In 2000, only 40 per cent of health units had trained staff — lower than the government target of 55 per cent.

The government has continued the implementation of its HIV/AIDS control programme. The HIV sero-prevalence declined from 10 per cent to 8.3 per cent between 1996 and 2000. Infection rates from Sentinel Surveillance sites continued to show a decline as a result of behaviour change and the use of condoms. Uganda's achievement with AIDS awareness and prevention, unique in Africa, had been the result of government campaigns in which state officials and community elders openly discussed AIDS issues. In spite of the major achievement, AIDS remains a substantial threat to public health and constitutes a significant obstacle to rapid human capital accumulation. Surveillance data show that 10 per cent of the adult population (15-49 years) is HIV-infected. AIDS is responsible for up to 12 per cent of annual deaths and has become the leading cause of death among the 15-49 age group. One of the most visible and immediate impacts of the epidemic is the rapidly growing number of AIDS orphans. UNAIDS (2000) estimates that at end-1999, 1.7 million children (under 15 years) had lost their mother or both parents to AIDS. Areas that have proved to be problematic are making health care affordable to people living with AIDS and striking a balance between preventive and curative services.

The cornerstone of Uganda's education policy is universal primary education. Access to education by all income groups and gross enrolments have increased as a result of this policy. The net primary enrolment rate has improved from 83 per cent in 1998 to 94 per cent in 2000. Primary school completion rate, which stood at 40 per cent in 1998, had improved to 45 per cent in 2000. However, the quality of education seems to have suffered in the process. Several indicators of educational quality have not improved as expected. The average pupil-textbook ratio has not declined at the rate envisaged: at 6.7:1 in 2000, it was higher than the anticipated level of 6.0:1. Infrastructure in schools has improved, but the average pupil-classroom ratio of 125:1 is higher than the target level of 118:1. Also, though the average pupil-teacher ratio declined to 65:1 in 2000 from 68:1 in 1999, it was still higher than the target 58:1. There are two main reasons behind the poor performance in these areas; higher than anticipated gross primary enrolments and continued delays in teacher recruitment. The government is making efforts to improve quality by increasing the availability of textbooks, expanding school construction and hiring more teachers. To overcome partially the shortage of qualified teachers, the government has modified entry requirements to the teaching services to permit secondary school graduates to join. In addition, the procedures for newly recruited government employees accessing the payroll is being rationalised.

Zimbabwe

key figures

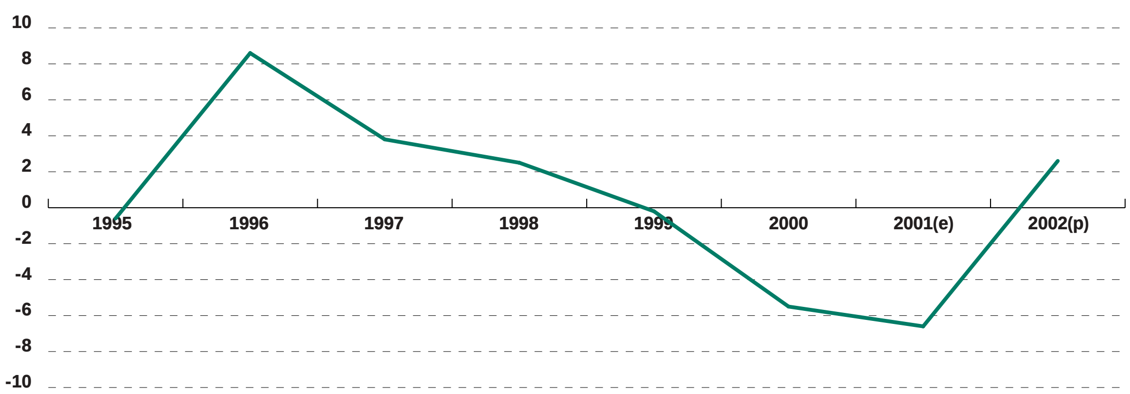
- Land area, thousands of km2 : 387
- Population, thousands (2000): 12 627
- GDP per capita, $ (2000): 587
- Life expectancy (1995-2000): 42.9
- Illiteracy rate (2001): 10.6

Zimbabwe

SINCE 1997, ZIMBABWE has been embroiled in an increasingly severe economic and political crisis and future prospects are worrying. The country is facing huge macroeconomic imbalances: in 2000, the fiscal deficit exceeded 20 per cent of GDP and inflation averaged 56 per cent, while the authorities sought to maintain an overvalued exchange rate. As a result, the growth rate is estimated to have sharply decreased to -5.5 per cent in 2000 and -6.6 per cent in 2001. In 2002, political developments will largely determine economic performance. A likely devaluation associated with a partial recovery of the agricultural sector might allow a slight rebound of the growth rate. Governance deteriorated as well in the run-up to the general elections held in June 2000, which were marred by violence and large-scale intimidation. The invasion of some 1 500 farms by the War Veterans movement and the related death of five farmers led to an unprecedented political crisis — the worst since independence in 1980. The social context gives rise to concern with at least 1.5 million people living with HIV/AIDS, a society characterised by strong and persistent dualism, rising unemployment and collapsing healthcare and education systems. After a poor harvest in 2000/01, food shortages are forecasted for the first quarter of 2002 while the political temperature will rise during the campaign for the presidential election scheduled for March 2002. The outcome of this election will shape future political and economic scenarios.

Since 1997, Zimbabwe has been embroiled in an increasingly severe economic and political crisis

Figure 1 - Real GDP Growth



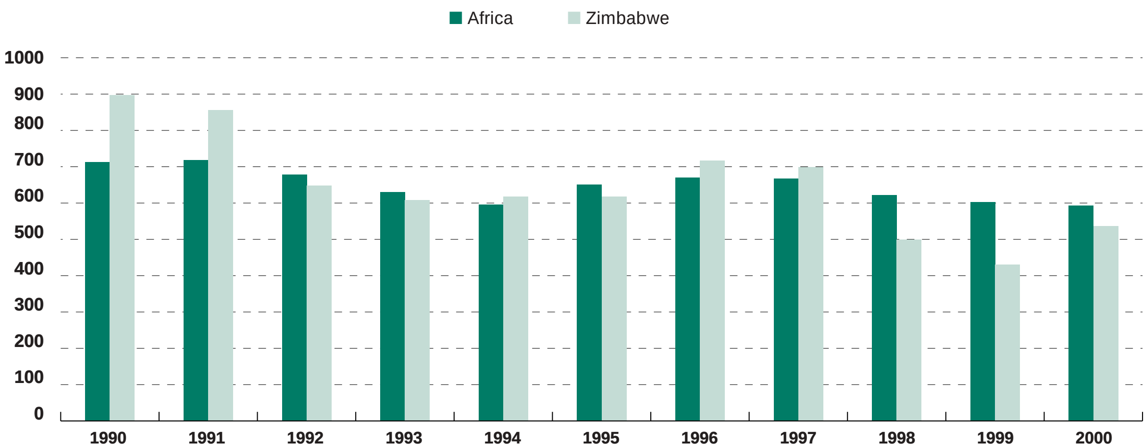
Source: Authors' estimates and predictions based on IMF data.

Recent Economic Developments

After a period of sustained growth, the macroeconomic situation in Zimbabwe has deteriorated markedly over the last three years, and since 1999 the country has been facing a deep crisis. Following a flat real GDP in 1999, the crisis has exacerbated and GDP declined by 5.5 per cent in 2000.

The ongoing crisis, the result of poor macroeconomic management and unsustainable fiscal policy, has further deteriorated through adverse external factors such as the competitiveness loss associated with the depreciation of the South African rand throughout the 1990s, the assets reallocation out of emerging markets following the Asian crisis, and by the adverse terms-of-trade effects of high oil prices and depressed

Figure 2 - GDP Per Capita in Zimbabwe and in Africa ($ current)



Source: Authors' estimates based on IMF data.

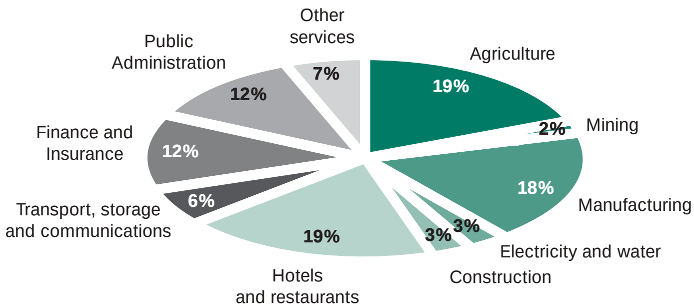
commodity earnings in 1998/99. Moreover, by the end of 1999 governance conditions had further depressed an already difficult situation. Agriculture, manufacturing, mining and tourism — the economic growth engines — have been the sectors most affected by the crisis.

High levels of spare capacity in manufacturing, one of the most diversified in the African continent, during 1999 and 2000 were mainly the result of the gradual erosion of competitiveness. Despite a 24 per cent devaluation of the currency in August 2000, the volume of industrial production fell by 4.8 per cent during 2000 following a 7.5 per cent decline in 1999. The reduction of foreign commercial credit lines and shortages of foreign currency have further dampened an already depressed sector. As a result, manufacturing is operating well below capacity and at least 400 firms closed during 2000. In 2001 uncertainty regarding the respect of the rule of law extended to the sector through threats of forced reintegration of dismissed workers in the face of the intimidation by the War Veterans movement. Business confidence is therefore declining and private investment falling.

Despite the good harvest of 1999/2000, the agriculture sector has decelerated from 3.5 to 2.5 per cent in 2000. Farm invasions began in February 2000 and part of export crops did not reach the market. Tobacco earnings, the most valuable crop and leading export, dropped from US$608 million to US$465 million in 2000, partly reflecting depressed world market prices. In 2001, the tobacco crop declined by an estimated 20 per cent in volume, to 190 million kilograms from 236 million in 2000. Most crops were adversely affected by poor weather and war veteran activity which disrupted planting and production on many commercial farms. Banks were also reluctant to extend credit to farmers whose land had been occupied or "listed" for compulsory acquisition. Therefore, investments in the sector are likely to drop drastically and, despite stability of international prices of tobacco, agricultural production in 2001 would probably be 10 per cent less than in 2000. The reintroduction of the Grain Marketing Board as a monopoly to distribute and price maize, and wheat, together with an expected 35 per cent fall in maize production may threaten the country before the next crop season in May 2002.

Mining, representing 2 per cent of GDP and 45 per cent of country's foreign earnings in 1999, has been seriously affected by the general downturn of the economy and in 2000 it declined by 11 per cent. Gold production — accounting for about a half of the total value of the mining sector — passed from 27.6 tons in 1999 to 22.1 tons in 2000 as a result of declining international prices and the overvalued exchange rate. Indeed, gold producers, while they must sell the entire production to the Central Bank, have to acquire part

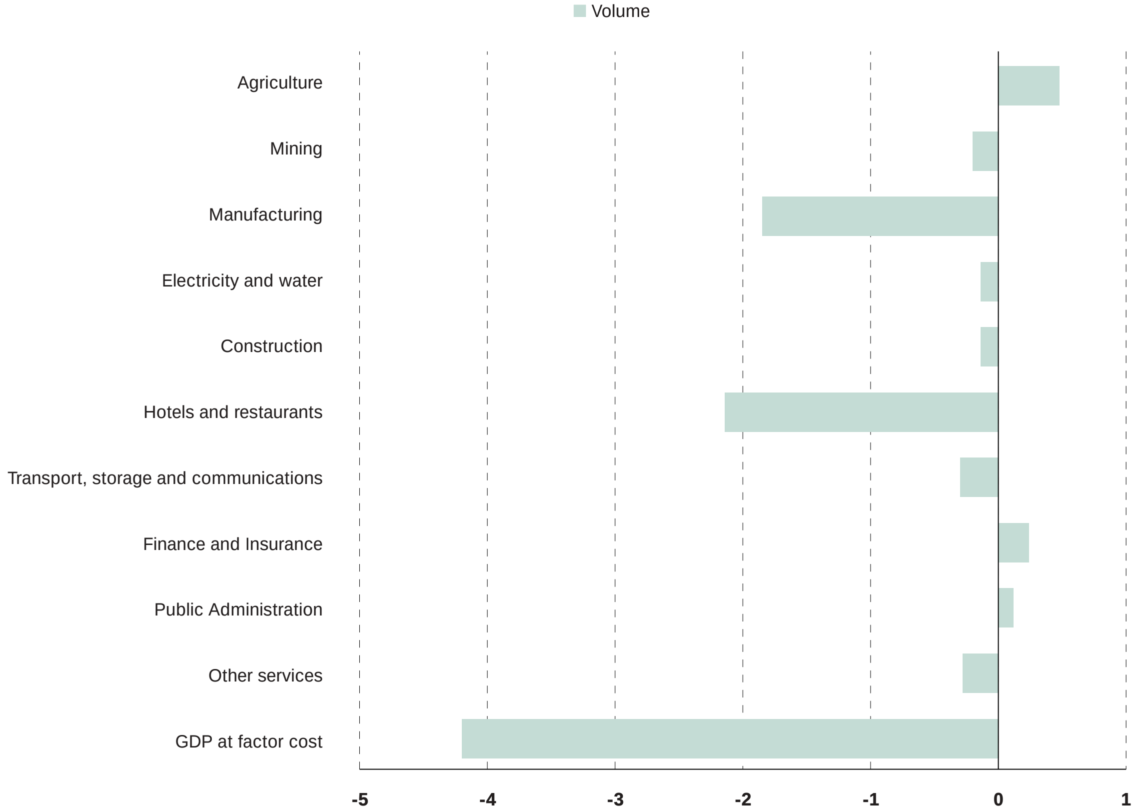
Figure 3 - GDP by Sector in 1999[a]



a. Figure 3 is related to 1999 since the data available for 2000 are not comparable with the aggregated data available from other sources (IMF and World Bank).

Source: Authors' estimates based on IMF data.

Figure 4 - Sectoral Contribution to GDP Growth in 2000[a]



a. Data for Figure 4 are at factor cost. Therefore real GDP growth is different from the real GDP at market prices reported in Figure 1. No consistent data were available for sectoral price evolution.

Source: Authors' estimates based on IMF data.

of the imported inputs with a premium on the parallel exchange rate market. In April 2001, the government introduced a gold price support scheme which was revalued upwards in August 2001 and had the effect of increasing the effective exchange rate received by gold producers to Z$108 to the US dollar, that is almost twice as much as the official exchange rate.

The tourism sector has been the most deeply affected by the political and social unrest. The sector, second

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Gross capital formation	**19.7**	**17.2**	**10.0**	**4.3**	**3.3**	**2.9**
Public	-0.2	2.5	4.0	3.5	0.8	0.8
Private	19.9	14.7	6.0	0.8	2.5	2.1
Consumption	**83.0**	**84.6**	**85.3**	**92.8**	**95.9**	**98.1**
Public	18.0	15.6	29.1	24.9	26.3	25.3
Private	65.0	69.0	56.2	67.9	69.6	72.8
External sector	**-2.7**	**-1.8**	**4.7**	**2.9**	**0.8**	**-1.0**
Exports	38.2	45.9	45.1	30.0	28.0	26.7
Imports	-40.9	-47.7	-40.4	-27.1	-27.2	-27.7

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

in 1999 as a source of foreign exchange, is facing a strong decline after a continuous increase during the 1990s. Activity has dropped by 11 per cent in 2000 and tourist arrivals have been down by 60 per cent. The current political situation is hampering the development of the sector and preliminary estimates for 2001 are projecting a further decrease in the tourism activity.

The recent crisis has changed the demand structure. From 2001 on, gross capital formation represents about 3.1 per cent of GDP, around 16 percentage points less than in 1995. The confidence crisis of the private sector coupled by spare capacity has implied a slash down of private investment from 19.9 per cent of GDP in 1995 to around 2.3 per cent in the years following 2000. External demand has changed severely as well. Already weak exports have faced an erratic exchange rate policy while foreign currency shortages crippled the level of imports. Consequently, imports fell from 40.4 per cent of GDP in 1999 to 27.1 per cent in 2000 as exports were cut down to 30 per cent (compared with 45.1 per cent in 1999). In 2001 and 2002, despite a slight recovery of exports, both export and import patterns remain below the initial trend.

Macroeconomic Policy

Fiscal and Monetary Policies

The country's fiscal situation over the last decade has been characterised by a high and persistent budget deficit, on average around 8 per cent of GDP. After efforts in 1998 to reduce the fiscal gap, the situation has worsened again since 1999. Overall deficit has grown to 10.5 per cent of GDP in 1999 and to 21.3 per cent in 2000. Rising interest payments fuelled by high inflation and a 69 to 90 per cent upsurge in public wages — just before the June 2000 election — have been the main elements responsible for such a steep increase. Other sizeable overturns have been registered in the defence outlays that have been estimated at 4.8 per cent in 2000, against 3 per cent in the original budget.

Sustained inflation, an overvalued exchange rate, almost no access to external debt and the skyrocketing deficit have changed the structure of public debt. External public debt represented 41 per cent of total public debt in 2000 from a share of 71 per cent just two years before. The share of domestic public debt has increased accordingly and in 2000 the interest payments on domestic public debt absorbed almost 60 per cent of total revenues. The impact of this on the economy has been cushioned by sustained inflation, so that total public debt as a ratio of GDP fell by 18 per cent between 1998 and 2000 to 69 per cent of GDP.

In early 2000 the government prepared an 18-month economic programme — the Millennium Economic Recovery Plan (MERP). Although it contains useful medium-term objectives, the lack of clear priorities, sequencing and binding targets reveals the difficulties of using a medium-term budgetary instrument in the current economic situation. The 2001 budget, announced in November 2000, has

Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants[a]	**25.4**	**33.2**	**28.3**	**28.5**	**30.9**	**30.9**
Tax revenue	21.4	29.2	25.9	25.7	28.0	28.1
Total expenditure and net lending[a]	**34.9**	**35.7**	**38.8**	**49.9**		
Current expenditure	30.5	33.3	33.3	47.3		
Excluding interests	*21.3*	*23.4*	*23.2*	*30.1*	*31.8*	*30.7*
Wages and salaries	10.3	12.7	13.2	15.3	16.5	15.8
Interest	9.2	9.9	10.1	17.1		
Capital expenditure	4.3	1.8	4.0	2.1	2.1	2.1
Primary balance	**-0.2**	**7.5**	**-0.4**	**-4.2**	**-3.6**	**-2.4**
Overall balance	**-9.5**	**-2.4**	**-10.5**	**-21.3**		

a. Only major items are reported.
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

targeted an overall deficit of 15.5 per cent of GDP, 6 percentage points less than in year 2000. The achievement of such reduction in a context of negative growth and declining revenues relies on a five-pronged strategy. With the operational tool of a cash budgeting system limiting expenditures to budgeted resources, a cap on public wages is likely to be introduced allowing a maximum 15 per cent nominal increase. Domestic debt is planned to be restructured through a switching from Treasury bills (T-bills) to longer-term government stocks at lower interest rates. Public employment is likely to be reduced and the divestiture of some public enterprises is expected to raise privatisation proceeds. Nevertheless, events that occurred during 2001 have threatened the implementation of this ambitious programme. The unbudgeted gold price support — offered to the mining sector in April 2001 and increased in August 2001 — is likely to drain a portion of public resources. A 70 per cent increase in fuel prices in June 2001 is likely to increase inflationary pressures, undermining the programmed public wage policy. The primary deficit is expected to improve in 2002 as reforms aimed at cutting down expenditures are becoming operational.

Since January 1999, monetary developments have been influenced by the government's rising borrowing requirements. In 1999 broad money grew by 30 per cent. The Reserve Bank of Zimbabwe (RBZ), in July 1999, doubled the reserve requirement and widened the margin between the benchmark bank rate and the T-bills rate by five percentage points, in an attempt to dampen further monetary expansion. As a result, interest rates surged to 17 per cent in real terms, crowding out the private sector's access to credit. In August 2000, monetary policy was eased to avoid further crowding out of the private sector. The margin between the bank rate and the Treasury bills has been subsequently reduced to one percentage point and commercial banks have been allowed to use part of their statutory reserves to finance credits to targeted sectors. As a result, M3 had further increased to 59.9 per cent by the end of 2000. The easing of monetary conditions allowed the central bank a more aggressive policy to meet the government requirements of a restructuring of the public debt. Through the enforcement of the 45 per cent statutory requirement for the holding of long-term government paper by institutional investors — such as pensions schemes and mutual funds — the RBZ has been able to reduce the interest rate of the 90-day T-bills from a level of 68 per cent in December 2000 to a level of 11 per cent in April 2001, though this increased modestly to 17 per cent by September. Despite policies which have eased fiscal requirements, in a situation characterised by high and increasing inflation, the potential hangover in 2002 for those institutional investors could be severe.

Notwithstanding efforts in market clearing operations, the Zimbabwe dollar remains substantially overvalued. In August 2000, the RBZ abandoned the fixed peg of Z$38 to the US dollar that applied from

January 1999. A 24 per cent step devaluation as well as periodic devaluations based on inflation differentials with trading partners have been introduced. Despite depreciation by 31 per cent *vis-à-vis* the US dollar by the end of 2000, the Zimbabwe dollar has remained above its market clearing value. Moreover, the monetary policy of artificially lowering interest rates introduced in 2001 is adding pressures on the exchange rate. Importers can now borrow at a negative real interest rate. As a result, the parallel exchange market, so far crucial for the functioning of the economy, registered a steep premium increase by mid-2001, from a 25 per cent premium toward the end of 2000, to a 265 per cent premium in September 2001, the US dollar being exchanged above Z$200, while the official exchange rate is still at Z$55 per US$1, with additional negative consequences on the financial sector.

After a period of sustained inflation of 21 per cent during 1995-1997, inflation accelerated in 1999 and peaked at 70 per cent in October 2000. The tighter monetary policy implemented during the first half of 2000 dampened inflationary pressures. Nevertheless, the August 2000 devaluation, coupled with the easing of monetary policy, has had the effect of putting inflation on an upward trend. In 2001 the situation has worsened owing to the steep increase in fuel prices and a subsequent increase in public utilities prices. In September 2001, the RBZ announced a 76 per cent inflation rate for August and the yearly inflation target of 57 for 2001 is likely to be revised upward. The rate is expected to attain 69.8 per cent in 2001 before receding slightly to 62.3 per cent in 2002.

External Position

Zimbabwe is a relatively open economy with trade accounting for more than 70 per cent of gross domestic product. In the last decade Europe (especially the United Kindgom and Germany) has been growing as Zimbabwe's primary export market, overtaking Africa. As such, European markets accounted for 38 per cent of export value growth in the 1990s. Nevertheless, the SADC area — South Africa in particular — is still a significant market for Zimbabwe's exports and can be considered crucial for manufactured products. South Africa — with the opening up of its economy which began in 1994 — has emerged as the major exporter to Zimbabwe's economy. In particular, South Africa provides a major share of the country's energy requirements. Exports are essentially agriculture products (tobacco, sugar, maize and cotton) and mining (gold, ferrochrome and nickel). Manufacturing has declined in recent years, passing from almost 30 per cent of total exports in 1995 to 21 per cent in 1999.

Despite major efforts pursued in the last ten years to liberalise trade, Zimbabwe is still characterised by a quite restrictive trade regime. The foreign exchange allocation system relaxed at the beginning of the decade has been recently restored in the form of stringent foreign exchange controls as a measure to regulate the growth of imports. A system of permits and monopolies for exports is still active: the Grain Marketing Board has the monopoly for maize exports and gold is exported only by the RBZ. On the other hand, a simplification of the structure of import tariffs and a reduction in the average and maximum tariff rates were introduced in September 2000 with a new import tariff schedule.

The country's external position seriously deteriorated in 1999 and 2000 reflecting the combined impact of the freeze on foreign assistance and declining exports. Foreign assets reserves started to fall off at the beginning of 1999 as a result of the overvalued exchange rate, erosion of competitiveness, depressed commodity prices and a standstill in external financing. As a consequence, imports fell drastically from US$2 billion to US$1.7 billion: the outcome was a positive current account of 0.3 per cent of GDP in 1999, after a 5.6 deficit registered in 1998.

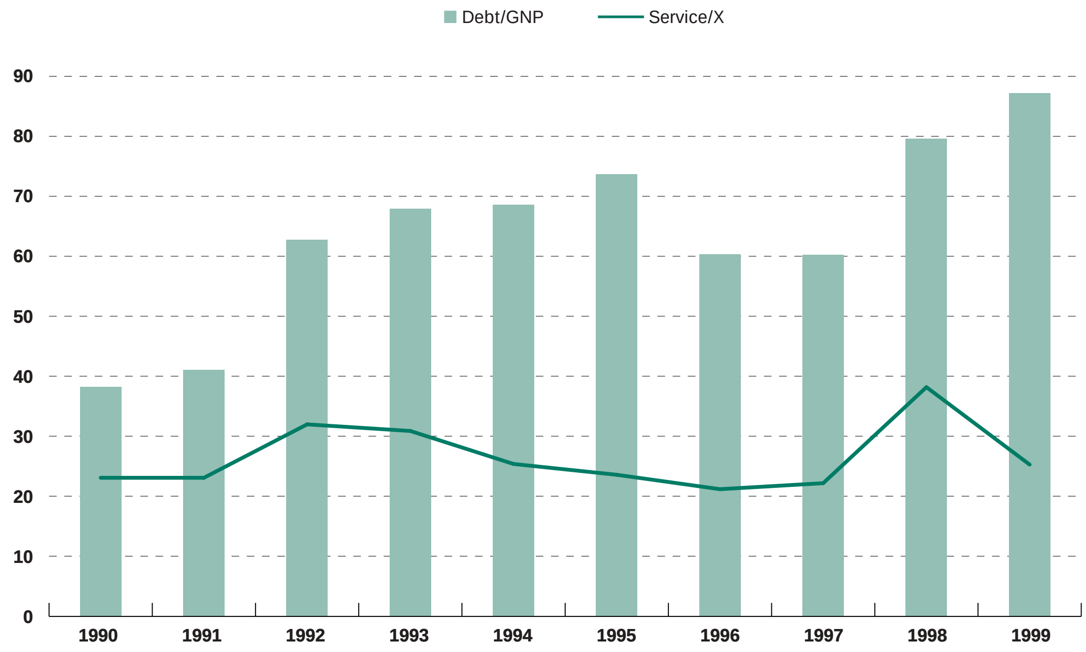
In 2000 the external position deteriorated further. In addition to the factors responsible for the bad performance of the previous year, the general downturn of the economy and the land crisis have contributed to the worsening of the situation. Export earnings from the agriculture sector have diminished and fuel and electricity shortages have had a negative impact on an already weak mining sector. As a consequence exports in 2000 fell from US$1.92 billion to US$1.79 billion. In the wake of the recent political violence, tourism

Table 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	1.2	-1.5	4.5	3.3	1.2	-0.2
Exports of goods (f.o.b.)	31.1	30.4	34.4	24.2	21.4	20.4
Imports of goods (f.o.b.)	-29.9	-31.9	-30.0	-21.0	-20.2	-20.6
Services	-3.5	-0.6	0.4	-1.1		
Factor income	-4.5	-5.5	-6.4	-5.9		
Current transfers	1.7	2.1	2.0	1.1		
Current account balance	**-5.1**	**-5.6**	**0.3**	**-2.7**		

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

Figure 5 - Stock of Total External Debt (percentage of GNP) **and Debt Service** (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance* .

receipts fell sharply in 2000 with a negative impact of the services account which passed from a surplus of US$21 million to a deficit of US$80 million. As a result, the current account has registered a deficit of 2.7 per cent as a percentage of GDP. A slow recovery is expected to start from 2001.

Foreign direct investment was not an important component of total investment until the early 1990s, when, with the opening of the economy and the establishment of the Zimbabwe Investment Centre (ZIC) in 1989, FDI inflows started. After having reached the level of 16.7 per cent of total gross domestic investment in 1997, the flows of foreign investment have declined substantially and virtually vanished in 2000 owing to macroeconomic mismanagement and to the governance crisis.

Financial budgetary support from international official and commercial lenders has been widely used by Zimbabwe since its independence. Although on paper the stock of foreign debt has remained unchanged since 1997, reflecting the cutback in aid inflows and lending by multilaterals, the country's offshore obligations have risen sharply with the build-up of foreign arrears. As a consequence, the stock of total external debt reached $4.6 billion in 1999, equal to 87 per cent of GDP. In terms of structure, external debt, being around 80 per cent public, is overwhelmingly medium- and long-term debt. Half of the public external debt is owed to multilateral institutions, notably the World Bank and the IMF, while the rest of it is contracted with foreign governments and to a lesser extent with private creditors. Foreign exchange shortages of the last two years have made debt repayments increasingly difficult and by mid-1999 the government had defaulted on its external debt commitments.

Structural Issues

With quite a diversified economy compared with other African countries, Zimbabwe was, until the beginning of the 1990s, structurally characterised by strong state intervention and rigid controls over prices. The gradual liberalisation of the economy which occurred through the 1990s has partly lifted the degree of state intervention. Nevertheless, core areas are still strictly controlled and the context of economic downturn has not helped the implementation of planned reforms.

Although the government's decision to privatise public enterprises has been announced as part of the liberalisation process started in 1991, the Privatisation Agency (PAZ) was not established until September 1999. The larger SOEs are related to public utilities in the energy sector (both in provision and distribution), air and railway transport, and other strategic sectors such as telecommunications, industrial development, financial services and the banking sector. Progress in privatisation has been made since 1997, and with the official launch of PAZ the programme is supposed to be accelerated. In 2000 the PAZ began to set up the regulatory framework of the privatisation programme through successive releases of the privatisation manual which sets the rules of the privatisation policy. According to PAZ officials the privatisation process should be implemented through the following patterns: in 2001 a *fast track* divestiture of firms already listed on the stock exchange such as some subsidiaries of the Industrial Development Corporation (IDC) will occur; at a second stage public utilities will be divested; then parastatals which have some social functions (like universities and colleges) will be privatised. So far, the whole process is lacking a government blueprint and time constraints. The three-year programme set by the government is expected to give total proceeds of Z$28 billion (equivalent to US$0.5 billion at the official exchange rate of Z$55:US$1) with an amount of Z$22 billion (US$0.4 billion) for the year 2001. In April 2001 the proceeds amounted to Z$5 billion only.

The level of transport infrastructure in Zimbabwe is well developed and the road network, with 15 000 km of tarred roads, is extended throughout the country. A landlocked country, Zimbabwe has direct links to Zambia and South Africa through a railway system. The National Railways of Zimbabwe (NRZ), a SOE, was reformed with World Bank aid in the mid-1990s and discussions are currently under way related to the concession strategy to be followed. Air transport, with two international airports and two state-controlled airlines, is also quite well developed. A new international air terminal in Harare was inaugurated in 2001. The national carrier, Air Zimbabwe, is experiencing financial problems, but these have been eased recently owing to the withdrawal of most major international carriers from Zimbabwe, except British Airways and South African Airways. Also the requirement that travellers must pay for air tickets in hard currency has diverted traffic away from international carriers to Air Zimbabwe, which sells tickets in Zimbabwe dollars. The airline's 2000 debt is estimated around Z$400 million (US$7.2 million) and the scheduled privatisation of the company is unlikely to be feasible in the near term.

The highly unequal distribution of land has always threatened social cohesion since the inception of independent Zimbabwe, and the land issue has become the dominant concern in the last four years**.** Twenty years after the proclamation of independence in 1980, the realisation of a more equitable distribution of land has still not been achieved. The distribution of land is still characterised by some 4 500 large-scale commercial farms, owned for the most by white farmers, living on 11 million hectares (ha) of the most fertile and best-irrigated land. On the other hand, 1.2 million households, around half of the population, are living on 16.3 million ha of communal poor quality, drought-prone land. In addition, according to the World Bank, about 40-50 per cent of the high potential arable commercial land is left unused for various reasons, including restrictions on the subdivision of land, the allocation of water rights and the absence of a land tax. The resettlement process began soon after independence to achieve a more equitable land distribution. Nevertheless, after a period (1980-1984) of fast resettlement, the process slowed down by the mid-1980s. As a result, until 1997 the Government had redistributed only 3.5 million ha of commercial land, equivalent to 10 per cent of arable land and 25 per cent of the pre-independence white-owned land. In a context of economic downturn with a subsequent lack of financial resources to fund the high cost of the resettlement process, growing political and popular discontent led the government to decide a more radical policy of land reform. In November 1997, the *willing-buyer-willing-seller* system had been abandoned and replaced by the government announcement of 1 471 commercial farms (almost 40 per cent of white-owned land) for compulsory purchase. The decision plunged the country into considerable confusion. Despite the International Donors' Conference held in Harare in September 1998, where all major donors, government and stakeholders agreed on a two-year *Inception Phase*, the situation has worsened over the last three years. In mid-2000, the government launched the *Fast Track Development Programme* covering 5 million ha and 150 000 families, compared with 3.5 million ha and 73 000 families, resettled so far, with the new principle of compensation for capital improvement and not for the value of the land, but by September 2001, over 9 million ha of commercial farmland had been listed for acquisition.

Against a background of increasing politicisation of the land issue, the likely prospects are disruption and uncertainty followed by sizeable output losses and unemployment of agricultural workers. Nevertheless, the land reform process still relies on its core principles: agreement between stakeholders, and adequate support (infrastructure, seeds, fertilisers and credit) to resettled households to avert decline in the yields.

Political and Social Context

The presidential election scheduled for April 2002 is a big challenge for Zimbabwe's democracy. By 2000 the ruling party ZANU-PF (Zimbabwe African National Union-Patriotic Front) and President Mugabe, the country's chief executive since independence, have been challenged by a strong opposition, after having dominated the country scene for 20 years. Economic discontent, the negative impact of the 1990s reforms on the people's living standards and rising corruption within a group which has ruled the country for 20 years have led to the rise of popular opposition to the government with subsequent violent riots and strikes during 1998. As a response to this discontent, the Zimbabwe Congress of Trade Unions (ZCTU) formed the Movement for Democratic Change (MDC) in September 1999. Since then, with the NO vote at the Constitutional Referendum — promoted by Mugabe — held in February 2000 and with the national election held in June 2000 where the MDC won 57 of the 120 contested seats, Mugabe and the ZANU-PF have been confronted by an organised and strong political opposition.

The responses so far have been disconcerting. Over 30 deaths attributable to political violence were reported in the run-up of the June 2000 elections and the politicisation of the land issue led to occupation of farms and to the deaths of five white farmers. Members of the National Liberation War Veterans Association, together with pro-ZANU-PF younger people, are being increasingly involved in the farm invasions, and their role in the run-up of the 2002 presidential election is puzzling. During 2001 political tensions are intensifying and potential food shortages at the beginning of 2002 are threatening the livelihood of the population leading to an unsustainable political and economic situation. In the present context there are fears of a rapid escalation of the current political violence in the run-up to the next round of election.

International relations over recent years have been characterised by Zimbabwe's military involvement in the DRC war and by rising international concerns related to the internal political situation. Zimbabwe has been fighting in DRC since 1998, in support of President Kabila, and by mid-2001 an estimated 12 000 troops had been sent there. Following the assassination of Laurent Désiré Kabila in January 2001, the 1999 Lusaka peace accord is more likely to be implemented. Indeed, Zimbabwe reduced its deployment by 3 000 troops in mid-2001. International concerns have risen in the last two years in relation to the violent clashes during the 2000 general elections. By 2001 the situation had been aggravated by the War Veterans' actions, including threats against foreign embassies and aid agencies. In August 2001 Denmark decided on an immediate freeze on all development aid co-operation with the Zimbabwean government. As the situation deteriorated, South Africa and Nigeria stepped up their involvement in the dispute between Zimbabwe and several OECD countries, which led to an agreement reached in September 2001 at a meeting of Commonwealth Ministers in Abuja, Nigeria. The Abuja agreement provides for the withdrawal of settlers from unlisted — or illegally listed — farms, as well as a return to the rule of law. After this Abuja Declaration, designed to resolve the land crisis peacefully, the South African government initiated a high-level conference in Harare in September 2001, to ensure its speedy implementation.

Zimbabwe's society is characterised by a persistent and increasing dualism in which the richest 20 per cent of the population receive 60 per cent of total income. Moreover, the recent economic crisis and the parallel squeezing of national resources available for social services are hampering the sustainability of the highly developed health care and education systems that placed Zimbabwe at the forefront of the continent ten years after independence. The spread of HIV/AIDS among the population is erasing the gains in life expectancy achieved in the last 20 years and the high prevalence of HIV-AIDS among the population is disorganising the health care system.

Inequalities between rural and urban areas are still large. According to a recent (1995/96) World Bank study, the incidence of poverty was equal to 48 per cent in rural areas compared with a level of 7.9 per cent in the urban areas. Moreover, all major indices of poverty — incidence, depth and distribution sensitive measure of severity — increased during the first part of the 1990s by more than a quarter. The absence of reliable data does not allow an accurate monitoring of the present situation. Nevertheless, some indicators suggest a worsening of the poverty context. Given the relatively high growth elasticity of poverty (0.68) and of extreme poverty (1.2) to growth, it is likely that poverty has increased in the last five years. The 1996-2000 average GDP growth of 1.8 per cent is far below the 4.7 per cent per year required to prevent the increase of the total number of extremely poor.

With 25 per cent of the adult population living with HIV/AIDS in 1999, Zimbabwe is one of the most infected populations in the world, overtaken only by Botswana and Swaziland. UNAIDS estimates that 1.5 million people are living with HIV/AIDS. Teachers and health workers are the most affected population and life expectancy will decline from 66.5 to 42.9 years during the 2000-2005 period as a result of HIV/ AIDS. Another serious effect of HIV/AIDS is the number of orphans. By the end of 1997 the number of living orphans was 360 000, by 2010 1.2 million orphans (10 per cent of total population) are likely to have a severe impact on social services and on the country's social cohesion. Although estimates of the economic impact are unclear, preliminary studies suggest a drop of 1 per cent in per capita output yearly growth. In order to fight the threat, an AIDS levy (a 3 per cent pay-as-you-earn tax) and a corporate tax were introduced in 2000. In 2001, Parliament instituted an AIDS Council, which is mandated to implement the national strategy against HIV/AIDS, and to disburse the funds. So far, the lack of a clear agenda has prevented the implementation of an effective strategy partly because some of the ministries have not developed their own plan, precluding the actual disbursement of funds. In June 2001, the Minister of Health estimated that there would be zero population growth in 2002, because of the heavy incidence of HIV-AIDS.

By African standards, the education system has made tremendous progress since independence, and now Zimbabwe enjoys a well-educated population**.** The most dramatic achievements in providing education were made in the first decade, between 1980 and 1990. The number of primary and secondary schools increased by 42 per cent and 662 per cent respectively and enrolments increased by over 200 per cent across the whole system. Since 1990, the main achievements have been related to the quality of teaching. The share of trained teachers in primary and secondary schools passed from 50 per cent in 1990 to 77 per cent in primary schools in 1997 and to 89 per cent in secondary schools in 1996. As a result of this dramatic progress primary education is free and universal and about a half of the 12-16 age group was enrolled in secondary schools in 1994. The adult literacy rate has increased accordingly, passing from 70 per cent in 1980 to 89 per cent in 2000. Nevertheless, the effect of the spread of HIV/AIDS on the education system is threatening the results achieved. Teachers are one of the most affected categories and the increasing number of orphans is likely to have a negative impact on the school population.

Part Three

Statistical Annex

List of tables

Methodology

Tables 1 to 6

Where indicated, the figures are reported on a fiscal-year basis. Figures for Botswana, Cameroon, Egypt, Ethiopia and Uganda are from July to June in the reference year. For South Africa and Namibia, fiscal year 2000 is from April 2000 to March 2001.

Table 7: Exports, 1999

The table is based on exports disagregated at 4 digit level (following the SITC3).

Table 8: Diversification and Competitiveness

The diversification indicator measures the extent to which exports are diversified. It is constructed as the inverse of a Herfindahl index, using desagregated exports at 4 digits (following the SITC3). A higher index indicates more export diversification.

The competitiveness indicator has two aspects: the sectoral effect and the global competitivity effect. In order to compute both competitiveness indicators, we decompose the growth of exports into three components: the growth rate of total international trade over the reference period (1995-1999) (not reported); the contribution to a country's export growth of the dynamics of the sectoral markets where the country sells its products, assuming that its sectoral market shares are constant (a weighted average of the differences between the sectoral export growth rates — measured at the world level — and total international trade growth, the weights being the shares of the corresponding products in the country's total exports); the competitiveness effect, or the balance (export growth minus world growth and sector effect), measuring the contribution of changes in sectoral market shares to a country's export growth.

Table 11: Aid Flows

DAC countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, United States.

Table 13: Demographic Indicators

Infant mortality rate: under one year old child deaths per live birth per year.

Total fertility rate: average number of children per woman.

Mortality under age 5: probability that a newborn infant would die before the age of 5.

Table 14: Poverty and Income distribution Indicators

National poverty line: absolute poverty line corresponding to the value of consumption necessary to satisfy minimum subsistence needs.

International poverty line: absolute poverty line corresponding to a level of income or consumption of $1 or $2 a day.

Gini index: index measuring the intensity of inequality in income or consumption expenditure distribution. Perfect equality leads to a Gini index of zero and maximum inequality to a Gini index of 100.

Share of consumption: share of total consumption for a decile of the population ranked by level of consumption.

Table 15: Basic Health Indicators

Life expectancy at birth: average number of years a newborn infant would live under the hypothesis that, during its life, the conditions of mortality remain the same as observed at its birth.

Life expectancy at birth with AIDS: estimated average number of years a newborn infant would live under the hypothesis that, during its life, the conditions of mortality remain the same as observed at its birth in particular the characteristics of AIDS epidemic.

Life expectancy at birth without AIDS: estimated number of years a newborn infant would live under the hypothesis of absence of AIDS during its life.

Undernourishment prevalence: proportion of the population that is suffering insufficient food intake to meet dietary energy requirements continuously.

Food availability: available nutritious food for human consumption expressed in kilo-calories per person per day. Note that the recommended daily caloric intake for an active healthy life is 2100 calories.

Public share of total health expenditure: share calculated by defining public health expenditure as current and capital outlays of government, compulsory social security schemes, extra-budgetary funds dedicated to health services delivery or financing and grants and loans provided by international agencies, other national authorities and commercial banks,

Private share of total health expenditure: share calculated by defining private expenditure as private insurance schemes and prepaid medical care plans, services delivered or financed by enterprises, outlays by non-governmental organisations and non-profit institutions serving mainly households, out-of-pocket payments, and other privately funded schemes not elsewhere classified, including investment outlays.

Table 16: Sanitary Conditions

Healthy life expectancy at birth: average equivalent number of years in full health a newborn infant would life under the hypothesis that, during its life, the conditions of mortality and ill-health remain the same as observed at its birth

Sanitation coverage: percentage of population with access to improved sanitation technologies (connection to a public sewer, connection to septic system, pour-flush latrine, simple pit latrine or ventilated improved pit latrine).

Water supply coverage: percentage of population with access to improved water supply (household connection, public standpipe, borehole, protected dug well and protected spring or rainwater collection).

Table 17: Major diseases

People living with HIV/AIDS: estimated number of people with HIV whether or not they have developed symptoms of AIDS.

HIV/AIDS adult prevalence: estimated percentage of the adult population (15-49) living with HIV/AIDS.

Malaria notified cases: cases of malaria reported from the different local case detection and reporting systems. These figures should be considered with caution because of the diversity of sources and probable underestimation.

Measles incidence: number of new cases of measles reported during the reference year.

MCV: Measles Containing Vaccine.

DTP3: Third dose of Diphtheria and Tetanus toxoids and Pertussis vaccine.

Table 19: School Enrolment

Gross enrolment ratio: population enrolled in a specific level of education, regardless of age, expressed as a percentage of the official school-age pupils enrolled in that level.

Net enrolment ratio: official school age population enrolled in a specific level of education expressed as a percentage of the total population enrolled in that level.

Table 21 to 23: Political indicators

The political indicators were built on information taken from the weekly newspaper *Marchés Tropicaux et Méditerranéens* according to a methodology first proposed by Dessus, Lafay and Morrisson[1]. The

1. Dessus and Morrisson: *A Politico-economic Model for Stabilisation in Africa*, Journal of African Economies, 1994.

qualitative information derived from the newspaper were either computed as 0-1 variables with 0 being the non-occurrence of the event and 1 its occurrence or as 4-value indicators (with 0: non-occurrence, 1: occurrence but weak intensity, 2: medium intensity and 3: strong intensity). From these indicators, three main political indexes were constructed: an index of conflicts, a measure of the softening of the political regime and one of its hardening.

Table 21: Conflicts

- **Strikes**

0 = non-occurrence,
1 = 1 strike or number of strikers lower than 1 000 (inclusive),
2 = 2 strikes or number of strikers between 1 000 and 5 000 (inclusive),
3 = 3 strikes or number of strikers strictly higher than 5 000.

- **Unrest and violence (number of dead and injured)**

Dead
0 = none,
1 = between 1 and 10 (non inclusive),
2 = between 10 and 100 (non inclusive),
3 = higher than 100.
Injured
0 = none,
1 = between 1 and 50 (non inclusive) or if the number of dead is between 1 and 10,
2 = between 50 and 500 (non inclusive) or if the number of dead is between 10 and 100,
3 = higher than 500 or if the number of dead exceeds 100.

- **Demonstrations**

0 = non-occurrence,
1 = 1 demonstration or number of participants lower than 5 000 (non inclusive),
2 = 2 demonstrations or number of participants between 5 000 and 10 000 (non inclusive),
3 = 3 demonstrations or number of participants higher than 10 000.

- **Coups d'état and attempted coups d'état**

Table 22: Softening of the political regime

- **Lifting of state of emergency**
- **Releases of political prisoners**
- **Measures in favour of human rights**
- **Improvement of political governance (fight against corruption…)**
- **Relinquishment of political persecution, rehabilitation, return from exile**
- **Political opening (measures in favour of democracy)**

1 = Discussion with the opposition,
2 = Entry of the opposition to power,
3 = Opening of a regime to elections.

- **Lifting of bans on strikes or demonstration**
- **Lifting of bans on press or public debates**

Tableau 23: Hardening of the political regime

- **State of emergency**
- **Arrests, incarcerations**

0 = non-occurrence,
1 = between 1 and 10 (non inclusive),
2 = between 10 and 100 (non inclusive),
3 = higher than 100.

- **Additional resources for the police, propaganda or censorship**
- **Toughening of the political environment (expulsions, dismissals, curfew, dissolution of political parties…)**
- **Violence perpetuated by the police (number of dead and injured)**

Dead
0 = none,
1 = between 1 and 10 (non inclusive),

2 = between 10 and 100 (non inclusive),
3 = higher or equal to 100.
Injured
0 = none,
1 = between 1 and 50 (non inclusive),
2 = between 50 and 500 (non inclusive),
3 = higher or equal to 500.

- **Prosecutions, executions**

- **Bans on strikes and demonstrations**

- **Bans on press or public debates**

- **Closing of schools**

- **Obligatory demonstrations**

A principal component analysis was undertaken in order to determine a relevant weight for each qualitative variable within the synthetic indexes. To that purpose, the dimensions of the different indicators were made homogenous. All 4-value indicators were split into 3 binary variables with one representing the occurrence of the event with weak intensity, the second binary indicator including weak and medium intensity and the third one the strong intensity.

Weights in 'Conflicts'

		low	average	high
Strike		0.80	0.80	0.84
Dead		0.50	0.65	0.65
Injured		0.63	0.63	0.63
Demonstration		0.47	0.51	0.51
Coups d'état and attempts	0.31			

Weights in 'Softening of the political regime'

		low	average	high
Lifting of state of emergency	0.26			
Release of political prisoners	0.46			
Measures in favour of human rights	0.37			
Improvement of political governance	0.06			
Relinquishment of political persecution	0.34			
Political opening		0.80	0.82	0.82
Lifting of bans on strikes or public debates	0.42			

Weights in 'hardening of the political regime'

		low	average	high
State of emergency	Negligible			
Violence perpetuated by the police: Dead		0.39	0.42	0.42
Injured		0.85	0.89	0.89
Arrests		0.49	0.49	0.49
Additional resources for the police	Negligible			
Toughening of the political environment	0.20			
Prosecutions, executions	0.32			
Bans on strikes and demonstrations	0.67			
Closing of schools	0.36			
Obligatory demonstrations	Negligible			

Table 1 - Basic Indicators, 2000

	Population (thousands)	Land area (thousands of km²)	Population Density (pop / km²)	Gross domestic product (current prices, $ million)	GDP per capita (current prices, $)	Annual real GDP growth (average over 1995-2000)
Botswana*	1541	567	2.7	5293	3434	5.7
Burkina Faso	11535	274	42.1	2218	192	4.8
Cameroon*	14876	465	32.0	8879	597	4.5
Chad	7885	1259	6.3	1393	177	2.6
Côte d'Ivoire	16013	318	50.4	9372	585	4.2
Egypt*	67884	995	68.2	91057	1341	5.5
Equatorial Guinea	457	28	16.3	1253	2742	31.6
Ethiopia*	62908	1000	62.9	6303	100	5.2
Gabon	1230	258	4.8	5025	4085	0.9
Ghana	19306	228	84.7	5102	264	4.3
Kenya	30669	569	53.9	10372	338	2.4
Mali	11351	1220	9.3	2440	215	5.6
Mauritius	1161	2	580.5	4629	3987	5.2
Morocco	29878	446	67.0	33467	1120	1.8
Mozambique	18292	784	23.3	3812	208	7.4
Namibia	1757	823	2.1	3435	1955	3.6
Nigeria	113862	911	125.0	40742	358	3.3
Senegal	9421	193	48.8	4374	464	5.3
South Africa	43309	1221	35.5	125887	2907	2.6
Tanzania	35119	884	39.7	9074	258	4.1
Uganda*	23300	200	116.5	6206	266	6.4
Zimbabwe	12627	387	32.6	7408	587	1.3
Total 22 countries	**534381**	**13032**	**41.0**	**387256**	**725**	**3.6**

Note: *Fiscal year.
Sources: Population: United Nations, Department of Economic and Social Affairs, Population Division, 2001, World Population Prospects, The 2000 Revision, Highlights
Land area: African Development Indicators, 2001, World Bank
GDP: various domestic authorities and IMF.

Table 2 - Real GDP Growth Rates, 1995-2002

	1995	1996	1997	1998	1999	2000	2001 (e)	2002 (p)
Botswana*	3.2	5.5	5.6	8.1	4.1	7.7	6.1	4.8
Burkina Faso	4.0	6.0	4.8	6.2	5.8	2.2	6.1	6.8
Cameroon*	3.1	5.0	5.1	5.0	4.4	4.2	3.9	3.9
Chad	1.3	2.4	4.5	6.7	0.5	0.6	7.9	8.5
Côte d'Ivoire	7.1	6.9	6.2	5.8	1.6	-2.3	-3.3	2.4
Egypt*	4.6	5.0	5.3	5.6	6.0	6.4	3.3	0.2
Equatorial Guinea	12.9	37.4	93.8	18.5	25.1	16.8	40.7	50.7
Ethiopia*	6.2	10.6	5.2	-1.4	6.2	4.6	6.2	7.6
Gabon	5.0	3.6	5.7	3.5	-9.6	-1.9	1.0	-0.3
Ghana	4.0	4.6	4.2	4.7	4.4	3.7	5.8	5.3
Kenya	4.8	4.1	2.1	2.1	2.0	-0.5	2.0	1.2
Mali	7.0	4.3	6.7	5.0	6.6	4.3	-0.6	8.2
Mauritius	3.8	5.2	5.8	5.8	2.1	8.9	5.6	6.5
Morocco	-6.6	12.2	-2.2	7.7	0.0	0.9	4.8	5.0
Mozambique	4.3	7.1	11.1	11.9	7.3	2.1	13.3	8.8
Namibia	4.1	3.2	4.2	3.3	3.4	3.3	3.0	3.9
Nigeria	2.6	6.4	2.7	1.8	2.8	3.8	3.8	3.5
Senegal	5.2	5.1	5.0	5.7	5.1	5.5	5.0	3.5
South Africa	3.1	4.2	2.5	0.7	1.9	3.1	2.9	3.2
Tanzania	3.5	4.5	3.5	3.3	4.8	5.1	4.4	4.3
Uganda*	7.8	8.5	5.1	4.6	7.6	4.6	4.5	6.5
Zimbabwe	-0.6	8.7	3.7	2.5	-0.2	-5.5	-5.7	0.7
Total 22 countries	**2.7**	**5.9**	**3.2**	**3.1**	**3.1**	**3.7**	**3.5**	**3.3**

Note: *Fiscal year.
Sources: Various domestic authorities, IMF and authors' estimates and predictions.

Table 3 - Demand Composition, 2000 (percentage of GDP)

	Final Consumption			Gross capital formation			External sector		
	Total	Private	Public	Total	Private	Public	Balance	Exports	Imports
Botswana*	60.9	31.0	29.9	26.6	11.8	14.8	12.5	56.0	-43.5
Burkina Faso	89.2	77.0	12.2	30.7	14.4	16.3	-19.9	12.4	-32.3
Cameroon*	79.7	69.5	10.2	16.4	12.8	3.6	3.9	30.7	-26.8
Chad	96.6	87.3	9.4	18.1	6.6	11.5	-14.7	16.1	-30.9
Côte d'Ivoire	79.1	68.8	10.3	14.1	10.5	3.6	6.8	46.8	-40.0
Egypt*	83.0	73.2	9.8	23.8	19.4	4.4	-6.8	16.1	-22.9
Equatorial Guinea	32.2	29.0	3.2	25.7	23.7	2.0	42.1	87.1	-45.0
Ethiopia*	100.8	80.8	20.0	16.0	9.5	6.5	-16.8	16.7	-33.5
Gabon	45.6	33.8	11.9	22.3	19.2	3.1	32.1	64.7	-32.6
Ghana	88.6	79.0	9.6	31.2	21.4	9.8	-19.8	60.9	-80.7
Kenya	95.7	77.2	18.5	16.4	10.2	6.1	-12.1	26.5	-38.5
Mali	90.0	76.7	13.3	21.1	12.0	9.1	-11.1	23.3	-34.4
Mauritius	76.4	64.0	12.4	25.6	19.1	6.5	-2.0	60.8	-62.8
Morocco	86.8	67.4	19.4	24.3	21.3	3.0	-11.0	20.2	-31.3
Mozambique	94.1	82.4	11.8	30.0	11.9	18.1	-24.1	13.1	-37.2
Namibia	84.6	57.2	27.4	18.1	14.8	3.3	-2.7	50.0	-52.7
Nigeria	67.3	53.8	13.5	21.7	12.0	9.7	11.0	52.5	-41.6
Senegal	88.2	74.5	13.7	19.9	12.4	7.4	-8.0	30.9	-38.9
South Africa**	81.8	63.5	18.3	15.3	11.2	4.1	3.0	29.1	-26.1
Tanzania	95.0	85.5	9.5	15.5	13.0	2.6	-10.5	14.1	-24.6
Uganda*	99.3	86.7	12.6	22.6	12.6	10.0	-21.9	10.1	-32.0
Zimbabwe	92.8	67.9	24.9	4.3	3.5	0.8	2.9	30.0	-27.1

Note: *Fiscal year.
** Residual item reported by the South African Reserve Bank has been reallocated in the domestic expenditure items.
Sources: Domestic authorities and IMF.

Table 4 - Public Finances, 2000 ($ million, current prices)

	Total revenue and grants**	Tax revenue	Grants	Total expenditure and net lending **	Current expenditure	*Wages and salaries*	*Interest payments*	Capital expenditure	Primary balance	Overall balance
Botswana*	2511	2087	25	2212	1503	513	20	725	318	298
Burkina Faso	514	285	206	608	275	125	23	329	-71	-94
Cameroon	1665	1077		1543	1290	446	387	238	510	123
Chad	180	95	68	260	130	55	15	130	-65	-80
Cote d'Ivoire	1785	1514	47	1921	1614	630	433	294	297	-136
Egypt*	21514	14096		25985	18905	6011	5040	7080	569	-4471
Equatorial Guinea	314	31		115	80	18	5	36	204	199
Ethiopia*	1377	794	211	2112	1689	623(e)	144	422	-591	-735
Gabon	1697	1674		1104	956	304	297	148	890	593
Ghana	978	796	108	1414	946	267	382	468	-54	-436
Kenya*	2482	2052	67	2476	2126	914	414	350	420	6
Mali	521	328	142	618	313	103	22	305	-74	-97
Mauritius*	878	776	6	1142	944	303	169	145	-95	-264
Morocco	8275	7577		10231	7686	3952	1753	1878	-203	-1956
Mozambique	927	444	444	1098	507	249	8	507	-163	-171
Namibia*	1140	1025	19	1263	1072	551	79	190	-44	-122
Nigeria	18950	6266		18037	6784	2740	3071	4897	3984	913
Senegal	865	755	75	875	577	247	64	271	53	-11
South Africa*	32412	31585		35004	33754	12823	6654	1333	4062	-2592
Tanzania*	1329	861	281	1468	1016	342	161	452	22	-139
Uganda*	1066	647	397	1237	692	247	50	539	-122	-172
Zimbabwe	2113	1904	81	3693	3503	1132	1270	153	-311	-1581

Note: (e) author's estimates.
*Fiscal year.
** Only major items are reported.
Sources: Domestic authorities and IMF.

Table 5 - Monetary Indicators

	Inflation (%)			Exchange Rate (LCU / $)			Broad Money (LCU billion) 2000			Reserves, excluding gold, ($ million) 2000	
	2000	2001(e)	2002(p)	1999	2000	Nov-2001	Level	% of GDP	Growth 1999/2000	Stock at year-end	Eq. months of imports
Botswana*	8.4	8.0	4.2	4.6	5.1	6.3	7.3	29.1	1.4	6318	32.9
Burkina Faso	-0.2	2.8	3.5	615.7	712.0	740.0	387.9	24.6	6.2	244	4.1
Cameroon*	0.8	2.4	0.3	615.7	712.0	740.0	1005.7	17.3	19.1	212	1.2
Chad	3.1	14.0	3.2	615.7	712.0	740.0	121.8	12.3	18.5	111	3.1
Côte d'Ivoire	2.5	3.9	4.3	615.7	712.0	740.0	1643.3	24.6	-1.9	668	2.1
Egypt*	3.8	2.8	0.8	3.4	3.7	4.3	261.0	77.7	11.6	13118	7.5
Equatorial Guinea	4.7	5.5	5.1	615.7	712.0	740.0	47.9	4.4	36.2	23	0.4
Ethiopia*	4.2	3.7	4.2	7.9	8.2	8.8	21.4	41.7	14.2	306	1.7
Gabon	1.0	0.4	0.0	615.7	712.0	740.0	527.3	14.7	18.3	190	1.4
Ghana	25.0	30.6	22.1	2647.3	5321.7	7506.8	5321.6	19.6	38.4	232	0.7
Kenya	6.2	5.3	5.4	70.3	76.2	79.6	343.0	43.4	4.5	898	2.7
Mali	-0.7	3.5	2.3	615.7	712.0	740.0	407.2	22.6	12.2	381	5.3
Mauritius	4.2	4.1	5.8	25.2	26.3	30.3	94.9	79.4	9.2	897	3.7
Morocco	1.9	2.1	1.6	9.8	10.6	11.6	292.8	82.4	8.4	4823	5.5
Mozambique	12.3	6.4	4.7	13028.6	15447.1	22450.0	17904.6	30.4	38.4	725	6.1
Namibia	9.2	6.0	5.8	6.1	6.9	10.1	9.6	40.2	13.0	260	1.7
Nigeria	6.9	13.7	13.6	92.3	101.7	125.5	1036.1	25.0	48.1	n.a.	n.a.
Senegal	0.7	3.6	3.0	615.7	712.0	740.0	789.3	25.4	10.7	384	2.7
South Africa	9.2	5.4	5.4	6.1	6.9	9.9	498.8	57.2	7.2	6083	2.2
Tanzania	6.2	4.8	4.6	744.8	800.4	951.3	1397.7	19.2	14.8	974	5.2
Uganda*	3.9	4.1	4.5	1454.8	1644.5	1759.0	1509.1	16.1	18.1	808	4.9
Zimbabwe	55.9	55.3	58.2	38.3	43.2	57.4	79.4	24.8	68.9	193	1.2

Note: *Fiscal year.
Sources: Inflation: Domestic Authorities, IMF and authors' estimates and predictions.
Exchange rate, Broad Money, Reserves: IMF *International Financial Statistics.*

Table 6 - Current Account, 2000 ($ million)

	Trade balance	Exports of goods	Imports of goods	Services balance	Net income	Current transfers	Current account balance
Botswana	835	2670	-1835	-201	-282	213	565
Burkina Faso	-319	209	-528	-104	-20	121	-322
Cameroon	590	2120	-1540	-240	-590	100	-150
Chad	-50	180	-230	-160	-10	30	-190
Côte d'Ivoire	1147	3672	-2525	-545	-750	-358	-506
Egypt*	-11472	6388	-17860	4699	931	4680	-1163
Equatorial Guinea	632	1261	-629	-567	-122	10	-48
Ethiopia	-1240	490	-1730	180	-70	470	-660
Gabon	2180	3192	-1012	-660	-900	-170	450
Ghana	-940	2515	-3455	-70	-155	830	-335
Kenya	-1230	1760	-2990	220	-120	830	-300
Mali	-100	517	-618	-240	-70	120	-290
Mauritius*	-452	1525	-1977	423	-35	87	23
Morocco	-3010	7520	-10530	1090	-920	2270	-570
Mozambique**	-793	364	-1157	-214	n.a.	564	-443
Namibia	-139	1455	-1595	-112	-10	456	194
Nigeria	7950	20360	-12410	-3500	-4180	1720	1990
Senegal	-380	960	-1340	-40	-60	200	-280
South Africa	4250	31486	-27236	-520	-3244	-925	-439
Tanzania	-955	600	-1555	-40	-40	810	-225
Uganda	-1070	440	-1510	-280	-10	870	-490
Zimbabwe	243	1796	-1553	-80	-440	80	-197
Total 22 countries	**-4244**	**90864**	**-95119**	**-1028**	**-11051**	**12827**	**-3508**

Note: *Fiscal year.
**Net income is included in services.
Sources: domestic authorities and IMF.

Table 7 - Exports, 1999

	Three main exports, with their share in total exports*			No of products accounting for more than 75 per cent of exports
	Product I	Product II	Product III	
Burkina Faso	Cotton. not carded, combed (59.2%)	Sugars. beet or cane. raw (10.1%)	Sesame seeds (6.5%)	3
Cameroon	Crude petroleum (29.6%)	Wood. non-conifer. rough. unt (16.1%)	Wood. non-conifer. sawn (11.2%)	6
Chad	Cotton. not carded. combed (81.6%)	Natural gums.resins.etc. (13.9%)		1
Cote d'Ivoire	Cocoa beans (44.9%)	Wood. non-conifer. sawn (5.8%)	Coffee. not roasted (5.6%)	8
Egypte	Crude petroleum (29.8%)	Motor gasolene. light oil (8.7%)	Cotton. not carded. combed (3.7%)	28
Equatorial Guinea	Crude petroleum (69.5%)	Wood. non-conifer. rough. unt (14.9%)	Fish.frozen ex.fillets (7.5%)	2
Ethiopia	Coffee. not roasted (61.7%)	Sesame seeds (8.7%)	Sheep skin without wool (4.5%)	3
Gabon	Crude petroleum (70.1%)	Wood. non-conifer. rough.unt (16.6%)	Manganese ores.concentrs (5.8%)	2
Ghana	Cocoa beans (31.42%)	Diamonds. excluding industrial (13.4%)	Aluminium. aluminium alloy. unwrght (8.5%)	7
Kenya	Tea (25.1%)	Coffee. not roasted (11.9%)	Cut flowers and foliage (9.2%)	22
Mali	Cotton. not carded. combed (83.3%)			1
Mauritius	Sugars. beet or cane. raw (19.0%)	T-shirts. other vests knit (12.8%)	Jerseys. pullovers. etc. (12.4%)	9
Morocco	Natural calc.phosphates (6.2%)	Diodes. transistors etc. (6.1%)	Molluscs (5.9%)	34
Mozambique	Crustaceans. frozen (33.4%)	Cotton. not carded. combed (11.5%)	Edible nuts fresh. dried (4.7%)	17
Nigeria	Crude petroleum (85.9%)			1
SACU	Platinum (10.4%)	Gold. nonmonetry excluding ores (8.4%)	Other coal. not agglomerated (6.3%)	65
Senegal	Molluscs (22.8%)	Groundnut oil. fractions (14.3%)	Fish. fresh. chilled. whole (11.9%)	8
Tanzania	Coffee. not roasted (23.4%)	Tobacco. stemmed. stripped (14.4%)	Fish fillets. frozen (9.0%)	14
Uganda	Coffee. not roasted (73.2%)	Fish fillets. frozen (4.7%)		2
Zimbabwe	Tobacco. stemmed. stripped (29.8%)	Other ferro-alloys (9.4%)	Cotton. not carded. combed (6.0%)	15

Note: *Products are reported when accounting for more than 4 per cent of total exports.
SACU: Southern Africa Custom Union.
Source: UNCTAD

Table 8 - Diversification and Competitiveness

	Diversification index					Annual export growth (%)	Competitiveness Indicator 1995-1999 (%)	
	1995	1996	1997	1998	1999	1995-1999	Sectoral effect	Global competitivness effect
Burkina Faso	2.9	3.4	2.1	2.3	2.7	6.1	-11.2	14.6
Cameroon	7.1	6.3	5.6	7.0	6.8	-2.1	-5.5	0.6
Chad	1.6	1.6	1.3	1.3	1.5	-6.1	-12.2	3.4
Cote d'Ivoire	7.0	5.7	6.0	4.8	4.6	-0.6	-3.5	0.0
Egypte	6.2	4.6	6.3	9.7	9.6	-5.0	-1.5	-6.3
Equatorial Guinea	2.6	3.7	2.2	1.9	1.9	133.6	-3.0	133.8
Ethiopia	2.6	2.8	2.3	1.9	2.5	-7.1	-9.1	-0.9
Gabon	1.8	1.7	1.6	1.9	1.9	-0.4	-3.2	0.0
Ghana	7.0	6.5	7.2	7.2	7.1	1.9	-2.3	1.4
Kenya	9.9	11.1	8.7	9.2	10.5	-1.6	-2.9	-1.5
Mali	1.5	1.3	1.3	1.2	1.4	-2.5	-12.0	6.8
Mauritius	10.2	9.6	10.7	10.1	11.0	0.6	-0.4	-1.8
Morocco	34.2	31.3	30.7	33.9	36.5	1.3	-1.8	0.2
Mozambique	6.4	6.4	6.9	7.6	7.5	0.3	-5.6	3.1
Nigeria	1.3	1.2	1.2	1.3	1.4	-3.9	-1.5	-5.2
SACU	21.1	27.0	21.9	23.6	32.9	3.1	-3.2	3.4
Senegal	11.9	13.8	14.6	14.0	9.2	-1.8	-4.9	0.3
Tanzania	9.9	10.7	10.7	11.1	10.7	-9.0	-6.6	-5.2
Uganda	1.4	1.7	1.7	1.8	1.8	-9.2	-9.4	-2.6
Zimbabwe	15.0	11.8	9.8	11.7	8.9	0.1	-3.7	1.1

Sources: International Trade Centre (UNCTAD and WTO) and United Nations Statistics Division, 1999.

Table 9 - International Prices of Exports

	Unit	1995	1996	1997	1998	1999	2000
Aluminum	($/mt)	1805.7	1505.7	1599.3	1357.5	1361.1	1549.1
Banana	($/mt)	445.1	469.6	517.1	489.5	373.2	424.0
Coal	($/mt)	39.2	37.2	36.4	34.4	33.2	33.1
Cocoa	(cents/kg)	143.2	145.6	161.9	167.6	113.5	90.6
Coffee (Arabica)	(cents/kg)	333.2	269.4	416.8	298.1	229.1	192.0
Coffee (Robusta)	(cents/kg)	277.1	180.6	173.6	182.3	148.9	91.3
Copper	($/mt)	2935.6	2294.9	2276.8	1654.1	1572.9	1813.5
Cotton	(cents/kg)	212.8	177.3	174.8	144.5	117.1	130.2
Fish meal	($/mt)	495.0	586.0	606.3	661.9	392.5	413.2
Gold	($/toz)	384.2	387.7	331.1	294.2	278.8	279.0
Groundnut oil	($/mt)	991.0	897.3	1010.4	909.4	787.7	713.7
Iron ore	($/mt fe)	28.4	30.0	30.2	31.0	27.6	28.8
Logs. Cameroon	($/CM)	339.5	284.3	284.8	286.4	269.3	275.4
Maize	($/mt)	123.5	165.8	117.1	102.0	90.2	88.5
Oil (crude)	($/bbl)	17.2	20.4	19.2	13.1	18.1	28.2
Palm oil	($/mt)	628.0	530.9	545.9	671.1	436.0	310.0
Phosphate (rock)	($/mt)	35.0	39.0	41.0	43.0	44.0	43.8
Rubber. RSS1. Malaysia	(cents/kg)	158.0	139.4	101.8	72.2	62.8	69.1
Sugar (EEC)	(cents/kg)	68.8	68.3	62.7	59.7	59.2	55.5
Sugar (US)	(cents/kg)	50.8	49.3	48.4	48.6	46.6	42.8
Sugar (free market)	(cents/kg)	29.3	26.4	25.1	19.7	13.8	18.0
Tea (Mombasa)	(cents/kg)	130.1	142.3	201.5	189.9	179.8	202.9
Tea (Avg. 3 auctions)	(cents/kg)	148.9	166.1	206.0	204.6	183.9	187.5
Tobacco	($/mt)	2643.4	3055.4	3531.6	3336.1	3041.6	2976.2

Source: World Bank, Economic Policy and Prospects Group.

Table 10 - Foreign Direct Investment ($ million)

	FDI inflows						FDI outflows						FDI inflows / GFCF				
	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999
Botswana	70	70	100	96	37	30	41	-1	4	4	1	4	6.4	6.6	8.8	8.0	2.6
Burkina Faso	10	17	13	10	13	12*	0	0	1	5	5	4*	1.8	2.6	1.9	1.4	1.8
Cameroon	7	35	45	50	40	45*	0	n.a.	n.a.	n.a.	n.a.	n.a.	0.6	2.5	3.1	3.1	2.7
Chad	13	18	15	16	15	50*	8*	7*	5*	7*	6*	6*	7.8	9.3	6.8	6.6	6.9
Cote d'Ivoire	268	302	450	314	279	290*	56	33	34	36	27	32*	20.9	22.4	29.6	15.7	17.2
Egypt	598	636	891	1076	1065	1235	93	5	129	46	38	51	5.3	5.1	6.1	6.1	5.6
Equatorial Guinea	127	376	20	24	120	55*	0	0	n.a.	n.a.	n.a.	n.a.	108.4	135.2	6.5	6.2	37.1
Ethiopia	14	22	288	261	68*	80*	n.a.	n.a.	8	171	-46	44*	1.6	1.9	27.5	23.4	6.2
Gabon	-113	312	143	211	200	90*	-1*	-1*	0*	0*	0*	0*	-10.5	23.7	10.5	11.8	13.5
Ghana	107	120	82	56	63	110	n.a.	150*	50*	30*	77*	52*	7.8	8.4	5.0	3.4	4.0
Kenya	32	13	40	42	42	60*	13	25	5	14	30	40*	1.7	0.7	2.1	2.2	2.6
Mali	123	47	74	36	51	56	0	4	5	27	50	6	20.5	7.6	12.6	5.7	8.4
Mauritius	19	37	55	12	49	277	4	3	3	14	6	13	1.9	3.3	5.0	1.3	4.2
Morocco	335	357	1079	329	847	201	15	30	9	20	18	59	4.7	5.0	15.6	4.1	9.9
Mozambique	45	73	64	213	382	139	n.a.	0	0	0	0*	0*	8.2	12.9	10.3	24.3	55.5
Namibia	153	129	84	77	111	124	-4	-22	1	1	2	2	21.4	17.3	14.2	14.0	17.7
Nigeria	1079	1593	1539	1051	1005	1000*	104	42	58	107	92	86*	23.9	35.4	25.2	12.7	16.0
Senegal	35	5	177	60	136	107	-3	2	0	10	6	18	5.3	0.7	22.4	6.4	16.4
South Africa	1241	818	3817	561	1502	877	2498	1044	2351	1779	1949	564	5.2	3.5	15.8	2.5	7.6
Tanzania	150	149	158	172	183	193	n.a.	n.a.	n.a.	0	0*	0*	14.6	13.9	14.0	12.8	13.8
Uganda	121	121	175	210	222	254	119	11	15	20	-8	9*	11.9	12.5	17.1	20.4	22.1
Zimbabwe	118	81	135	444	59	30*	13	51	28	9	9	15*	6.8	4.2	8.0	44.0	3.8
Total 22 countries	**4552**	**5331**	**9444**	**5321**	**6489**	**5315**	**2956**	**1383**	**2706**	**2300**	**2262**	**1005**					
Africa	**5935**	**6440**	**10970**	**8274**	**10473**	**9075**	**3007**	**1072**	**4055**	**2676**	**2581**	**1308**					

Note: *Estimates.
Source: UNCTAD (2001), *World Investment Report.*

Table 11 - Aid Flows ($ million)

	ODA net total, All donors						ODA net total, DAC countries						ODA net total, Multilateral					
	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000	1995	1996	1997	1998	1999	2000
Botswana	90.1	74.6	121.6	106.4	60.9	30.7	54.5	67.9	55.8	73.1	41.1	23.5	35.2	8.4	69.2	35.9	20.7	8.1
Burkina Faso	491.0	419.5	368.2	400.1	398.2	336.0	252.3	269.2	217.9	226.6	232.0	227.8	230.9	144.0	146.8	167.4	156.8	104.5
Cameroon	443.8	412.0	499.3	425.8	434.4	379.9	345.5	279.7	330.2	303.0	254.3	213.5	96.8	133.9	170.9	124.8	183.3	169.1
Chad	236.4	295.9	227.6	167.5	187.9	131.1	127.0	121.8	96.4	74.5	64.5	53.3	108.8	171.1	126.3	88.2	116.5	77.1
Cote d'Ivoire	1212.9	964.7	446.5	799.2	448.3	351.9	726.6	449.2	233.0	489.5	365.6	250.1	485.8	515.1	213.0	309.1	81.0	101.2
Egypt	2014.5	2199.3	1985.2	1954.7	1582.1	1328.4	1689.5	1933.3	1496.6	1472.3	1298.1	1138.9	208.2	211.9	388.6	268.4	210.8	135.6
Equatorial Guinea	33.6	30.8	24.3	24.9	20.2	21.3	21.7	23.3	17.8	18.3	14.6	18.2	11.9	7.5	6.5	6.5	5.6	3.3
Ethiopia	883.2	817.8	578.5	660.4	643.1	693.0	525.5	448.3	373.7	365.1	325.0	379.5	357.1	369.1	197.6	282.2	303.1	298.4
Gabon	144.0	126.6	38.9	44.6	47.6	11.8	135.6	113.4	30.2	37.4	34.5	-11.7	9.2	15.0	11.2	8.6	13.1	23.4
Ghana	650.8	651.0	494.0	702.1	609.4	609.4	358.6	348.9	291.9	374.5	355.6	385.0	298.2	302.7	189.1	325.1	249.9	222.1
Kenya	734.0	596.6	447.8	477.2	310.1	512.3	458.7	345.8	301.0	275.8	253.7	293.0	270.1	247.5	145.3	200.8	53.5	214.5
Mali	541.3	491.2	428.9	347.3	354.5	359.7	285.1	297.5	256.6	236.2	237.3	299.8	269.8	201.4	177.9	116.7	117.4	61.3
Mauritius	23.4	19.7	43.1	41.6	41.7	20.5	11.0	-1.1	2.8	20.0	5.1	12.4	13.8	22.3	30.2	22.6	36.7	7.5
Morocco	495.2	650.1	464.2	530.0	678.7	419.3	347.4	391.4	215.4	250.7	333.5	293.1	127.9	232.7	217.0	249.1	316.0	130.4
Mozambique	1064.2	888.0	947.8	1039.8	804.3	876.2	698.3	551.9	621.6	712.7	593.2	623.5	363.7	333.4	327.7	329.6	213.2	253.8
Namibia	191.8	188.0	164.6	180.2	177.7	151.7	147.7	136.4	122.9	128.7	117.2	96.8	43.9	51.4	41.6	51.5	60.4	54.8
Nigeria	211.9	190.1	200.3	203.6	152.0	184.8	72.6	47.3	52.2	34.3	52.9	84.3	139.8	143.5	148.6	169.8	96.3	100.2
Senegal	665.8	579.9	423.1	501.3	535.5	423.5	399.4	392.0	292.0	289.0	416.2	288.4	253.8	176.8	121.6	211.2	115.3	139.7
South Africa	388.9	364.2	496.3	513.8	541.4	487.5	318.5	312.0	415.2	420.7	386.2	353.6	67.4	46.2	80.7	92.4	153.4	132.0
Tanzania	877.4	877.1	944.7	1000.2	990.0	1044.6	586.7	605.4	569.1	769.2	613.4	778.7	286.2	274.1	372.9	228.4	375.8	268.5
Uganda	834.9	676.2	813.4	647.3	590.5	819.5	423.1	369.9	438.8	383.9	357.5	578.2	400.1	297.5	371.3	263.4	232.4	235.6
Zimbabwe	491.6	371.5	335.5	280.5	244.6	178.1	347.7	280.8	222.5	216.3	219.2	192.6	147.3	93.3	115.6	64.7	25.5	-13.9
All 22 countries	**12720.7**	**11884.7**	**10493.8**	**11048.5**	**9853.2**	**9371.0**	**8333.0**	**7784.1**	**6653.6**	**7171.8**	**6570.6**	**6572.4**	**4225.8**	**3998.8**	**3669.6**	**3616.0**	**3136.5**	**2727.0**
Africa	**21967.1**	**20005.4**	**17995.0**	**17564.2**	**16021.1**	**15711.6**	**13231.5**	**12834.5**	**11383.0**	**11218.7**	**10291.1**	**10342.0**	**8588.2**	**7048.1**	**6374.3**	**6034.7**	**5483.5**	**5073.0**

Note: ODA: overseas development assistance.
DAC: Development Assistance Committee of OECD.
Source: OECD (2001), Geographical Distribution of Financial Flows to AID Recipients.

Table 12 - External Debt Indicators

Country	Stock of total external debt ($ million, current prices) 1995	1996	1997	1998	1999	Stock of total external debt / GNP (%) 1995	1999	NPV of total debt service/ stock of total external debt (%) 1999	Long-term debt /total debt (%) 1999	Distribution of long-term debt (%) Multilateral 1999	Bilateral 1999	Private 1999	Total debt service paid / exports of goods and services (%) 1995	1999
Botswana	703	614	562	516	462	14.5	8.1	88.1	96	73	22	5	3.2	2.4
Burkina Faso	1267	1294	1297	1405	1518	54.1	59.1	44.7	85	88	12	0	11.2	15.7
Cameroon	9444	9640	9368	9930	9443	127.0	108.3	67.8	84	18	73	9	20.6	24.3
Chad	902	997	1026	1092	1142	64.0	75.5	45.8	92	83	16	2	4.1	10.3
Cote d'Ivoire	18898	19524	15609	14852	13170	209.9	126.3	72.4	86	28	36	36	23.1	26.2
Egypt	33266	31300	29850	31965	30404	55.2	33.7	60.0	86	15	82	2	13.3	9.0
Equatorial Guinea	292	282	283	306	271	190.7	46.7	25.0	77	47	46	6	2.2	0.8
Ethiopia	10310	10079	10079	10351	5551	180.3	86.9	56.1	97	51	46	2	19.1	16.8
Gabon	4360	4310	4278	4425	3978	102.8	104.4	103.7	83	16	80	4	15.6	19.3
Ghana	5936	6439	6346	6883	6928	93.9	90.8	49.8	85	62	25	13	25.2	19.9
Kenya	7412	6931	6603	6943	6562	85.3	62.6	59.7	85	51	35	13	30.3	26.7
Mali	2957	3006	3142	3201	3183	122.3	124.2	37.2	88	57	43	0	13.3	14.3
Mauritius	1757	1818	2472	2482	2464	44.4	59.1	53.2	77	13	15	72	9.4	9.7
Morocco	22665	21851	20162	20491	19060	71.6	56.0	104.6	99	33	36	30	33.4	24.3
Mozambique	7458	7566	7638	8315	6959	337.8	186.6	42.2	92	17	56	28	34.5	20.0
Namibia	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nigeria	34093	31407	28455	30315	29358	131.7	93.4	36.3	77	17	57	26	13.8	6.0
Senegal	3841	3663	3661	3847	3705	88.9	78.3	60.5	84	61	39	1	16.7	16.1
South Africa	25358	26050	25221	24711	24158	17.1	18.8	48.3	43	0	0	100	9.5	13.9
Tanzania	7406	7362	7129	7633	7967	144.3	91.3	40.7	83	49	47	4	17.9	15.5
Uganda	3572	3675	3913	4016	4077	62.7	63.7	38.8	87	72	26	2	20.0	23.7
Zimbabwe	5007	4976	4919	4707	4566	73.7	87.2	71.1	76	47	36	17	23.6	25.3
Total 22 countries	**206906**	**202783**	**192011**	**198386**	**184925**	**59.7**	**49.0**	**58.7**	**80**	**29**	**48**	**23**	**15.6**	**14.5**
Africa	**335046**	**329269**	**313502**	**323831**	**305667**	**75.1**	**63.0**	**60.6**	**81**	**30**	**48**	**22**	**18.5**	**16.8**

Note: NVP: Net Present Value.
Sources: Global Development Finance, World Bank and Easterly (2000), *How Did Highly Indebted Poor Countries Become Highly Indebted? Reviewing Two Decades of Debt Relief.*

Table 13 - Demographic Indicators

	Total population (thousands)	Urban Population (% of total)	Sex ratio (males per 100 females)	Population growth rate (%)		Infant mortality rate (per 1000)	Total fertility rate	Mortality under age 5 (per 1000)	Distribution by age (%)		
	2000	2000	2000	1995-2000	2000-2005	2000-2005	2000-2005	2000-2005	0-14	15-59 2000	60+
Botswana	1541	50.2	96	1.6	0.5	67.2	3.9	118.0	42.1	53.4	4.5
Burkina Faso	11535	18.5	94	2.3	3.0	86.6	6.8	155.0	48.7	46.5	4.8
Cameroon	14876	48.9	99	2.3	2.1	79.3	4.7	105.0	43.1	51.3	5.6
Chad	7885	23.8	98	3.2	3.1	116.1	6.7	159.0	46.5	48.6	4.9
Cote d'Ivoire	16013	46.4	105	2.1	2.1	80.8	4.6	124.0	42.1	52.9	5.0
Egypt	67884	45.2	103	1.8	1.7	40.5	2.9	50.0	35.4	58.3	6.3
Equatorial Guinea	457	48.2	97	2.7	2.8	98.8	5.9	160.0	43.7	50.3	6.0
Ethiopia	62908	17.6	99	2.6	2.4	106.1	6.8	165.0	45.2	50.1	4.7
Gabon	1230	81.4	98	2.6	2.5	80.0	5.4	123.0	40.2	51.1	8.7
Ghana	19306	38.4	99	2.2	2.2	62.1	4.2	88.0	40.9	54.0	5.1
Kenya	30669	33.1	99	2.3	1.9	58.7	4.2	104.0	43.5	52.3	4.2
Mali	11351	30.0	98	2.7	2.9	120.5	7.0	213.0	46.1	48.1	5.7
Mauritius*	1161	41.3	99	0.8	0.8	16.0	1.9	16.0	25.6	65.4	9.0
Morocco	29878	56.1	100	1.9	1.8	42.1	3.0	53.0	34.7	59.0	6.4
Mozambique	18292	40.2	98	2.3	1.8	127.7	5.9	194.0	43.9	50.9	5.1
Namibia	1757	30.9	98	2.1	1.7	64.7	4.9	147.0	43.7	50.6	5.6
Nigeria	113862	44.0	102	2.7	2.6	78.5	5.4	137.0	45.1	50.2	4.8
Senegal	9421	47.4	99	2.5	2.5	56.8	5.1	103.0	44.3	51.5	4.2
South Africa	43309	50.4	97	1.6	0.8	59.2	2.9	105.0	34.0	60.3	5.7
Tanzania	35119	32.9	98	2.6	2.3	72.7	5.0	122.0	45.0	51.0	4.0
Uganda	23300	14.2	100	3.0	3.2	93.9	7.1	149.0	49.2	47.0	3.8
Zimbabwe	12627	35.3	100	1.9	1.7	55.0	4.5	122.0	45.2	50.1	4.7
Total 22 countries	**536381**	**38.2**	**100**	**2.3**	**2.2**	**74.2**	**4.9**	**120.0**	**42.2**	**52.8**	**5.1**

Note: *Including Agalega, Rodrigues and Saint Brandon.
Source: United Nations, Department of Economic and Social Affairs, Population Division, 2001, World Population Prospects, The 2000 Revision, Highlights except for mortality under age 5, which is based on the 1998 revision.

Table 14 - Poverty and Income Distribution Indicators

	National poverty line Population below the poverty line (%)				International poverty line Population below the poverty line (%)				Gini Coefficient**	Share of consumption (%)	
	Survey year	Rural	Urban	National	Survey year	Below 1$	Below 2$	Survey year		Lowest 10%	Highest 10%
Botswana					1985-86	33.3	61.4				
Burkina Faso	1998	50.7	15.9	45.3	1994	61.2	85.8	1994	48.2	2.2	39.5
Cameroon	1996	55	22	50.5				1996	42		
Chad	1995-96	67	63	64							
Cote d'Ivoire	1998	41.8	23.4	33.6	1995	12.3	49.4	1995	36.7	3.1	28.8
Egypt	1995-96	23.3	22.5	22.9	1995	3.1	52.7	1995	28.9	4.4	25
Equatorial Guinea											
Ethiopia	1995-96	47	33	45	1995	31.3	76.4	1995	40	3	33.7
Gabon	1994			62*	1994	23					
Ghana	1998-99	51.6	22.8	42.6	1998	38.8	74.6	1998	39.6	2.4	29.5
Kenya	1997	51	49	52	1994	26.5	62.3	1994	44.5	1.8	34.9
Mali	1994	75.8	36.6	68.8	1994	72.8	90.6	1994	50.5	1.8	40.4
Mauritius											
Morocco	1998-99	27.2	12.0	19	1990-91	<2	7.5	1998-99	39.5	2.6	30.9
Mozambique	1996-97	71.2	62.0	69.4				1996-97	39.6	2.5	31.7
Namibia					1993	34.9	55.8	1998	70		
Nigeria	1992-93	36.4	30.4	34.1	1997	70.2	90.8	1996-97	50.6	1.6	40.8
Senegal	1995	79.5	30.0	57.9	1995	26.3	67.8	1995	41.3	2.6	33.5
South Africa	1993				1993	11.5	35.8	1993-94	59.3	1.1	45.9
Tanzania	1991			51.5	1993	19.9	59.7	1993	38.2	2.8	30.1
Uganda	1999-2000	10.3	39.1	35.2				1996	37.4	3	29.8
Zimbabwe	1995-96	86.4	53.4	75.6	1990-91	36	64.2	1990-91	56.8	1.8	46.9

Note: *: The national poverty line is defined as 2/3 of the average consumption.
**: The Gini coefficient is defined on consumption, except for Namibia where the coefficient is drawn from income distribution.

Sources: Domestic authorities and World Bank (2001), World Development Report 2002.

Table 15 - Basic Health Indicators

	Life expectancy at birth (years)			Undernourishment prevalence (%)	Food availability (Kcal/person/day)	Total health expenditure				Public health exp. (% of total government expenditure)
		With AIDS	Without AIDS			as % of GDP	Per capita ($)	Distribution Public (%)	Distribution Private (%)	
	1995-2000	2000-2005	2000-2005	1996-1998	1996-1998	1998	1998	1998	1998	1998
Botswana	44.4	36.1	69.7	27	2210	3.5	120	70.7	29.3	5.5
Burkina Faso	45.3	48.1	55.9	32	2160	4.0	9	67.7	32.3	10.6
Cameroon	50.0	50.0	58.6	29	2190	2.7	17	30.9	69.1	5.6
Chad	45.2	46.3	48.8	38	2070	2.9	7	78.6	21.4	12.6
Cote d'Ivoire	47.7	47.9	58.6	14	2610	2.9	22	46.7	53.3	6.0
Egypt	66.3	68.3	n.a.	4	3280	4.6	56	30.8	69.2	4.4
Equatorial Guinea	50.0	52.0	n.a.	n.a.	n.a.	4.2	44	59.4	40.6	8.3
Ethiopia	44.5	43.3	53.0	49	1840	5.2	6	46.6	53.4	9.5
Gabon	52.4	52.9	57.5	8	2540	3.0	122	66.7	33.3	6.4
Ghana	56.3	57.2	62.0	10	2670	4.3	18	54.0	46.0	9.0
Kenya	52.2	49.3	65.9	43	1970	7.6	30	28.1	71.9	7.8
Mali	50.9	52.1	54.7	32	2150	4.4	11	46.5	53.5	8.3
Mauritius	70.7*	72.0*	n.a.	6	2940	3.4	117	51.8	48.2	7.1
Morocco	66.6	68.7	n.a.	5	3130	4.4	54	30.0	70.0	3.9
Mozambique	40.6	38.0	49.0	58	1860	3.8	8	57.7	42.3	11.1
Namibia	45.1	44.3	64.5	31	2130	8.2	145	54.3	45.7	12.0
Nigeria	51.3	52.1	58.1	8	2760	2.1	24	39.4	60.6	5.1
Senegal	52.3	54.3	n.a.	23	2290	4.5	23	58.4	41.6	13.1
South Africa	56.7	47.4	65.8	n.a.	n.a.	8.7	275	43.6	56.4	11.6
Tanzania	51.1	51.1	59.2	41	2000	4.9	11	48.5	51.5	9.3
Uganda	41.9	46.0	54.2	30	2140	3.5	10	38.2	61.8	14.9
Zimbabwe	42.9	42.9	68.5	37	2140	10.8	60	55.9	44.1	17.0

Note: *Including Agalega, Rodrigues and Saint Brandon

Sources: Life expectancy at birth : United Nations, Department of Economic and Social Affairs, Population Division, 2001, *World Population Prospects, The 2000 Revision, Highlights.*
Undernourishment prevalence and food availability: FAO, 2000, *The State of Food Insecurity in the World 2000.*
Total health expenditure and public health expenditure: WHO, 2001, *The World Health Report 2001.*

Table 16 - Sanitary Conditions

	Healthy life expectancy at birth (years)			Water supply coverage (%)			Sanitation coverage (%)			Health personnel (per 100 000)		
	Total	Male	Female	Total	Urban	Rural	Total	Urban	Rural	Survey year	Physicians	Nurses
		2000			2000			2000				
Botswana	37.3	38.1	36.5	n.a.	100	n.a.	n.a.	n.a.	n.a.	1994	23.8	219.1
Burkina Faso	34.8	35.4	34.1	n.a.	84	n.a.	29	88	16	1995	3.4	19.6
Cameroon	40.4	40.9	39.9	62	82	42	92	99	85	1996	7.4	36.7
Chad	39.3	38.6	39.9	27	31	26	29	81	13	1994	3.3	14.7
Cote d'Ivoire	39.0	39.1	38.9	77	90	65	n.a.	n.a.	n.a.	1996	9.0	31.2
Egypt	57.1	57.1	57.0	95	96	94	94	98	91	1996	202.0	233.0
Equatorial Guinea	44.8	44.9	44.8	43	45	42	53	60	46	1996	24.6	39.5
Ethiopia	35.4	35.7	35.1	24	77	13	15	58	6	n.a.	n.a.	n.a.
Gabon	46.6	46.8	46.5	70	73	55	21	25	4	n.a.	n.a.	n.a.
Ghana	46.7	46.5	46.9	64	87	49	63	62	64	1996	6.2	72.0
Kenya	40.7	41.2	40.1	49	87	31	86	96	81	1995	13.2	90.1
Mali	34.5	34.8	34.1	65	74	61	69	93	58	1994	4.7	13.1
Mauritius	60.5	58.6	62.5	100	100	100	99	100	99	1995	85.0	232.9
Morocco	54.9	55.3	54.5	82	100	58	75	100	42	1997	46.0	105.0
Mozambique	31.3	31.5	31.1	60	86	43	43	69	26	n.a.	n.a.	n.a.
Namibia	35.6	36.5	34.7	77	100	67	41	96	17	1997	29.5	168.0
Nigeria	41.6	42.1	41.1	57	81	39	63	85	45	1992	18.5	66.1
Senegal	44.9	45.2	44.5	78	92	65	70	94	48	1995	7.5	22.1
South Africa	43.2	43.0	43.5	86	92	80	86	99	73	1996	56.3	471.8
Tanzania	38.1	38.6	37.5	54	80	42	90	98	86	1995	4.1	85.2
Uganda	35.7	36.2	35.2	50	72	46	75	96	72	1996	n.a.	18.7
Zimbabwe	38.8	39.6	38.1	85	100	77	68	99	51	1995	13.9	128.7

Sources: Healthy life expectancy at birth: WHO, 2001, *The World Health Report 2001.*
Water supply coverage and sanitation coverage: WHO and UNICEF, 2000, *Global Water supply and Sanitation Assessment, 2000 Report.*
Health personnel: WHO, WHO Statistical Information System.

Table 17 - Major Diseases

	Total population (000)	People living with HIV/AIDS (000)	HIV/AIDS Adult prevalence (%)	AIDS orphans cumulative (000)	Malaria notified cases		Tuberculosis notified cases	Measles Incidence	Vaccination coverage (%)	
									MCV	DTP3
	2000		1999		Survey year	Notified cases	1999	2000	2000	
Botswana	1541	290	35.8	66	1995	17599	8195	2672	84	85
Burkina Faso	11535	350	6.4	320	1995	501020	2134	6074	59	57
Cameroon	14876	540	7.7	270	1997	645309	7660	14629	46**	53
Chad	7885	92	2.7	68	1997	343186	4710	3546	42	28
Cote d'Ivoire	16013	760	10.8	420	1997	983089	15056	5729	73	72
Egypt	67884	n.a.	0.02*	na	1997	11	n.a.	2633	98	98
Equatorial Guinea	457	1	0.5	1	1995	12530	416**	0	19	32
Ethiopia	62908	3000	10.6	1200	1994	358469	72095	1660	37	42
Gabon	1230	23	4.2	9	1997	35842	1598	15	27	10
Ghana	19306	340	3.6	170	1997	2227762	10352	23068	84	84
Kenya	30669	2100	13.9	730	1995	4343190	57266	21002	46	63
Mali	11351	100	2.0	45	1997	384907	4473	1578	57	32
Mauritius	1161	n.a.	0.08*	n.a.	1997	65	174	0	84	88
Morocco	29878	n.a.	0.03*	n.a.	1997	125	n.a.	3742	93	95
Mozambique	18292	1200	13.2	310	n.a.	n.a.	19672**	7375	97	88
Namibia	1757	160	19.5	67	1997	425185	7951	469	69	79
Nigeria	113862	2700	5.1	1400	1997	616466	24143	212183	30	38
Senegal	9421	79	1.8	42	1995	628773	7282	5839	48	52
South Africa	43309	4200	19.9	420	1996	29160	129055	1459	95	96
Tanzania	35119	1300	8.1	1100	1997	1131655	52437	14649	78	79
Uganda	23300	820	8.3	1700	n.a.	n.a.	34994	42554	56	53
Zimbabwe	12627	1500	25.1	900	1995	330002	50138	1483	70	77
Total 22 countries	**536381**	**11959**	**7.7**	**5939**						

Note: * Not enough data were available to produce an estimate of HIV prevalence for 1999. 1994 prevalence rates from the WHO Weekly Epidemiological Record 1995, 70th year, were then used.
** Last data available, 1998 for tuberculosis notified cases in Equatorial Guinea and Mozambique, 1997 for measles incidence in Equatorial Guinea and 1999 for measles vaccination coverage in Cameroon.
DTP3: Diphtheria, tetanus toxoids and pertussis antigen.
MCV: Measles-containing vaccine.

Sources: HIV/AIDS: UNAIDS, 2000, *Report on the global HIV/AIDS epidemic, June 2000.*
Malaria notified cases: WHO, 1999, *Weekly Epidemiological Record, 74th year*
Tuberculosis notified cases: WHO, 2001, *Global Tuberculosis Control, WHO Report 2001.*
Measles incidence and vaccination coverage: WHO, 2000, Vaccine surveillance database.

Table 18 - Basic Education Indicators

	Estimated adult illiteracy rate, 2001 (%) (people over 15)			Estimated youth illiteracy rate, 2001 (%) (people between 15 and 24)			Public expenditure on education 1998 (% of GDP)
	Total	Male	Female	Total	Male	Female	
Botswana	22.0	24.9	19.2	11.4	15.5	7.3	9.9**
Burkina Faso	75.2	65.1	85.1	64.3	53.1	75.5	1.9*
Cameroon	23.0	17.2	28.7	5.8	5.7	5.9	2.6
Chad	55.8	47.0	64.2	31.7	25.3	38.0	1.8
Cote d'Ivoire	51.6	44.0	59.5	33.7	29.0	38.5	4.3
Egypt	43.8	32.7	55.1	29.3	22.8	36.2	4.4
Equatorial Guinea	15.8	7.2	24.0	2.8	1.4	4.3	1.8
Ethiopia	60.4	55.6	65.3	44.8	44.8	44.7	3.5*
Gabon	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.3
Ghana	27.4	18.9	35.7	8.5	6.1	10.9	4.3*
Kenya	16.6	10.5	22.7	4.6	3.8	5.4	6.5
Mali	56.9	49.6	63.9	31.9	26.2	37.7	3.0
Mauritius	15.0	11.9	18.2	5.8	6.4	5.3	4.0
Morocco	50.1	37.3	62.8	31.4	23.1	40.0	6.0
Mozambique	54.7	38.8	70.0	38.3	24.1	52.3	3.0
Namibia	17.3	16.6	18.1	8.1	9.7	6.3	9.1
Nigeria	34.7	26.5	42.6	12.3	9.7	15.0	1.4*
Senegal	61.7	51.8	71.3	48.2	39.5	56.9	3.4
South Africa	14.4	13.7	15.0	8.5	8.5	8.5	6.0
Tanzania	23.2	14.6	31.5	8.2	5.9	10.5	2.9*
Uganda	31.9	21.7	41.9	20.3	13.9	26.7	3.5*
Zimbabwe	10.6	6.7	14.5	2.6	1.2	3.9	10.1

Note: *Domestic authorities. Last data available for the period 1995-2000.
**Authors' estimates.

Sources: Youth and adult illiteracy rate: UNESCO, February 2001.
Public expenditure on education: Domestic Authorities and UNESCO, February 2001.

Table 19 - School Enrolment

	Primary Enrolment Ratio Latest available data			UNESCO primary, 1998 Gross enrolment ratio			UNESCO primary, 1998 Net enrolment ratio			UNESCO primary, 1998 Pupil/ teacher ratio	UNESCO secondary, 1998 Gross enrolment ratio			UNESCO secondary, 1998 Pupil/ teacher ratio	Years of schooling (for 15-64 years old) 2000
	Survey year	Gross	Net	Total	Male	Female	Total	Male	Female		Total	Male	Female		
Botswana				105	106	105	81	79	82	28	77	73	80	17	n.a.
Burkina Faso	2000-01	42.7		42	50	34	34	40	28	49	10	12	7	28	0.9
Cameroon				90	99	82	n.a.	n.a.	n.a.	52	20	23	18	24	4.6
Chad				67	85	49	55	68	42	68	11	17	4	34	n.a.
Cote d'Ivoire				78	89	66	59	67	51	43	23*	30*	16*	29	3.2
Egypt				100*	104*	96*	92*	95*	89*	23*	81*	84*	78*	19*	6.8
Equatorial Guinea	2000	89.1		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	57	n.a.	n.a.	n.a.	25	n.a.
Ethiopia	2000	51		63	79	48	35	41	30	n.a.	17	21	13	n.a.	1.9
Gabon	1995-96	142		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	44	n.a.	n.a.	n.a.	28	5.1
Ghana	1999	82.8		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.3
Kenya				92	92	92	n.a.	n.a.	n.a.	28	31*	32*	29*	26	6.1
Mali	1999-2000	56		53*	63*	44*	42*	49*	34*	62	14	19	10	28	1.1
Mauritius	2000	100		108	108	108	93	93	93	26	71	70	71	20	7.6
Morocco				97	107	87	79	85	76	28	40	44	35	17	3.6
Mozambique				71	83	60	41	45	37	61	9*	11*	7*	32	2.4
Namibia	2000	119.4	91.5	126	125	127	86	83	90	32	59	55	64	22	n.a.
Nigeria	2000	91		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	3.9
Senegal	1999	65.5		70	76	63	59	64	54	49	17	21	13	n.a.	2.6
South Africa	2000	115		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	30	7.3
Tanzania	2000		57	65	65	65	48	47	49	38	n.a.	n.a.	n.a.	19	3.5
Uganda	2000		94	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	60	n.a.	n.a.	n.a.	19	3.3
Zimbabwe				109	111	107	90	90	91	41	49	52	46	27	8.3

Note: * UNESCO estimates

Sources: Primary gross enrolment ratio, latest available data: domestic authorities.
UNESCO primary and secondary gross enrolment ratios, net enrolment ratios and pupil/teacher ratios: UNESCO, February 2001.
Years of schooling: *Growth and Human Capital: Good Data, Good Results,* Daniel Cohen and Marcello Soto (2001), OECD Development Centre Technical Paper.

Table 20 - Corruption Perception Index

	1998		1999		2000		2001	
	Index	Rank / 85	Index	Rank / 99	Index	Rank / 88	Index	Rank / 90
Botswana	6.1	23	6.1	24	6.0	24	6.0	26
Burkina Faso	n.a.	n.a.	n.a.	n.a.	3.0	63	n.a.	n.a.
Cameroon	1.4	85	1.5	99	2.0	82	2.0	84
Chad	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Côte d´Ivoire	3.1	59	2.6	75	2.7	69	2.4	77
Egypt	2.9	66	3.3	63	3.1	13	3.6	54
Equatorial Guinea	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ethiopia	n.a.	n.a.	n.a.	n.a.	3.2	58	na	na
Gabon	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Ghana	3.3	55	3.3	63	3.5	50	3.4	59
Kenya	2.5	74	2.0	90	2.1	80	2.0	84
Mali	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Mauritius	5.0	33	4.9	36	4.7	35	4.5	40
Morocco	3.7	50	4.1	45	4.7	35	n.a.	n.a.
Mozambique	n.a.	n.a.	3.5	56	2.2	79	n.a.	n.a.
Namibia	5.3	29	5.3	29	5.4	28	5.4	30
Nigeria	1.9	81	1.6	98	1.2	88	1.0	90
Senegal	3.3	55	3.4	58	3.5	50	2.9	65
South Africa	5.2	32	5.0	34	5.0	32	4.8	38
Tanzania	1.9	81	1.9	93	2.5	74	2.2	82
Uganda	2.6	73	2.2	87	2.3	78	1.9	88
Zimbabwe	4.2	43	4.1	45	3.0	63	2.9	65

Source: Transparency International.

Table 21 - Conflicts

	1998 (annual)	1999 (annual)	2000 (annual)	2001		
				I quarter	II quarter	III quarter
Botswana	0.0	0.0	0.0	0.0	0.0	0.0
Burkina Faso	3.0	19.6	73.7	5.2	0.0	0.0
Cameroon	4.3	9.0	6.2	1.9	0.0	0.0
Chad	6.1	10.0	16.4	1.9	4.1	8.1
Côte d'Ivoire	15.1	47.2	43.5	4.0	0.0	1.9
Egypt	0.0	1.9	9.2	0.0	1.8	3.4
Equatorial Guinea	3.7	0.0	0.0	0.0	0.0	0.0
Ethiopia	0.5	10.1	2.5	2.5	7.3	0.0
Gabon	6.7	0.8	0.0	0.0	0.0	0.0
Ghana	2.4	15.8	3.8	0.0	0.0	0.3
Kenya	48.5	0.0	0.0	3.2	3.7	2.9
Mali	9.8	12.7	0.0	0.0	0.0	0.0
Mauritius	0.0	12.8	0.0	0.0	0.0	0.0
Morocco	2.0	1.5	1.5	0.0	0.0	0.0
Mozambique	0.0	16.5	9.9	0.0	0.0	0.0
Namibia	0.0	10.6	7.4	0.0	0.0	0.0
Nigeria	21.4	80.5	44.0	3.9	41.3	11.3
Senegal	7.6	13.2	6.9	1.5	3.7	1.5
South Africa	29.8	59.9	41.4	0.0	0.0	2.2
Tanzania	7.3	0.0	0.0	4.7	0.5	0.0
Uganda	16.2	8.7	0.0	9.6	11.5	0.0
Zimbabwe	28.5	10.3	23.2	7.8	0.0	13.6

Note: See note on methodology.
Source: Authors' calculations based on *Marchés Tropicaux et Méditerranéens.*

Table 22 - Softening of the Regime

	1998 (annual)	1999 (annual)	2000 (annual)	2001 I quarter	2001 II quarter	2001 III quarter
Botswana	0.0	0.4	0.0	0.0	0.0	0.0
Burkina Faso	0.0	0.0	0.8	0.0	0.0	0.0
Cameroon	0.5	0.0	0.1	0.1	0.0	0.0
Chad	0.0	4.5	2.5	0.0	0.4	0.0
Côte d'Ivoire	2.8	2.9	4.1	1.8	0.8	0.8
Egypt	0.0	0.9	3.4	0.1	0.1	0.0
Equatorial Guinea	0.0	1.7	0.5	0.0	0.0	0.3
Ethiopia	0.5	0.0	0.1	0.5	0.5	0.1
Gabon	0.4	0.0	0.1	0.0	0.0	0.0
Ghana	0.0	0.0	0.8	0.0	0.1	0.0
Kenya	0.5	0.0	0.0	2.4	1.6	0.0
Mali	2.8	1.2	0.9	0.0	0.1	0.0
Mauritius	0.0	0.0	0.0	0.0	0.0	0.0
Morocco	0.4	0.0	3.7	0.0	0.0	0.0
Mozambique	0.0	0.0	2.8	0.0	2.9	0.0
Namibia	0.0	0.0	0.0	0.5	0.0	0.0
Nigeria	5.0	2.4	0.2	0.0	0.0	0.0
Senegal	0.0	6.2	5.2	0.7	0.0	0.0
South Africa	0.5	1.3	0.7	0.0	0.5	0.1
Tanzania	0.1	3.3	0.0	2.8	0.4	2.4
Uganda	2.4	0.4	0.5	0.0	0.0	0.1
Zimbabwe	0.0	0.1	0.8	0.0	0.1	0.3

Note: See note on methodology.
Source: Authors' calculations based on *Marchés Tropicaux et Méditerranéens.*

Table 23 - Hardening of the Regime

	1998 (annual)	1999 (annual)	2000 (annual)	2001 I quarter	2001 II quarter	2001 III quarter
Botswana	0.0	0.0	0.0	0.0	0.0	0.0
Burkina Faso	1.9	15.8	3.1	2.2	0.0	0.0
Cameroon	2.6	3.1	0.7	7.4	1.5	2.8
Chad	4.3	0.0	2.8	0.0	9.9	0.0
Cote d'Ivoire	2.7	18.8	20.1	1.5	0.0	0.0
Egypt	12.9	1.5	15.2	1.0	4.9	0.7
Equatorial Guinea	7.4	0.0	0.0	0.0	0.0	0.2
Ethiopia	4.1	0.0	1.7	0.0	3.9	0.2
Gabon	3.3	1.2	1.5	0.0	0.0	0.0
Ghana	0.0	3.7	0.0	0.0	2.9	0.0
Kenya	7.7	0.0	0.0	0.0	2.1	0.0
Mali	0.0	1.5	4.4	0.0	3.6	0.0
Mauritius	0.0	1.5	0.0	0.0	0.0	0.0
Morocco	2.9	0.5	10.1	2.1	1.7	1.8
Mozambique	5.6	4.2	9.8	0.0	3.6	0.0
Namibia	0.0	0.5	1.6	0.0	0.0	0.0
Nigeria	13.9	8.9	6.3	0.0	0.0	2.8
Senegal	6.4	0.7	0.0	2.7	1.5	0.0
South Africa	17.9	14.2	2.5	0.0	0.0	1.5
Tanzania	0.9	0.0	0.7	0.7	0.0	0.0
Uganda	2.1	2.3	0.0	2.9	4.4	0.0
Zimbabwe	17.7	15.0	11.9	6.3	5.1	13.3

Note: See note on methodology.
Source: Authors' calculations based on *Marchés Tropicaux et Méditerranéens.*

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